NLB

NOVA LJUBLJANSKA BANKA D.D., LJUBLJANA

(*a company incorporated as delniška družba in the Republic of Slovenia under registration number 5860571000*)

Offering of no less than 10,000,001 and up to 14,999,999 Shares in the form of Offer Shares and Global Depositary Receipts, representing Shares, with five Global Depositary Receipts representing one Share, to the public in the Republic of Slovenia and admission to trading on regulated markets in the Republic of Slovenia and the United Kingdom.
Offer Price Range between EUR 51.50 and EUR 66.00 per Offer Share and between EUR 10.30 and EUR 13.20 per Offer Global Depositary Receipt.

This prospectus (the "**Prospectus**") has been approved by the Securities Market Agency (*Agencija za trg vrednostnih papirjev*) (the "**SMA**") of the Republic of Slovenia, as the competent authority under Directive 2003/71/EC, as amended (together with any applicable implementing measures in all member states of the European Economic Area (the "**EEA**"), the "**Prospectus Directive**") in the Republic of Slovenia (the "**Republic of Slovenia**"), and prepared pursuant to the Prospectus Directive. The SMA approved this Prospectus on 26 October 2018.

This Prospectus relates to an offering (the "**Offering**") by the Republic of Slovenia (the "**Selling Shareholder**"), acting through its sovereign holding company, Slovenski državni holding d.d. ("**SSH**") in accordance with the Slovenian Sovereign Holding Act (*Zakon o Slovenskem državnem holdingu (ZSDH-1)*) ("**ZSDH-1**"), of no less than 10,000,001 (excluding the Overallotment Option) and up to 14,999,999 (including the Overallotment Option) existing ordinary shares in the share capital of Nova Ljubljanska banka d.d., Ljubljana ("**NLB**", the "**Company**", or, in its role as domestic co-lead manager in the Offering, the "**Domestic Co-Lead Manager**"), a company incorporated under the laws of the Republic of Slovenia, each of which are issued, fully paid and carrying one vote in a general meeting of shareholders (the "**Shares**"). The Offering comprises an offering of no less than 10,000,001 (excluding the Overallotment Option) and up to 14,999,999 (including the Overallotment Option) Shares in the form of Shares (the "**Offer Shares**") and/or global depositary receipts (the "**GDRs**" and, together with the Shares, the "**Securities**") which represent the Shares (the "**Offer GDRs**" and, together with the Offer Shares, the "**Offer Securities**") with five GDRs representing one Share. Pursuant to the commitments provided by the Republic of Slovenia to the European Commission on 13 July 2018 (the "**New Commitments**") (see "*6. Business—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy—The European Commission's decision on state aid and Final EC Decision*"), the Selling Shareholder is required to sell at least 50 per cent. plus one Share by 31 December 2018. In accordance with the State Assets Management Ordinance adopted pursuant to the ZSDH-1, the Republic of Slovenia shall retain a controlling interest of 25 per cent. plus one Share in the issued share capital of NLB and no shareholder may hold an interest in the issued share capital of NLB that is greater than the interest of the Republic of Slovenia (see "*16. Description of certain obligations and restrictions attaching to the Shares—Restriction on acquisition of Shares*"). The GDRs are to be issued against the deposit of Shares (to the extent permitted by applicable law) on a "*fiduciarni račun*", as such term is defined under Slovenian law, with KDD, operated by NLB as custodian (the "**Custodian**") for The Bank of New York Mellon, as depositary (the "**GDR Depositary**") and registered in the name of the GDR Depositary.

The final offer price at which each of the Securities will be sold (such price for each of the Shares and the GDRs being the "**Final Offer Price**") will be set at any point within the price range indicated in this Prospectus (the "**Offer Price Range**"). A number of factors will be considered in determining the Final Offer Price, the amount to be raised by the Selling Shareholder pursuant to the Offering and the basis of allocation to investors, including the level and nature of the demand for the Securities during the book-building process, prevailing market conditions and the objective of establishing an orderly after-market in the Securities. A pricing notification (the "**Pricing Notification**") containing the Final Offer Price and the final number of Securities offered in the Offering is expected to be published on or about 9 November 2018 on NLB's website (www.nlb.si), via the Regulatory News Service of the London Stock Exchange and the electronic information service of the LJSE (seonet.ljse.si)) and on the Selling Shareholder's website (http://www.sdh.si/) as a link to the publication on the NLB's website. Unless required to do so by law or regulation, NLB does not envisage publishing any supplementary prospectus or a pricing statement, as the case may be, until the announcement of the Final Offer Price. For details on the mechanism for calculating the Final Offer Price, see "*21. Subscription and Sale*".

The Offering consists of two tranches: (1) a tranche of Securities (in the form of Shares and GDRs) will be wholly offered to institutional investors (the "**Institutional Tranche**"); and (2) a tranche of Securities (in the form of Shares and GDRs) will be offered in a public offering in the Republic of Slovenia to persons who are not institutional investors (each a "**Retail Investor**") (the "**Retail Tranche**", and together with the Institutional Tranche, the "**Offer Tranches**"), in each case as permitted by applicable laws and regulations and the terms included in this Prospectus. 10 per cent. of the Offer Securities (no less than 1,000,000 and up to 1,499,999 Shares in the form of Shares or GDRs) will be offered in the Retail Tranche and the remaining 90 per cent. of the Offer Securities (no less than 9,000,001 and up to 13,500,000 Shares in the form of Shares or GDRs) will be offered in the Institutional Tranche. The Selling Shareholder, in consultation with the Joint Global Coordinators, may re-allocate Securities from either the Institutional Tranche to the Retail Tranche or from the Retail Tranche to the Institutional Tranche depending on the level of subscription of each tranche. The final size of each Offer Tranche will be decided by the Selling Shareholder upon the recommendation of the Joint Bookrunners, based on the level of subscriptions. For more details, see "*21. Subscription and Sale*".

Application will be made to: (1) the Ljubljana Stock Exchange (the "**LJSE**") for admission of the Shares to trading on the Prime Market sub-segment of the LJSE (or the Standard Market sub-segment if admission to the Prime Market sub-segment is not possible); and (2) (i) the United Kingdom Financial Conduct Authority (the "**United Kingdom FCA**"), in its capacity as competent authority under the United Kingdom Financial Services and Markets Act 2000, as amended ("**FSMA**"), for 74,999,995 GDRs, consisting of (a) the GDRs to be issued in connection with the Offering and (b) any additional GDRs to be issued from time to time against the deposit of Shares (to the extent permitted by law) with the Custodian, to be admitted to listing on the official list of the United Kingdom FCA (the "**Official List**") and (ii) the London Stock Exchange plc (the "**LSE**"), for admission to trading of such GDRs on the LSE's main market for listed securities. The LJSE and the LSE are both regulated markets in the EEA for the purposes of Directive 2004/39/EC (the "**Directive on Markets in Financial Instruments**"). Prior to the Offering, there has been no public market for the Securities.

In connection with the Offering, the Selling Shareholder has agreed that WOOD & Company Financial Services, a.s. will act as stabilising manager in respect of the Offer Shares, and Citigroup Global Markets Limited will act as stabilising manager in respect of the Offer GDRs (the "**Stabilising Managers**") for the purposes of conducting stabilisation activities, if any, in the relevant Securities, during the Stabilisation Period (as defined below). At the end of the Stabilisation Period, the Stabilising Managers will return to the Selling Shareholder the Securities which have been purchased in the market as a result of stabilisation activities which were carried out. The Selling Shareholder has granted the Managers, an option (the "**Overallotment Option**"), exercisable within 30 calendar days after the Closing Date, pursuant to which the Managers may require the Selling Shareholder to sell at the Final Offer Price up to 10 per cent. of the total number of Offer Shares (the "**Additional Shares**") (in the form of Shares and/or GDRs), to cover short positions resulting from any over-allotments made in connection with the Offering or to facilitate stabilisation transactions. In no event shall the Offer Securities (including any Securities acquired pursuant to the Overallotment Option) exceed 75 per cent. minus one Share.

An investment in the Securities involves a high degree of risk. See "*2. Risk Factors*" beginning on page 43 for a discussion of certain matters that investors should consider prior to making an investment in the Securities.

This Prospectus has been approved by the SMA but has not been, and will not be, approved by the United Kingdom FCA or any other competent authority of the EEA. The Company has requested that the SMA provide the United Kingdom FCA with a certificate of approval attesting that this Prospectus has been drawn up in accordance with the Prospectus Directive (the "**Notification**").

Admission of the Shares to trading on the regulated market of the LJSE is expected to take place on or around 14 November 2018 (the "**Closing Date**"). The Shares are expected to be traded on the Prime Market sub-segment of the LJSE (or the Standard Market sub-segment if admission to the Prime Market sub-segment is not possible) under the symbol "NLBR".

Admission to the Official List and trading in the GDRs on the LSE through the International Order Book is expected to take place on or around the Closing Date, which will take place following the United Kingdom FCA's receipt of Notification from the SMA. The GDRs are expected to be traded on the LSE under the symbol "NLB". The Offering may be extended at any time without cause.

The Offering is structured as an offering of Offer Securities (1) to the public and to institutional investors in the Republic of Slovenia in reliance on Regulation S ("**Regulation S**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and in reliance on Market in Financial Instruments Act (Zakon o trgu finančnih instrumentov ("**ZTFI**"); (2) in the United States to certain qualified institutional buyers ("**QIBs**") as defined in, and in reliance on, Rule 144A under the Securities Act ("**Rule 144A**") or another exemption from the registration requirements of the Securities Act (the "**Rule 144A Offering**"); and (3) outside the United States and the Republic of Slovenia in offshore transactions in reliance on Regulation S under the Securities Act (the "**Regulation S Offering**").

In the event that the Selling Shareholder is unable to sell at least 10,000,001 Shares (excluding the Overallotment Option) in the Offering, the Offering will not proceed and admission of the Shares to the trading on the regulated market of the LJSE and admission of the GDRs to the Official List and to trading on the LSE through the International Order Book will not occur.

The Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The Offer Securities have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States, except to certain QIBs, or outside the United States in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that offerors of the Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or another exemption from, or another transaction subject to, the registration requirements of the Securities Act. For a discussion of certain restrictions on transfers of the Securities, see "*17. Terms and Conditions of the Global Depositary Receipts*" and "*22. Selling and Transfer Restrictions*".

The Shares are issued as registered book-entry (dematerialised) securities in accordance with the provisions of the Slovenian Dematerialised Securities Act (*Zakon o nematerializiranih vrednostnih papirjih (ZNVP-1)*) ("**ZNVP-1**") as entries within the central register of dematerialised securities operated by *Centralna klirinško depotna družba, d.d.* ("**KDD**"), which is authorised and supervised by the SMA.

The GDRs will be issued in master global form. The GDRs offered and sold in the United States (the "**Rule 144A GDRs**") will be evidenced by a Master Rule 144A Global Depositary Receipt (the "**Rule 144A Master GDR**") held by The Bank of New York Mellon London Branch, as common depository and nominee and custodian for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**"), and the GDRs offered and sold outside the United States (the "**Regulation S GDRs**") will be evidenced by a Master Regulation S Global Depositary Receipt (the "**Regulation S Master GDR**" and, together with the Rule 144A Master GDR, the "**Master GDRs**") held by The Bank of New York Mellon, London Branch, as common depository and nominee and custodian for Euroclear and Clearstream. Except as described herein, beneficial interests in the Master GDRs will be shown on, and transfers thereof will be effected only through, the records of Euroclear and Clearstream. It is expected that delivery of the GDRs will be made against payment therefor in EUR in same day funds through the facilities of Euroclear and Clearstream, Luxembourg on or about the Closing Date. See "*23. Clearing and Settlement—Settlement and delivery of GDRs*".

Joint Global Coordinators and Joint Bookrunners

Deutsche Bank | **J.P. Morgan**

Joint Bookrunner
Citigroup Global Markets Limited
Co-Lead Manager
WOOD & Company Financial Services, a.s.
Domestic Co-Lead Manager
Nova Ljubljanska banka d.d., Ljubljana

The date of this Prospectus is 26 October 2018.

IMPORTANT INFORMATION ABOUT THIS DOCUMENT

This document comprises a prospectus relating to the Company, the Selling Shareholder and the Securities for the purposes of the Prospectus Directive. This prospectus has been approved by the Securities Market Agency of the Republic of Slovenia (*Agencija za trg vrednostnih papirjev*) (the "**SMA**").

Responsibility Statement

The Company and the Selling Shareholder (the Selling Shareholder in respect only of information about itself, the Shares and the Offering), as the case may be, accept responsibility for the information contained in this Prospectus. To the best of the Company's and the Selling Shareholder's knowledge (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus (the Selling Shareholder in respect only of information about itself, the Shares and the Offering) is in accordance with the facts and does not omit anything likely to affect the import of such information.

Deutsche Bank AG, London Branch, J.P. Morgan Securities plc, Citigroup Global Markets Limited and WOOD & Company Financial Services, a.s. (together, with NLB in its capacity as the Domestic Co-Lead Manager, the "**Managers**") are acting exclusively for the Selling Shareholder and no one else in connection with the Offering, and will not be responsible to any other person for providing the protection afforded to their clients or for providing advice in relation to the Offering. None of the Managers, other than NLB, accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by it or any of them or on its or their behalf in connection with the Company, the Selling Shareholder or the Securities. Each of the Managers, other than NLB, accordingly disclaims, to the fullest extent permitted by applicable law, all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

No person is authorised to give any information or to make any representation in connection with the Offering or sale of the Securities other than as contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorised by the Company, the Selling Shareholder or any of the Managers or their respective affiliates. If anyone provides any investor with different or inconsistent information, such investor should not rely on it.

This Prospectus is being furnished by the Company and the Selling Shareholder for the purpose of enabling a prospective investor to consider subscribing for and purchasing the Securities. The Prospectus does not constitute or form part of an offer to sell, or a solicitation of an offer to buy, any security other than the Securities offered in the Offering. This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Company, the Selling Shareholder, the GDR Depositary or any Manager that any recipient of this Prospectus should subscribe for or purchase the Securities. No representation or warranty, express or implied, is made by any Manager, other than NLB, the GDR Depositary or any of their respective affiliates or advisers as to the accuracy or completeness of any information contained in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by any Manager, other than NLB, or the GDR Depositary as to the past or the future. Any reproduction or distribution of this Prospectus, in whole or in part, any disclosure of its contents, except to the extent that such contents are otherwise publicly available, and any use of any information herein for any purpose other than considering an investment in the Securities, is prohibited. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the Company's affairs since the date hereof, or that the information contained herein is correct at any time subsequent to such date. Each prospective investor, by accepting delivery of this Prospectus, agrees to the foregoing.

None of the Managers, other than NLB, or the GDR Depositary makes any representation, express or implied, with respect to the accuracy or completeness of any of the information in this Prospectus. Each potential subscriber for or purchaser of the Securities should determine for itself the relevance of the information contained in this Prospectus, and its subscription for or purchase of the Securities should be based upon such investigation, as it deems necessary, including the assessment of risks involved and its own determination of the suitability of any such investment, with particular reference to their own investment objectives and experience and any other factors that may be relevant to such investor in connection with the subscription for or purchase of the Securities.

Prospective investors should not consider any information in this Prospectus to be investment, legal or tax advice. Each prospective investor should consult its own legal counsel, financial adviser, accountant and other advisers for legal, tax, business, financial and related advice regarding subscribing for or purchasing the Securities. None of the Company, the Selling Shareholder, the GDR Depositary or any of the Managers makes any representation to any offeree or purchaser of or subscriber for the Securities regarding the legality of an investment in the Securities by such offeree or purchaser or subscriber under appropriate investment or similar laws. The price of the Securities as well as the income and dividends, if any, from them can go down as well as up.

The Selling Shareholder and the Managers reserve the right to reject any offer to subscribe for or purchase the Securities, in whole or in part, and to sell to any prospective investor less than the full amount of Securities sought by such investor.

This Prospectus does not constitute an offer to sell, or a solicitation by or on behalf of the Company, the Selling Shareholder, the GDR Depositary or any Manager to any person to subscribe for or purchase any of the Securities in any jurisdiction where it is unlawful for such person to make such an offer or solicitation. The distribution of this Prospectus and the offer and sale of the Securities may be restricted by law in certain jurisdictions. You must inform yourself about and observe any such restrictions. No action has been taken by the Company, the Selling Shareholder, the GDR Depositary or the Managers that would permit, otherwise than in the Republic of Slovenia and the United Kingdom (the "**UK**") under the Offering, an offer of the Securities, or possession or distribution of this Prospectus or any other offering material or application form relating to the Securities in any jurisdiction where action for that purpose is required. This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful. Further information with regard to restrictions on offers and sales of the Securities is set forth below and under "*21. Subscription and Sale*", "*17. Terms and Conditions of the Global Depositary Receipts*" and "*22. Selling and Transfer Restrictions*". None of the Company, the Selling Shareholder, the GDR Depositary or the Managers is making an offer to sell the Securities or a solicitation of an offer to buy any of the Securities to any person in any jurisdiction except where such an offer or solicitation is permitted.

In connection with the Offering, WOOD & Company Financial Services, a.s. acting as Stabilising Manager in relation to the Offer Shares and Citigroup Global Markets Limited, acting as Stabilising Manager in relation to the Offer GDRs (or persons acting on behalf of the Stabilising Managers) may (but will be under no obligation to), to the extent permitted by applicable law, overallot the Offer Securities (provided that, in the case of any Offer Securities to be admitted to trading on the LSE and LJSE, the aggregate number of Offer Securities allotted does not exceed 110 per cent. of the aggregate number of the Offer Securities) or effect transactions with a view to supporting the market price of the Offer Securities during the Stabilisation Period at a level higher than that which might otherwise prevail. However, stabilisation action may not necessarily occur. Any stabilisation action may begin on or after the Closing Date and, if begun, may be ended at any time but must end no later than 30 calendar days after the Closing Date (the "Stabilisation Period"). Any stabilisation action or overallotment must be conducted by the Stabilising Managers (or persons acting on their behalf) in accordance with all applicable laws and rules and will be undertaken at the offices of the Stabilising Managers (or persons acting on their behalf) and on the LSE and LJSE.

Investors should rely only on the information in this Prospectus. No person has been authorised to give any information or to make any representations other than those contained in this Prospectus in connection with the Offering and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company, the Selling Shareholder or the Managers. No representation or warranty, express or implied, is made by any Manager, other than NLB, or any selling agent or any of their respective affiliates or advisers as to the accuracy or completeness of such information, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Managers, other than NLB, or any selling agent as to the past, present or future. Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to the Prospectus Directive, neither the delivery of this Prospectus nor any subscription or sale made under this Prospectus shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Company taken as a whole since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

In connection with the Offering, each of the Managers, other than NLB, and any of their respective affiliates, acting as investors for its or their own accounts, may subscribe for and/or purchase Securities, and in that capacity may retain, purchase, sell, offer to sell or subscribe for or otherwise deal for its or their own accounts in such Securities and other securities of the Company or related investments in connection with the Offering or otherwise. Accordingly, references in this Prospectus to the Securities being issued, offered, subscribed, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, placing or dealing by any Manager, other than NLB, and any of their respective affiliates acting as an investor for its own accounts. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

None of the Company, Selling Shareholder, the GDR Depositary or the Managers is making any representation to any offeree or purchaser of the Securities regarding the legality of an investment by such offeree or purchaser. The Managers are acting exclusively for the Selling Shareholder and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

In making an investment decision regarding the Securities, prospective investors must rely on their own examination of the Company and the terms of the Offering, including the merits and risks involved, and prospective investors should rely only on the information contained in this Prospectus. None of the Company or the Managers has authorised any other person to provide prospective investors with different information. If anyone provides prospective investors with different or inconsistent information, prospective investors should not rely on it. Prospective investors should assume that the information appearing in this Prospectus is accurate only as of its date. The Company's business, financial condition, results of operations, prospects and the information set forth in this Prospectus may have changed since the date hereof.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Managers by the FSMA or the regulatory regime established thereunder or any other applicable regulatory regime, none of the Managers, other than NLB, accepts any responsibility whatsoever for, or makes any representation or warranty, express or implied, as to, the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Securities or the Offering and nothing in this Prospectus will be relied upon as a promise or representation in this respect, whether or not to the past or future. Each of the Managers, other than NLB, accordingly disclaims (i) all and any responsibility or liability whatsoever, whether arising in tort, contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement and (ii) any responsibility for any acts or omissions of the Company, any of the Management Board members, any of the Selling Shareholder or any other person in connection with the offering of the Securities.

Prior to making any decision as to whether to subscribe for or purchase the Securities, prospective investors should read this Prospectus in its entirety. In making an investment decision, prospective investors must rely upon their own examination of the Company and the terms of this Prospectus, including the risks involved.

References to the "NLB Group", the "Group" and "NLB"

In this Prospectus, references to the "**NLB Group**" or to the "**Group**" mean NLB and its consolidated subsidiaries, associates and joint ventures unless the context requires otherwise. References to "**NLB**" or the "**Company**" are to NLB d.d. only.

This Prospectus will be available on the website of the LJSE at seonet.ljse.si, on the website of the Company at www.nlb.si and on the website of SSH at www.sdh.si and copies thereof will be provided upon request during normal business hours at the headquarters of the Company located at Trg Republike 2, 1520 Ljubljana, Republic of Slovenia. The information set forth in this Prospectus is only accurate as of the date on the front cover of this Prospectus. The Company's business and financial condition may have changed since that date.

The Company's constitutional document (the "**Statut**") is publicly available on the Agency of the Republic of Slovenia for Public Legal Records and Related Services ("**AJPES**") website at www.ajpes.si.

Information on the Company's website, any website mentioned in this Prospectus or any website directly or indirectly linked to the Company's website is not incorporated by reference into this Prospectus and any decision to subscribe for or purchase the Securities should not be made in reliance on such information.

NOTICE TO INVESTORS IN THE UNITED STATES

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION IN THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS. NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY HAS APPROVED OR DISAPPROVED OF THE SECURITIES OR PASSED UPON OR ENDORSED THE MERITS OF THE OFFER OF THE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES. PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT SELLERS OF THE SECURITIES MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A OR ANOTHER EXEMPTION FROM, OR A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

The Securities are being offered in the United States only to QIBs in reliance on Rule 144A or another exemption from, or a transaction not subject to, the registration requirements under the Securities Act. Other than QIBs, persons that are located in the United States will not be permitted to receive the Securities. The Securities are being offered outside the United States in offshore transactions in reliance on Regulation S. The terms "offshore transaction" and "United States" have the meanings given to them in Regulation S. In addition, until 40 days after the commencement of the Offering of the Securities, an offer or sale of the Securities within the United States by a dealer (whether or not participating in the Offer) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from, or a transaction not subject to, the registration requirements under the Securities Act.

NOTICE TO INVESTORS IN THE EEA

This Prospectus has been prepared on the basis that any offer of Offer Securities in any EEA member state other than offers (the "**Permitted Public Offers**") that are contemplated in the Prospectus in the Republic of Slovenia once the Prospectus has been approved by the competent authority in the Republic of Slovenia and published and notified to the relevant competent authorities in accordance with the Prospectus Directive, and in respect of which the Selling Shareholder has consented in writing to the use of the Prospectus, will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Offer Securities. Accordingly any person making or intending to make an offer in an EEA member state of Offer Securities which are the subject of the offering contemplated in this Prospectus, other than the Permitted Public Offers, may only do so in circumstances in which no obligation arises for the Selling Shareholder, any of the Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Selling Shareholder nor the Managers have authorised, nor do they authorise, the making of any offer (other than Permitted Public Offers) of Offer Securities in circumstances in which an obligation arises for the Selling Shareholder or the Managers to publish or supplement a prospectus for such offer.

In relation to each EEA member state, with effect from and including the date on which the Prospectus Directive is implemented in that EEA member state (the "**Relevant Implementation Date**"), each Manager has represented and agreed that it has not made and will not make an offer (other than a Permitted Public Offer) of Offer Securities to the public in that EEA member state, except that, with effect from and including the Relevant Implementation Date, the Offer Securities may be offered to the public in that EEA member state under the following exemptions under the Prospectus Directive:

(i) to any individual or legal entity which is a qualified investor as defined in the Prospectus Directive;

(ii) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Managers for any such offer; or

(iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the Offer Securities shall result in a requirement for the publication by the Selling Shareholder or any Manager of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

The Slovenian-language version of this Prospectus has been approved by the SMA but, save for its notification to the United Kingdom FCA, it has not been, and will not be, approved by or notified to any other competent authority of the EEA.

For the purposes of this Prospectus, the expression offer of Offer Securities to the public in relation to any of the Offer Securities in any EEA member state means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Securities to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Securities as the same may be varied in that EEA member state by any measure implementing the Prospectus Directive in that EEA member state.

Each person in an EEA member state, other than, in the case of paragraph (a) below, persons receiving Permitted Public Offers, who receives any communication in respect of, or who acquires any Offer Securities under, the offers to the public contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with each Manager and the Selling Shareholder and the Company that:

(a) it is a "qualified investor" within the meaning of the law in that EEA member state implementing Article 2(1)(e) of the Prospectus Directive;

(b) in the case of any Offer Securities acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Offer Securities acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any EEA member state other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Managers has been given to the offer or resale; or (ii) where Offer Securities have been acquired by it on behalf of persons in any EEA member state other than qualified investors, the offer of those Offer Securities to it is not treated under the Prospectus Directive as having been made to such persons.

The Company, the Selling Shareholder, the Managers, their affiliates and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement, and agreement.

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended ("**MiFID II**"); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the "**MiFID II Product Governance Requirements**"), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any "manufacturer" (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the Offer Securities have been subject to a product approval process, which has determined that the Offer Securities are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the "**Target Market Assessment**"). Notwithstanding the Target Market Assessment, distributors should note that: the price of the Offer Securities may decline and investors could lose all or part of their investment; the Offer Securities offer no guaranteed income and no capital protection; and an investment in the Offer Securities is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Offering. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the Managers will only approach investors who meet the criteria of professional clients and eligible counterparties in EEA member states other than the Republic of Slovenia.

FOR THE AVOIDANCE OF DOUBT, THE TARGET MARKET ASSESSMENT DOES NOT CONSTITUTE: (A) AN ASSESSMENT OF SUITABILITY OR APPROPRIATENESS FOR THE PURPOSES OF MIFID II; OR (B) A RECOMMENDATION TO ANY INVESTOR OR GROUP OF INVESTORS TO INVEST IN, OR PURCHASE, OR TAKE ANY OTHER ACTION WHATSOEVER WITH RESPECT TO THE OFFER SECURITIES. EACH DISTRIBUTOR IS RESPONSIBLE FOR UNDERTAKING ITS OWN TARGET MARKET ASSESSMENT IN RESPECT OF THE OFFER SECURITIES AND DETERMINING APPROPRIATE DISTRIBUTION CHANNELS.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

THIS PROSPECTUS IS FOR DISTRIBUTION ONLY TO PERSONS WHO (1) ARE OUTSIDE THE UNITED KINGDOM, (2) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) ("HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS, ETC.") OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (AS AMENDED, THE "**FINANCIAL PROMOTION ORDER**" (3) HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL PROMOTION ORDER, OR (4) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000) IN CONNECTION WITH THE ISSUE OR SALE OF ANY SECURITIES MAY OTHERWISE LAWFULLY BE COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "**RELEVANT PERSONS**"). THIS PROSPECTUS IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE DISTRIBUTED TO, ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS PROSPECTUS RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.

The Slovenian-language version of this Prospectus has been approved by the SMA but has not been, and will not be, approved by the United Kingdom FCA.

Each Manager has represented, warranted and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any of the Offer Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Selling Shareholder; and (ii) it has complied and will comply with all applicable provisions of the FSMA and the Financial Services Act 2012 with respect to anything done by it in relation to the Offer Securities in, from or otherwise involving the United Kingdom.

NOTICE TO INVESTORS IN CANADA

The Securities may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Securities must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment hereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal adviser.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts ("**NI 33-105**"), the Managers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this Offering.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are "forward-looking" within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). This Prospectus includes forward-looking statements, which include, without limitation, any statements preceded by, followed by or that include the words "**may**", "**will**", "**would**", "**should**", "**expect**", "**intend**", "**estimate**", "**forecast**", "**anticipate**", "**project**", "**believe**", "**seek**", "**plan**", "**predict**", "**continue**", "**commit**", "**target**", "**undertaking**" and similar expressions or their negatives. Such forward-looking statements involve inherent known and unknown risks, uncertainties and other important factors beyond the NLB Group's control that could cause its actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the NLB Group's present and future business strategies and the environment in which the NLB Group will operate in the future. Amongst the important factors that could cause the NLB Group's actual results, performance or achievements to differ materially from those expressed in such forward-looking statements are those in "*2. Risk Factors*", "*8. Operating and Financial Review*" and elsewhere in this Prospectus. These factors include, but are not limited to:

- macroeconomic outlook and industry trends;
- the macroeconomic and political environment of the Republic of Slovenia and Southeastern Europe generally, including the banking sectors and the real estate markets in those economies;
- the NLB Group's ability to manage its loan portfolio and overall asset quality;
- market impacts on collateral value and the enforcement of such collateral;
- downturns in property markets;
- failure to adhere to the Restructuring Plans or the New Commitments towards the European Commission ("**EC**") and its ability to fully comply with the New Commitments, including the divestment of non-core assets;
- the impact of regulatory initiatives, including monetary policies of central banks;
- the success of the NLB Group's new strategy;
- the NLB Group's ability to meet its funding obligations and develop and maintain additional sources of financing;
- increased competition, the NLB Group's competitive strengths and weaknesses and the strengths of its competitors;
- the accuracy of critical accounting judgements or estimates;
- the NLB Group's ability to retain or increase market share;
- market risks, including, without limitation, in connection with the NLB Group's mutual funds and life insurance operations;
- the NLB Group's ability to procure compliance with all applicable current and future legislation; including compliance with applicable anti-money laundering ("**AML**"), anti-bribery and anti-terrorist financing laws;
- the engagement of prudent corporate governance principles;
- inflation, interest rate and exchange rate fluctuations;
- technological developments and adequate protection against IT failures or attacks;
- the outcome of pending or future litigation;

- the impact of catastrophic or unforeseen events;
- changes in the regulatory framework in which the NLB Group operates, including capital adequacy requirements;
- changes in tax laws and regulations or opening of tax audits; and
- the NLB Group's success at managing the risks associated with the aforementioned factors.

The above list of important factors is not exhaustive. When reviewing forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Company operates.

Forward-looking statements are included in this Prospectus in a number of sections, including "*3. Use of Proceeds*", "*4. Dividend Policy*", "*6. Business*", "*8. Operating and Financial Review*", and elsewhere. Such forward-looking statements are based on the Company's beliefs, assumptions and expectations regarding future events and trends that affect the NLB Group's future performance, taking into account all information currently available to the NLB Group, and are not guarantees of future performance. In particular, this document includes forward-looking statements relating but not limited to the NLB Group's potential exposures to various types of operational, credit and market risk, such as counterparty risk, interest rate risk, foreign exchange rate risk and commodity and equity price risk. Such statements are subject to risks and uncertainties. These forward-looking statements are not historical facts and represent only the Company's beliefs regarding future events, many of which by their nature are inherently uncertain and beyond the NLB Group's control.

Forward-looking statements contained in this Prospectus speak only as at the date of this Prospectus. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the NLB Group's expectations with regard thereto or any change in events, conditions or circumstances on which any of such statements are based unless required to do so by any applicable regulatory regime.

To enable the implementation of the NLB Group's 2020 strategy, the NLB Group's management has set medium-term financial targets (the "**Targets**" "as defined in "*6. Business—Medium-Term Strategic and Financial Targets*").

The Targets are only targets and not a profit forecast. Investors should not place any reliance on such targets in deciding whether to invest in NLB. None of NLB's independent auditor, nor any other independent accountants, have applied, examined or performed any procedures with respect to the Targets, nor have they expressed any opinion or any other form of assurance on the Targets or their achievability. The Targets constitute forward-looking statements and are not guarantees of future financial performance. NLB's result of operations or financial conditions could differ materially from those expressed or implied by these forward-looking statements as a result of many factors. The existence of the Targets should not be interpreted as an assurance or guarantee that Targets can or will be met by NLB. While presented with numerical specificity, these financial targets are based upon a number of assumptions (including the success of NLB's business strategy), estimates, regulatory, financial conditions, and projections regarding NLB's future business and the environment in which NLB expects to operate, which are inherently subject to significant business, operational, economic and other risks, many of which are outside NLB's control. The Targets reflect NLB's subjective judgements in many respects and thus are susceptible to multiple interpretations and periodic revisions based on actual experience and business, economic, financial and other developments. Accordingly, such assumptions may change or may not materialise at all. In addition, unanticipated events may materially or adversely affect NLB's actual results or operations and financial performance in future periods, whether or not NLB's assumptions relating to future periods prove to be correct. As a result, the actual results may vary from the Targets as currently targeted and the variations may be material. Accordingly, the Targets must not be considered as either a commitment by NLB or a forecast of the future results or returns from investing in the Securities.

None of NLB, the NLB Supervisory Board or Management Board members, senior management or any of their respective affiliates, advisers, officers, directors or representatives can give any assurance that the Targets will be realised or that actual results will not vary significantly from the Targets. Investors should independently assess whether or not they believe the Targets to be reasonable or achievable and should carefully evaluate whether investing in the Securities is appropriate, bearing in mind personal circumstances and the information included in this Prospectus, particularly taking into account the information described in "*2. Risk Factors*", specifically "*Risks Relating to NLB and the Group—The NLB Group adopted a new strategy in August 2016, the implementation of which may be compromised by several factors*". Also see "*Cautionary Note Regarding Forward-Looking Statements*".

This Prospectus refers to the Company's credit ratings which have been rated by the credit rating agencies Standard & Poor's Financial Services LLC, part of McGraw Hill Financial ("**S&P**") and Fitch Ratings Limited ("**Fitch**"). Each of S&P and Fitch is established in the European Union ("**EU**") and is registered under Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**"). Each of S&P and Fitch are included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation.

AVAILABLE INFORMATION

For so long as any Securities are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, NLB will, during any period in which it is neither subject to Section 13 or Section 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted Securities, or to any prospective purchaser of such restricted Securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

ENFORCEMENT OF CIVIL LIABILITIES

NLB is organised under the laws of the Republic of Slovenia. All members of NLB's management board (the "**Management Board**") and all members of NLB's supervisory board (the "**Supervisory Board**") named in this Prospectus reside outside the United States. All of NLB's assets and a substantial portion of the assets of its Management Board, Supervisory Board and senior management are located outside the United States. As a result, investors may not be able to effect service of process within the United States upon NLB, NLB's Management Board, certain members of the Supervisory Board or its senior management that are located in jurisdictions outside the United States or enforce U.S. court judgements obtained against NLB, its Management Board, certain members of the Supervisory Board or its senior management in jurisdictions outside the United States, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions outside the United States, liabilities predicated upon U.S. securities laws. Generally, the courts of the Republic of Slovenia have jurisdiction in civil and commercial matters involving the Company as the defendant.

The Company may also be sued in the courts of a country other than the Republic of Slovenia if and to the extent that this is permitted by the laws applicable in such other country. However, a judgement given in another country is not necessarily enforceable in the Republic of Slovenia. The rules which would be applied by a Slovenian court when deciding on enforcement of a foreign judgement in the Republic of Slovenia differ depending on the jurisdiction in which such judgement originates.

(a) *Judgements originating in other EU member states (except Denmark)*

A judgement originating in a member state of the EU (an "**EU member state**"), other than Denmark (each a "**Relevant Member State**") shall be recognised and enforced by the courts in the Republic of Slovenia without any declaration of enforceability being required, subject to conditions set forth in the Regulation (EU) No 1215/2012 of the European Parliament and of the Council of 12 December 2000 on jurisdiction and the recognition and enforcement of judgements in civil and commercial matters (the "**Regulation 1215/2012**").

According to the Regulation 1215/2012, the courts of the Republic of Slovenia may only refuse the recognition or enforcement of a judgement given in another Relevant Member State on the application of the person against whom enforcement is sought, in the following circumstances:

(i) if such recognition is manifestly contrary to public policy in the Republic of Slovenia;

(ii) where it was given in default of appearance, if the defendant was not served with the document which instituted the proceedings or with an equivalent document in sufficient time and in such a way as to enable him to arrange for his defence, unless the defendant failed to commence proceedings to challenge the judgement when it was possible for him to do so;

(iii) if it is irreconcilable with a judgement given in a dispute between the same parties in the Republic of Slovenia;

(iv) if it is irreconcilable with an earlier judgement given in another Relevant Member State or in a third State involving the same cause of action and between the same parties, provided that the earlier judgement fulfils the conditions necessary for its recognition in the Republic of Slovenia;

(v) if it conflicts with the provisions of the Regulation 1215/2012 on (i) jurisdiction in matters relating to insurance, consumer contracts or employment and the beneficiary of the insurance contract, the injured party, the consumer or the employee was the defendant; or (ii) the exclusive jurisdiction.

According to Regulation 1215/2012, the courts of the Republic of Slovenia have exclusive jurisdiction, amongst others, in proceedings which have as their object the validity of the constitution, the nullity or the dissolution of the Company and the validity of the decisions of its organs as well as in proceedings which have as their object the validity of entries in public registers kept in the Republic of Slovenia.

(b) ***Judgements originating in states bound by the Lugano Convention 2007***

Judgements originating in countries bound by the Lugano Convention 2007 (being Iceland, Switzerland, Norway and Denmark) shall be recognised or enforced in the Republic of Slovenia on substantially the same terms as judgements originating in the Relevant Member States except that express declaration of enforceability is required in order for these judgements to be enforceable in the Republic of Slovenia.

(c) ***Judgements originating in other countries (including the United States of America)***

As regards the enforcement of judgements originating in a country such as the United States, which is neither the Republic of Slovenia, nor a Relevant Member State, nor a country with which the Republic of Slovenia has a bilateral or other treaty on recognition and enforcement of judgements in civil and commercial matters (such as the Lugano Convention 2007), Slovenian courts shall apply the relevant provisions of Slovenian law on the recognition and enforcement of foreign judgements. According to these, Slovenian courts may only refuse the recognition of a foreign judgement in the following cases:

(i) if such judgement has been rendered without giving an opportunity to the defendant to be heard and to contest the action;

(ii) if such judgement is not final;

(iii) if a judgement on the merits resolving the same dispute as such judgement has been rendered or recognised in the Republic of Slovenia before (*res iudicata*);

(iv) if the effects of recognition of such judgement would contravene the public policy of the Republic of Slovenia;

(v) if the courts of the Republic of Slovenia had exclusive jurisdiction in proceedings in which such judgement was rendered; or

(vi) if reciprocity in recognising and enforcing judgements between the Republic of Slovenia and the country of origin of such judgement does not exist.

In addition, Slovenian courts must refuse the recognition of such judgement if the party against whom such recognition is sought proves that, either (a) the foreign court disregarded the agreement between the parties that the courts of the Republic of Slovenia shall have jurisdiction in such matter or (b) the jurisdiction of the foreign court was based solely on one of the following circumstances:

(i) the citizenship of the plaintiff; or

(ii) the fact that the defendant's assets are located in such jurisdiction; or

(iii) the service of process in such jurisdiction.

PRESENTATION OF FINANCIAL INFORMATION

Financial Statements of the Company

English translations of NLB and NLB Group's audited financial statements as of and for the years ended 31 December 2017, 2016 and 2015 (the "**Audited Financial Statements**") and the NLB and NLB Group's unaudited financial statements as of and for the six months ended 30 June 2018, with comparative information for the six months ended 30 June 2017 (reviewed in accordance with International Standard on Review Engagements 2410) (the "**Interim Financial Statements**" and, together with the Audited Financial Statements, the "**Financial Statements**") are included in this Prospectus. The Financial Statements included in this Prospectus have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as adopted by the EU. The Financial Statements are presented in thousand EUR.

In addition, the information presented in "*8. Operating and Financial Review—Current trading and prospects*" contains financial information for the nine months ended 30 September 2018 which has not been audited or reviewed, and as a result such financial information is subject to change prior to the publication of the final results.

Emphasis of Matter

The audit reports relating to the NLB and NLB Group financial statements as of and for the years ended 31 December 2017, 2016 and 2015 were unqualified but did contain an emphasis of matter paragraph with respect to the uncertainty related to the outcome of lawsuits filed against NLB by two Croatian banks which have not yet been decided. On 19 July 2018, the National Assembly of the Republic of Slovenia (*Državni zbor*) ("**National Assembly**") passed the Act on the Protection of the Value of Capital Investment of the Republic of Slovenia (Zakon za zaščito vrednosti kapitalske naložbe Republike Slovenije v Novi Ljubljanski banki d.d., Ljubljana) (the "**ZVKNNLB**"). As a result, NLB's audit opinion for the six months ended June 2018 did not contain such emphasis of matter. For detailed information refer to Interim Financial Statements for the six months ended June 2018, note 5.15. Provisions. For further details also refer to our independent auditors' opinion contained elsewhere in this Prospectus. See "*2. Risk Factors—Litigation in Croatia may have a negative financial impact on NLB*".

Unaudited operating information

The Company's unaudited operating information in relation to its business is derived from the following sources: (i) accounting systems; (ii) internal reporting systems supporting the preparation of financial statements; (iii) management assumptions and analyses; and (iv) discussions with key operating personnel. Operating information derived from management accounts or internal reporting systems in relations to the Company's business is to be found principally in "*8. Operating and Financial Review*" and "*6. Business*".

Non-IFRS measures

This Prospectus includes certain non-IFRS measures, such as Key Performance Indicators ("**KPIs**") and other ratios, that are not required by, or presented in accordance with, IFRS. Management believes that the presentation of these non-IFRS measures and ratios is helpful to investors because these and other similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance, financial position and liquidity. These non-IFRS measures and ratios may not be comparable to similarly titled measures or ratios used by other banks, and they should not be considered as substitutes for the information contained in the Financial Statements.

Presentation of Third Party Statistical and Other Information

NLB has derived certain information and statistics in this Prospectus, including certain information and statistics concerning the Slovenian banking market and its competitors, from private and publicly available information, including, principally, annual reports, industry publications, market research, press releases, filings under various securities laws and official data published by certain Republic of Slovenia agencies. The main sources for market information and foreign exchange data used in this Prospectus are Bloomberg and ECB reference rates published by the Bank of Slovenia.

The Company has included its own estimates, assessments, adjustments and judgements in preparing some of the market information contained in this Prospectus, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed to a third party source, to a certain degree subjective. While the Company believes that its own estimates, assessments, adjustments and judgements are reasonable and that the market information prepared by it generally reflects the industry and the markets in which the Company operates, there is no assurance that the Company's own estimates, assessments, adjustments or judgements are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

Market data used in this prospectus, including statistics in respect of the Company's market share, has been extracted from official and industry sources and other sources the Company believes to be reliable. This information appears throughout the Prospectus including, without limitation, in the sections headed "*8. Operating and Financial Review*", "*14. Macroeconomic Conditions and the Banking Sector in the Republic of Slovenia and Other Core Markets*" and "*6. Business*", and is sourced in the text or in footnotes where it appears. Such information, data and statistics may be approximations or estimates or use rounded numbers.

In particular, the Company has cited the following governmental sources of market data: statistical offices of the Republic of Slovenia and of the respective countries in which the NLB Group operates; and the Bank of Slovenia and central banks of the respective countries in which the NLB Group operates. The Company confirms that this information, including that from statistical offices of the Republic of Slovenia and the respective countries in which the NLB Group operates and the Bank of Slovenia and the central banks of the respective countries in which the NLB Group operates, has been accurately reproduced and that, as far as the Company is aware and is able to ascertain from information published by these public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Company accepts no liability for the accuracy of any such information, and prospective investors are advised to consider such information with caution. The Company has relied on the accuracy of this information without independent verification.

Some of the market data contained in this document has been derived from the official data of government agencies, including the statistical offices of the Republic of Slovenia and the respective countries in which the NLB Group operates and the Bank of Slovenia and the central banks of the respective countries in which the NLB Group operates. The official data published by the relevant authorities in the Southeastern European region are substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to the Republic of Slovenia and strategic markets in this prospectus are, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The accuracy of some official data released by governmental authorities may be questionable.

Such information, data and statistics have been accurately reproduced and, as far as NLB is aware and is able to ascertain from relevant publicly available information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. However, information provided by different third parties may not necessarily be comparable. None of the Managers accepts liability for the accuracy of any such information, and prospective investors are advised to use such information with caution.

Average Balances of Assets and Liabilities

This Prospectus includes information on average balances of assets and liabilities for the Company for the years ended 31 December 2017, 2016 and 2015.

Currency

In this Prospectus, the following currency terms are used:

- "**U.S. Dollar**", "**Dollar**", "**USD**" or "**U.S.$**" means the lawful currency of the United States;
- "**EUR**", "**euro**" or "**€**" means the lawful currency of the EU member states that adopted the single currency.

Exchange Rate Information

The euro is the presentation currency for the Financial Statements, as the majority of the Company's transactions are denominated, measured or funded in euros.

The following table sets forth, for the periods indicated, the high, low, average and year-end official rates set by the Bloomberg London Composite Rate in each case for the purchase of euros, all expressed per U.S. Dollar. These translations should not be construed as representations that EUR amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated as at any of the dates mentioned in this Prospectus or at all.

The Bloomberg London Composite Rate on 31 August 2018 was EUR 0.8627 per U.S.$1.0000.

	High	Low	Average(1)	Period End
		(EUR per U.S.$)		
August 2018	0.8817	0.8534	0.8661	0.8627
July 2018	0.8621	0.8513	0.8559	0.8543
June 2018	0.8643	0.8469	0.8564	0.8564
May 2018	0.8661	0.8322	0.8461	0.8570
April 2018	0.8264	0.8071	0.8145	0.8264
March 2018	0.8189	0.8035	0.8107	0.8113
February 2018	0.8190	0.8014	0.8099	0.8190
January 2018	0.8388	0.8006	0.8202	0.8055
2017	0.9590	0.8315	0.8870	0.8319
2016	0.9629	0.8675	0.9040	0.9506
2015	0.9527	0.8265	0.9015	0.9203
2014	0.8262	0.7181	0.7540	0.8262

(1) The average of the exchange rates of each business day of the relevant annual period, and on each business day for any other period.

Monetary assets and liabilities denominated in U.S. Dollars are translated into EUR at the ECB reference rate of EUR 0.857780 per U.S.$1.00 as at 30 June 2018, EUR 0.833820 per U.S.$1.00 as at 31 December 2017, EUR 0.948677 per U.S.$1.00 as at 31 December 2016 and EUR 0.915248 per U.S.$1.00 as at 31 December 2015.

Rounding

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

In this Prospectus, NLB has included certain percentage figures for convenience purposes in comparing changes in financial and other data over time. However, certain percentages greater than 100 per cent. have been excluded and replaced with a dash in the applicable tables. In addition, certain percentages may not sum to 100 per cent. due to rounding.

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1. SUMMARY

*Summaries are made up of disclosure requirements known as "**elements**". These elements are numbered in Sections A-E (A.1–E.7).*

This summary contains all the elements required to be included in a summary for this type of securities and issuer. Because some elements are not required to be addressed, there may be gaps in the numbering sequence of the elements.

Even though an element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the element. In this case, a short description of the element is included in the summary and noted as "not applicable."

Section A – Introduction and warnings		
A.1	*Warning.*	This summary should be read as an introduction to the prospectus (the "**Prospectus**"), and is provided as an aid to investors when considering whether to invest in the Securities, but is not a substitute for the Prospectus; any decision to invest in the securities should be based on consideration of the Prospectus as a whole, including any documents incorporated by reference; where a claim relating to the information contained in the Prospectus is brought before a court in an EEA member state, the plaintiff investor might, under the national legislation of the EEA member state where the claim is brought, have to bear the costs of translating the Prospectus before the legal proceedings are initiated; and civil liability attaches, in any EEA member state, only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such Securities.
A.2	*Consent by the issuer or person responsible for drawing up the prospectus to the use of the prospectus for subsequent resale or final placement of securities by financial intermediaries.*	Not applicable. Nova Ljubljanska banka d.d., Ljubljana ("**NLB**" or the "**Company**") and the Republic of Slovenia (the "**Selling Shareholder**"), acting through its sovereign holding company, Slovenski državni holding d.d. ("**SSH**"), have not consented to the use of the Prospectus for subsequent resale or final placement of Securities by financial intermediaries.
Section B – Issuer		
B.1	*The legal and commercial name of the issuer.*	The Company's full name is Nova Ljubljanska banka d.d., Ljubljana. The Company's short name is NLB d.d. The Company's full and short names are used by the Company for all purposes.
B.2	*The domicile and legal form of the issuer, the legislation under which the issuer operates and its*	The Company is a company organised in accordance with the Slovenian Companies Act (*Zakon o gospodarskih družbah (ZGD-1)*) (the "**Companies Act**") in the form of a *delniška družba*, and is registered in the Slovenian business register (*Poslovni register Slovenije*) under identification number (*matična številka*) 5860571000. The Company's corporate seat is in Ljubljana, its

	country of incorporation.	registered office is Trg Republike 2, 1000 Ljubljana, Republic of Slovenia, and its telephone number is +386 1 476 39 00.
B.3	*A description of, and key factors relating to, the nature of the issuer's current operations and its principal activities, stating the main categories of products sold and/or services performed and identification of the principal markets in which the issuer competes.*	The NLB Group is a financial and banking institution based in the Republic of Slovenia, with a network of 349 branches as at 30 June 2018, of which 108 branches operate in the Republic of Slovenia and 241 operate in the banking markets of the remainder of Southeastern Europe. The NLB Group's core international markets include Macedonia, Bosnia and Herzegovina, Montenegro, Kosovo and Serbia, where the NLB Group operates through its banking subsidiaries. Core markets and activities of the NLB Group include banking services (corporate and retail activities in the Republic of Slovenia), asset management and bancassurance products, financial markets in the Republic of Slovenia and core foreign markets (which includes six banks and two SPVs), while non-core markets and activities of the NLB Group consist of non-core NLB Group members (leasing, factoring/trade finance and real estate activities in the Republic of Slovenia and abroad, mostly in Southeastern Europe), the non-core part of NLB's portfolio (which includes, among others, operations with foreign clients), as well as some non-core equity investments to be divested according to Restructuring Plan and New Commitments. For the six months ended 30 June 2018 and for the year 2017 the NLB Group recorded a net profit attributable to shareholders equal to EUR 104.8 million and EUR 225.1 million, respectively. As at 30 June 2018 the NLB Group had total assets of EUR 12,516 million, of which core markets and activities represent 97 per cent. of the NLB Group total assets, and non-core markets and activities represent the remaining 3 per cent. The NLB Group had EUR 7,059 million of loans and advances to customers (net) (in accordance with IFRS), EUR 10,018 million in customer deposits and EUR 1,797 million in shareholders' equity (without non-controlling interests) as at 30 June 2018. NLB is the NLB Group's largest operating entity with total assets representing 66 per cent. of the total assets of the NLB Group as at 30 June 2018, is the leading bank in the Slovenian market with a market share of 23.2 per cent. by total assets (based on data from the Bank of Slovenia as of 30 June 2018), with the largest client base in the Republic of Slovenia, consisting of more than 46 thousand corporate and almost 740 thousand retail clients as at 30 June 2018. NLB had 2,746 employees as at 30 June 2018. NLB is the parent company of the subsidiaries of the NLB Group and as such is responsible for determining the NLB Group's strategic direction in addition to defining the objectives of individual subsidiaries, providing operational support and monitoring risks. The Selling Shareholder currently holds 100 per cent. of the share capital of NLB.
B.4a	*A description of the most significant recent trends affecting the issuer and the industries in which it operates.*	The NLB Group's business, results of operation and financial position are affected by a number of factors, some of which also impact the results of the banking sector in general. NLB believes that the following key factors have affected the Group's results of operations and financial position since January 1, 2015:

		• NLB Group's earnings and financial position are dependent on the general economic conditions in the Republic of Slovenia and Southeastern Europe. • NLB Group's earnings are significantly dependent on its net interest income which is particularly affected by the development of interest rates in the Eurozone and Southeastern Europe. • NLB Group's earnings are affected by the restrictions imposed on its activities by the European Commission, the majority of which are to be lifted after the conclusion of its privatization, and all of which are to be lifted by 31 December 2019. • NLB Group is affected by the increased financial institutions regulation in the Eurozone and Southeastern Europe. • NLB Group is subject to intense competition by other traditional banks and new financial technology companies. • NLB Group's business is affected by the increased customer demand for online and mobile banking platforms. According to the Bank of Slovenia, as at 31 December 2017, state-owned banks represented more than 39 per cent. of market share in terms of balance sheet. As at 31 December 2017, the Slovenian banking sector employed 9,390 people, 22.5 per cent. less than the peak in 2008 (12,096 employees). The size of the Slovenian banking sector generally has decreased substantially from its peak in 2010 when the Republic of Slovenia entered its first recession after the global financial crisis. Following losses in the post-recession years, the Slovenian banking sector returned to profitability in 2015 and has stayed profitable ever since. The NLB Group's business has been impacted by several factors during the period under review, including: (i) restrictions on its activities imposed by the European Commission; (ii) a low interest rate environment across the Eurozone; (iii) increased banking regulation at the domestic and European level; (iv) increased demand for online and mobile banking platforms; and (v) economic growth in the Eurozone and Southeast Europe.
B.5	*If the issuer is part of a group, a description of the group and the issuer's position within the group.*	NLB is a parent company of the NLB Group that comprises NLB and its consolidated subsidiaries, associates and joint ventures. These companies undertake various types of activities including banking, investment management, insurance and other finance activities.
B.6	*In so far as is known, the name of any person who, directly or indirectly, has an interest in the issuer's capital or voting rights which is*	As at the date of the Prospectus, the Company is directly controlled by the Selling Shareholder which currently owns 100 per cent. of the Shares of the Company, equating to a holding of 20,000,000 Shares. Following the Offering, the Selling Shareholder will hold between 25 per cent. of all Shares plus one Share and 50 per cent. of all

	notifiable under the issuer's national law, together with the amount of each such person's interest. Whether the issuer's major shareholders have different voting rights, if any. To the extent known to the issuer, state whether the issuer is directly or indirectly owned or controlled and by whom, and describe the nature of such control.	Shares minus one Share interest in the Shares, equating to a holding of at least 5,000,001 but not more than 9,999,999 Shares. The Selling Shareholder will continue to be the largest shareholder and may have the ability to influence the outcome of matters presented to the shareholders of NLB, including the early removal of the Supervisory Board members and approval of significant corporate transactions, including business consolidations and mergers. There is only one class of Shares and all Shares rank equally. No shareholder has different voting rights attached to the Shares to any other shareholder.
B.7	*Selected historical key financial information regarding the issuer, presented for each financial year of the period covered by the historical financial information, and any subsequent interim financial period, accompanied by comparative data for the same period in the prior financial year except that the requirement for comparative balance sheet information is satisfied by presenting the year-end balance sheet information. This should be accompanied by a narrative description of any significant change to the issuer's financial condition and operating results during or subsequent to the period covered by the historical key financial information.*	The financial information set forth below as of and for the years ended 31 December 2017, 2016 and 2015 has been extracted from the Audited Financial Statements. The financial information set forth below as of and for the six months ended 30 June 2018 and 2017 has been extracted from the unaudited Interim Financial Statements. There has been no significant change in the financial condition or operating result of NLB or the NLB Group since 30 June 2018, the end of the last financial period for which financial information has been published. ***Income statement of NLB and the NLB Group*** The following tables sets out NLB's and the NLB Group's income statements for the periods indicated:

	NLB Group Six months ended 30 June 2018 unaudited	2017 unaudited restated	% change 2018/17
	(EUR thousands)		
Interest income, using the effective interest method	171,503	174,867	(2)%
Interest income, not using the effective interest method	3,625	3,879	(7)%
Interest and similar income	175,128	178,746	(2)%
Interest and similar expense	(23,449)	(30,179)	(22)%
Net interest income	**151,679**	**148,567**	**2%**
Dividend income	97	142	(32)%
Fee and commission income	105,997	100,630	5%
Fee and commission expense	(26,438)	(24,877)	6%
Net fee and commission income	**79,559**	**75,753**	**5%**
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	565	11,814	(95)%
Gains less losses from financial assets and liabilities held for trading	3,918	5.680	(31)%
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	1,641	-	-
Gains less losses from financial assets and liabilities designated at fair value through profit or loss	(56)	18	-
Fair value adjustments in hedge accounting	257	(1,374)	-
Foreign exchange translation gains less losses	326	1,022	(68)%
Gains less losses on derecognition of assets other than held for sale	1,370	1,470	(7)%
Other operating income	8,310	12,890	(36)%
Other operating expenses	(16,765)	(15,101)	11%
Administrative expenses	(126,323)	(125,268)	1%
Depreciation and amortisation	(13,642)	(13,787)	(1)%
Provisions for other liabilities and charges	3,378	5,229	(35)%
Impairment charge	10,993	20,391	(46)%
Share of profit from investments in associates and joint ventures (accounted for using the equity method)	2,538	2,736	(7)%
Gains less losses from non-current assets held for sale	12,147	202	-
PROFIT BEFORE INCOME TAX	**119,992**	**130,384**	**(8)%**
Income tax	(10,603)	(8,093)	31%
PROFIT FOR THE PERIOD	**109,389**	**122,291**	**(11)%**
Attributable to owners of the parent	104,847	117,919	(11)%
Attributable to non-controlling interests	4,542	4,372	4%
Earnings per share/diluted earnings per share (in EUR per share)	5.24	5.90	(11)%

	NLB Six months ended 30 June 2018	2017	% change 2018/17
	unaudited	*unaudited restated*	
	(EUR thousands)		
Interest income, using the effective interest method................................	85,366	89,429	(5)%
Interest income, not using the effective interest method................................	3,663	3,879	(6)%
Interest and similar income.................	89,029	93,308	(5)%
Interest and similar expense................	(11,809)	(17,378)	(32)%
Net interest income	**77,220**	**75,930**	**2%**
Dividend income.................................	49,680	42,082	18%
Fee and commission income...............	65,276	62,459	5%
Fee and commission expense..............	(14,992)	(13,905)	8%
Net fee and commission income.......	**50,284**	**48,554**	**4%**
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss.............	282	11,420	(98)%
Gains less losses from financial assets and liabilities held for trading.........	820	3,061	(73)%
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	2,588	-	-
Gains less losses from financial assets and liabilities designated at fair value through profit or loss	(56)	-	-
Fair value adjustments in hedge accounting......................................	257	(1,374)	-
Foreign exchange translation gains less losses..	(2)	170	-
Gains less losses on derecognition of assets other than held for sale	56	180	(69)%
Other operating income	3,810	7,032	(46)%
Other operating expenses....................	(10,360)	(8,830)	17%
Administrative expenses.....................	(77,103)	(77,034)	0%
Depreciation and amortisation............	(8,715)	(8,936)	(2)%
Provisions for other liabilities and charges	628	4,382	(86)%
Impairment charge	11,342	11,517	(2)%
Share of profit from investments in associates and joint ventures (accounted for using the equity method)...	-	-	-
Gains less losses from non-current assets held for sale	8,809	345	-
PROFIT BEFORE INCOME TAX	**109,540**	**108,499**	**1%**
Income tax...	(6,205)	(3,181)	95%
PROFIT FOR THE PERIOD..........	**103,335**	**105,318**	**(2)%**
Attributable to owners of the parent ...	103,335	105,318	(2)%
Attributable to non-controlling interests	-	-	-
Earnings per share/diluted earnings per share (in EUR per share).................	5.17	5.27	(2)%

	NLB Group				
	Year ended 31 December				
	2017	**2016**	**2015**	**% change 2017/16**	**% change 2016/15**
	audited	*audited*	*audited*		
		(EUR thousands)			
Interest and similar income..	363,733	388,494	443,203	(6)%	(12)%
Interest and similar expense.	(54,417)	(71,189)	(103,001)	(24)%	(31)%
Net interest income............	**309,316**	**317,305**	**340,202**	**(3)%**	**(7)%**
Dividend income.................	179	1,238	1,346	(86)%	(8)%
Fee and commission income	207,908	194,371	195,710	7%	(1)%
Fee and commission expense	(52,490)	(48,706)	(48,640)	8%	0%
Net fee and commission income............................	**155,418**	**145,665**	**147,070**	**7%**	**(1)%**
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss..................................	12,242	14,788	10,659	(17)%	39%
Gains less losses from financial assets and liabilities held for trading	13,067	6,921	(18,877)	89%	-
Gains less losses from financial assets and liabilities designated at fair value through profit or loss	75	235	(3)	(68)%	-
Fair value adjustments in hedge accounting............	(813)	(3,239)	231	(75)%	-
Foreign exchange translation gains less losses..............	2,149	1,158	11,831	86%	(90)%
Gains less losses on derecognition of assets other than held for sale....	1,748	867	(624)	102%	-
Other operating income........	26,424	24,442	27,329	8%	(11)%
Other operating expenses.....	(29,411)	(33,204)	(35,083)	(11)%	(5)%
Administrative expenses......	(256,907)	(261,160)	(265,984)	(2)%	(2)%
Depreciation and amortisation	(27,802)	(28,345)	(31,856)	(2)%	(11)%
Provisions for other liabilities and charges.....................	(5,251)	(4,357)	696	21%	-
Impairment charge	34,781	(56,288)	(83,801)	-	(33)%
Gains less losses from investments in associates and joint ventures (accounted for using the equity method)................	3,852	5,006	4,312	(23)%	16%
Gains less losses from non-current assets held for sale	(1,756)	(432)	(690)	306%	(37)%
PROFIT BEFORE INCOME TAX..............	**237,311**	**130,600**	**106,758**	**82%**	**22%**
Income tax...........................	(3,997)	(14,975)	(11,380)	(73)%	32%
PROFIT FOR THE YEAR	**233,314**	**115,625**	**95,378**	**102%**	**21%**
Attributable to owners of the parent..............................	225,069	110,017	91,914	105%	20%
Attributable to non-controlling interests...........................	8,245	5,608	3,464	47%	62%
Earnings per share/diluted earnings per share (in EUR per share)........................	11.3	5.5	4.6	105%	20%

	NLB				
	Year ended 31 December				
	2017	2016	2015	% change 2017/16	% change 2016/15
	audited	*audited*	*audited*		
		(EUR thousands)			
Interest and similar income	188,255	215,550	269,000	(13)%	(20)%
Interest and similar expense	(29,466)	(40,672)	(60,993)	(28)%	(33)%
Net interest income...........	**158,789**	**174,878**	**208,007**	**(9)%**	**(16)%**
Dividend income	50	1,144	1,264	(96)%	(9)%
Fee and commission income	127,749	123,014	128,896	4%	(5)%
Fee and commission expense	(29,240)	(27,728)	(30,828)	5%	(10)%
Net fee and commission income...........................	**98,509**	**95,286**	**98,068**	**3%**	**(3)%**
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	11,711	14,639	10,685	(20)%	37%
Gains less losses from financial assets and liabilities held for trading	7,065	336	(25,304)	-	-
Gains less losses from financial assets and liabilities designated at fair value through profit or loss................................	-	-	-	-	-
Fair value adjustments in hedge accounting...........	(813)	(2,437)	231	(67)%	-
Foreign exchange translation gains less losses............	(1,007)	738	23,251	-	(97)%
Gains less losses on derecognition of assets other than held for sale ..	249	252	(450)	(1)%	-
Other operating income......	12,172	12,267	13,234	(1)%	(7)%
Other operating expenses...	(15,249)	(13,176)	(15,133)	16%	(13)%
Administrative expenses	(157,877)	(162,083)	(165,813)	(3)%	(2)%
Depreciation and amortisation...................	(18,010)	(18,880)	(21,410)	(5)%	(12)%
Provisions for other liabilities and charges....................	(7,344)	482	5,153	-	(91)%
Impairment charge	38,008	(64,433)	(93,114)	-	(31)%
Gains less losses from investments in associates and joint ventures (accounted for using the equity method)..............	58,171	28,915	13,747	101%	110%
Gains less losses from non-current assets held for sale	451	(220)	(567)	-	(61)%
PROFIT BEFORE INCOME TAX............	**184,875**	**67,708**	**51,849**	**173%**	**31%**
Income tax.........................	4,219	(3,925)	(7,968)	-	(51)%
PROFIT FOR THE YEAR	**189,094**	**63,783**	**43,881**	**196%**	**45%**
Attributable to owners of the parent............................	189,094	63,783	43,881	196%	45%
Attributable to non-controlling interests.......	-	-	-	-	-
Earnings per share/diluted earnings per share (in EUR per share).............	9.5	3.2	2.2	196%	45%

		In NLB's income statement for the year ended 31 December 2017 line "Gains less losses from capital investments in subsidiaries, associates, and joint ventures" for NLB included dividends and effects from sale of investments in subsidiaries, associates, and joint ventures, and effects from the equity method from investments in associates and joint ventures. In the income statement for the six months ended 30 June 2018 and 2017 the dividends from subsidiaries, associates, and joint ventures for NLB are included in the line "Dividend income" and the effects from sale of investments in subsidiaries, associates, and joint ventures are included in the line "Net gain or losses from non-current assets held for sale". The income statement for the year ended 31 December 2017, 2016 and 2015 and six months ended 30 June 2017 reflects the classification and measurement effects in accordance with IAS 39, whereas the financial statements for the six months ended 30 June 2018 reflects the classification and measurement effects in accordance with IFRS 9. Due to implementation of IFRS 9, IAS 1 has also changed and requires "interest revenue calculated using the effective interest method" to be shown separately. This change is reflected in the income statement for the period ended 30 June 2018 and 2017.
		Statement of financial position of NLB and the NLB Group The following tables sets out NLB's and the NLB Group's financial position as at the dates indicated:

	NLB Group			
	As at 30 June	As at 1 January	As at 31 December	% change 30 June 2018 / 1 January 2018
	2018	2018	2017	
	unaudited	*unaudited*	*audited*	
		(EUR thousands)		
Cash, cash balances at central banks and other demand deposits at banks	1,298,731	1,255,824	1,256,481	3%
Financial assets held for trading	67,458	72,189	72,189	(7)%
Non-trading financial assets mandatorily at fair value through profit or loss	25,752	31,404	-	(18)%
Financial assets designated at fair value through profit or loss	-	-	5,003	-
Financial assets measured at fair value through other comprehensive income	1,876,219	1,656,365	-	13%
Financial assets measured at amortised cost				
- debt securities	1,265,726	1,301,413	-	(3)%
- loans and advances to banks	453,724	509,970	-	(11)%
- loans and advances to customers	7,037,953	6,956,362	-	1%
- other financial assets	62,783	67,046	-	(6)%
Available-for-sale financial assets	-	-	2,276,493	-
Loans and advances				
- debt securities	-	-	82,133	-
- loans and advances to banks	-	-	510,107	-
- loans and advances to customers	-	-	6,912,333	-
- other financial assets	-	-	66,077	-
Held-to-maturity financial assets	-	-	609,712	-
Derivatives - hedge accounting	695	1,188	1,188	(41)%
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,669	719	719	132%
Investments in subsidiaries	-	-	-	-
Investments in associates and joint ventures	42,331	43,765	43,765	(3)%
Tangible assets				
Property and equipment	184,643	188,355	188,355	(2)%
Investment property	51,130	51,838	51,838	(1)%
Intangible assets	32,674	34,974	34,974	(7)%
Current income tax assets	711	599	2,795	19%
Deferred income tax assets	21,146	19,745	18,603	7%
Other assets	88,614	93,349	93,349	(5)%
Non-current assets classified as held for sale	4,227	11,631	11,631	(64)%
TOTAL ASSETS	**12,516,186**	**12,296,736**	**12,237,745**	2%
Trading liabilities	11,509	9,502	9,502	21%
Financial liabilities measured at fair value through profit or loss	9,264	5,815	635	59%
Financial liabilities measured at amortised cost				
- deposits from banks and central banks	39,083	40,602	40,602	(4)%
- borrowings from banks and central banks	268,543	279,616	279,616	(4)%
- due to customers	10,018,043	9,878,378	9,878,378	1%
- borrowings from other customers	65,037	74,286	74,286	(12)%
- subordinated liabilities	15,029	27,350	27,350	(45)%
- other financial liabilities	119,438	111,019	111,019	8%
Derivatives-hedge accounting	26,132	25,529	25,529	2%
Provisions	87,187	93,989	88,639	(7)%
Liabilities of disposal group classified as held for sale	-	440	440	(100)%
Current income tax liabilities	7,257	3,908	2,894	86%
Deferred income tax liabilities	2,746	2,558	1,096	7%
Other liabilities	12,337	9,467	9,596	30%
TOTAL LIABILITIES	**10,681,605**	**10,562,459**	**10,549,582**	1%
EQUITY AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT				
Share capital	200,000	200,000	200,000	0%
Share premium	871,378	871,378	871,378	0%
Accumulated other comprehensive income	19,170	24,744	26,752	(23)%
Profit reserves	13,522	13,522	13,522	0%
Retained earnings	692,640	587,742	541,901	18%
	1,796,710	**1,697,386**	**1,653,553**	6%
Non-controlling interests	37,871	36,891	34,610	3%
TOTAL EQUITY	**1,834,581**	**1,734,277**	**1,688,163**	6%
TOTAL LIABILITIES AND EQUITY	**12,516,186**	**12,296,736**	**12,237,745**	2%

	NLB			
	As at 30 June	**As at 1 January**	**As at 31 December**	**% change 30 June 2018 / 1 January 2018**
	2018	**2018**	**2017**	
	unaudited	*unaudited*	*audited*	
		(EUR thousands)		
Cash, cash balances at central banks and other demand deposits at banks	660,851	569,943	570,010	16%
Financial assets held for trading	67,459	72,180	72,180	(7)%
Non-trading financial assets mandatorily at fair value through profit or loss	25,746	31,239	-	(18)%
Financial assets designated at fair value through profit or loss	-	-	634	-
Financial assets measured at fair value through other comprehensive income	1,484,016	1,285,276	-	15%
Financial assets measured at amortised cost				
- debt securities	1,129,743	1,178,088	-	(4)%
- loans and advances to banks	448,569	461,830	-	(3)%
- loans and advances to customers	4,522,241	4,594,286	-	(2)%
- other financial assets	59,877	38,915	-	54%
Available-for-sale financial assets	-	-	1,777,762	-
Loans and advances				
- debt securities	-	-	82,133	-
- loans and advances to banks	-	-	462,322	-
- loans and advances to customers	-	-	4,587,477	-
- other financial assets	-	-	38,389	-
Held-to-maturity financial assets	-	-	609,712	-
Derivatives - hedge accounting	695	1,188	1,188	(41)%
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,669	719	719	132%
Investments in subsidiaries	350,445	349,945	349,945	0%
Investments in associates and joint ventures	6,932	6,932	6,932	0%
Tangible assets				
Property and equipment	85,490	87,051	87,051	(2)%
Investment property	9,266	9,257	9,257	0%
Intangible assets	21,747	23,911	23,911	(9)%
Current income tax assets	-	-	2,196	-
Deferred income tax assets	21,017	20,318	19,758	3%
Other assets	10,905	8,692	8,692	25%
Non-current assets classified as held for sale	1,602	2,564	2,564	(38)%
TOTAL ASSETS	**8,908,270**	**8,742,334**	**8,712,832**	2%
Trading liabilities	11,505	9,398	9,398	22%
Financial liabilities measured at fair value through profit or loss	9,152	5,166	635	77%
Financial liabilities measured at amortised cost				
- deposits from banks and central banks	55,480	72,072	72,072	(23)%
- borrowings from banks and central banks	252,499	260,747	260,747	(3)%
- due to customers	6,879,432	6,810,967	6,810,967	1%
- borrowings from other customers	4,928	5,726	5,726	(14)%
- subordinated liabilities	-	-	-	-
- other financial liabilities	81,429	71,534	71,534	14%
Derivatives-hedge accounting	26,132	25,529	25,529	2%
Provisions	65,493	67,232	70,817	(3)%
Current income tax liabilities	6,489	1,014	-	540%
Deferred income tax liabilities	-	-	-	-
Other liabilities	6,914	4,057	4,181	70%
TOTAL LIABILITIES	**7,399,453**	**7,333,442**	**7,331,606**	1%
EQUITY AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT				
Share capital	200,000	200,000	200,000	0%
Share premium	871,378	871,378	871,378	0%
Accumulated other comprehensive income	21,234	24,688	25,699	(14)%
Profit reserves	13,522	13,522	13,522	0%
Retained earnings	402,683	299,304	270,627	35%
	1,508,817	**1,408,892**	**1,381,226**	7%
Non-controlling interests	-	-	-	-
TOTAL EQUITY	**1,508,817**	**1,408,892**	**1,381,226**	7%
TOTAL LIABILITIES AND EQUITY	**8,908,270**	**8,742,334**	**8,712,832**	2%

	NLB Group				
	As at 31 December				
	2017	2016	2015	% change 2017/16	% change 2016/15
	audited	*audited*	*audited*		
			(EUR thousands)		
Cash, cash balances at central banks and other demand deposits at banks	1,256,481	1,299,014	1,161,983	(3)%	12%
Financial assets held for trading	72,189	87,699	267,413	(18)%	(67)%
Financial assets designated at fair value through profit or loss.......	5,003	6,694	7,595	(25)%	(12)%
Available-for-sale financial assets...	2,276,493	2,072,153	1,737,191	10%	19%
Derivatives-hedge accounting..........	1,188	217	1,083	447%	(80)%
Loans and advances					
- debt securities	82,133	85,315	394,579	(4)%	(78)%
- loans and advances to banks.............	510,107	435,537	431,775	17%	1%
- loans and advances to customers.......	6,912,333	6,912,067	6,693,621	0%	3%
- other financial assets..................	66,077	61,014	69,521	8%	(12)%
Held-to-maturity financial assets...	609,712	611,449	565,535	0%	8%
Fair value changes of the hedged items in portfolio hedge of interest rate risk .	719	678	741	6%	(9)%
Non-current assets classified as held for sale	11,631	4,263	4,629	173%	(8)%
Property and equipment	188,355	196,849	207,730	(4)%	(5)%
Investment property	51,838	83,663	93,513	(38)%	(11)%
Intangible assets	34,974	33,970	39,327	3%	(14)%
Investments in subsidiaries	-	-	-	--	-
Investments in associates and joint ventures.............	43,765	43,248	39,696	1%	9%
Current income tax assets..................	2,795	2,888	929	(3)%	211%
Deferred income tax assets..................	18,603	7,735	9,400	141%	(18)%
Other assets............	93,349	94,558	95,354	(1)%	(1)%
TOTAL ASSETS..	**12,237,745**	**12,039,011**	**11,821,615**	2%	2%
Trading liabilities ...	9,502	18,791	29,920	(49)%	(37)%
Financial liabilities designated at fair value through profit or loss.......	635	2,011	4,912	(68)%	(59)%
Derivatives-hedge accounting..........	25,529	29,024	33,842	(12)%	(14)%
Financial liabilities measured at amortised costs					
- deposits from banks and central banks..................	40,602	42,334	57,982	(4)%	(27)%
- borrowings from banks and central banks..................	279,616	371,769	571,029	(25)%	(35)%
- due to customers	9,878,378	9,437,147	9,020,666	5%	5%
- borrowings from other customers..	74,286	83,619	100,267	(11)%	(17)%
- debt securities in issue	-	277,726	304,962	-	(9)%
- subordinated liabilities	27,350	27,145	27,340	1%	(1)%
- other financial liabilities	111,019	110,295	75,307	1%	46%
Fair value changes of the hedged items in portfolio hedge of interest rate risk .	-	-	-	-	-
Liabilities of disposal group classified as held for sale	440	-	-	-	-
Provisions...............	88,639	100,914	122,639	(12)%	(18)%
Current income tax liabilities	2,894	3,146	7,514	(8)%	(58)%
Deferred income tax liabilities	1,096	727	313	51%	132%
Other liabilities.......	9,596	8,703	14,539	10%	(40)%
TOTAL LIABILITIES	**10,549,582**	**10,513,351**	**10,371,232**	**0%**	**1%**
EQUITY AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT					
Share capital	200,000	200,000	200,000	0%	0%
Share premium	871,378	871,378	871,378	0%	0%

Accumulated other comprehensive income	26,752	29,969	23,603	(11)%	27%
Profit reserves	13,522	13,522	13,522	0%	0%
Retained earnings	541,901	380,444	314,307	42%	21%
	1,653,553	**1,495,313**	**1,422,810**	11%	5%
Non-controlling interests	34,610	30,347	27,573	14%	10%
TOTAL EQUITY	**1,688,163**	**1,525,660**	**1,450,383**	11%	5%
TOTAL LIABILITIES AND EQUITY	**12,237,745**	**12,039,011**	**11,821,615**	2%	2%

	NLB				
	As at 31 December				
	2017	**2016**	**2015**	**% change 2017/16**	**% change 2016/15**
	audited	*audited*	*audited*		
			(EUR thousands)		
Cash, cash balances at central banks and other demand deposits at banks	570,010	617,039	496,806	(8)%	24%
Financial assets held for trading	72,180	87,693	267,880	(18)%	(67)%
Financial assets designated at fair value through profit or loss	634	2,011	4,913	(68)%	(59)%
Available-for-sale financial assets	1,777,762	1,594,094	1,248,359	12%	28%
Derivatives-hedge accounting	1,188	217	1,083	447%	(80)%
Loans and advances					
- debt securities	82,133	85,315	394,579	(4)%	(78)%
- loans and advances to banks	462,322	408,056	345,207	13%	18%
- loans and advances to customers	4,587,477	4,843,594	4,826,139	(5)%	0%
- other financial assets	38,389	36,151	48,944	6%	(26)%
Held-to-maturity financial assets	609,712	611,449	565,535	0%	8%
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	678	741	6%	(9)%
Non-current assets classified as held for sale	2,564	1,788	1,776	43%	1%
Property and equipment	87,051	90,496	94,570	(4)%	(4)%
Investment property	9,257	8,151	8,613	14%	(5)%
Intangible assets	23,911	23,345	29,627	2%	(21)%
Investments in subsidiaries	349,945	339,693	346,001	3%	(2)%
Investments in associates and joint ventures	6,932	7,031	7,094	(1)%	(1)%
Current income tax assets	2,196	2,124	-	3%	-
Deferred income tax assets	19,758	10,622	9,139	86%	16%
Other assets	8,692	8,419	9,779	3%	(14)%
TOTAL ASSETS	**8,712,832**	**8,777,966**	**8,706,785**	(1)%	1%
Trading liabilities	9,398	18,787	29,909	(50)%	(37)%
Financial liabilities designated at fair value through profit or loss	635	2,011	4,912	(68)%	(59)%
Derivatives-hedge accounting	25,529	29,024	33,842	(12)%	(14)%
Financial liabilities measured at amortised costs					
- deposits from banks and central banks	72,072	74,977	96,736	(4)%	(22)%
- borrowings from banks and central banks	260,747	338,467	519,926	(23)%	(35)%
- due to customers	6,810,967	6,615,390	6,293,339	3%	5%
- borrowings from other customers	5,726	4,274	16,168	34%	(74)%
- debt securities in issue	-	277,726	304,962	-	(9)%
- subordinated liabilities	-	-	-	-	-
- other financial liabilities	71,534	68,784	47,346	4%	45%
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-
Provisions	70,817	79,546	105,137	(11)%	(24)%
Current income tax liabilities	-	-	6,681	-	-
Deferred income tax liabilities	-	-	-	-	-
Other liabilities	4,181	4,186	5,676	0%	(26)%
TOTAL LIABILITIES	**7,331,606**	**7,513,172**	**7,464,634**	(2)%	1%
EQUITY AND RESERVES					

ATTRIBUTABLE TO OWNERS OF THE PARENT					
Share capital	200,000	200,000	200,000	0%	0%
Share premium	871,378	871,378	871,378	0%	0%
Accumulated other comprehensive income	25,699	34,581	31,841	(26)%	9%
Profit reserves.................	13,522	13,522	13,522	0%	0%
Retained earnings	270,627	145,313	125,410	86%	16%
	1,381,226	**1,264,794**	**1,242,151**	9%	2%
Non-controlling interests	-	-	-	-	-
TOTAL EQUITY	1,381,226	1,264,794	1,242,151	9%	2%
TOTAL LIABILITIES AND EQUITY..........	**8,712,832**	**8,777,966**	**8,706,785**	(1)%	1%

The statements of financial position for the years ended 31 December 2017, 2016 and 2015 and six months ended 30 June 2017 reflect the classification and measurement in accordance with IAS 39, whereas the statement of financial position for the six months ended 30 June 2018 reflects the classification and measurement in accordance with IFRS 9.

An adjustment arising from the adoption of IFRS 9 was recognised in retained earnings and other comprehensive income as at 1 January 2018. Due to the transition to IFRS 9 requirements, the NLB Group's shareholder's equity increased by EUR 43.8 million and EUR 27.7 million for NLB.

Statement of cash flows of NLB and the NLB Group

The following tables summarises the NLB Group's selected statements of cash flows for the periods indicated:

	NLB Group	
	Six months ended 30 June	
	2018	2017
	unaudited	*unaudited*
	(EUR thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	203,809	198,948
Interest paid	(24,050)	(27,794)
Dividends received	1,809	4,348
Fee and commission receipts	106,637	100,674
Fee and commission payments	(28,195)	(26,596)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	716	11,976
Net (losses)/gains from financial assets and liabilities held for trading	4,394	2,315
Payments to employees and suppliers	(129,251)	(122,098)
Other income	11,756	14,654
Other expenses	(14,842)	(14,926)
Income tax paid	(5,377)	(3,834)
Cash flows from operating activities before changes in operating assets and liabilities	**127,406**	**137,667**
(Increases)/decreases in operating assets	**(281,254)**	**(54,863)**
Net (increase)/decrease in trading assets	6,392	(34,454)
Net (increase)/decrease in financial assets designated at fair value through profit or loss	-	946
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss	9,768	-
Net (increase)/decrease in financial assets at fair value through other comprehensive income	(233.629)	-
Net (increase)/decrease in available-for-sale financial assets	-	(53,673)
Net (increase)/decrease in loans and receivables at amortised cost	(71,570)	28,527
Net (increase)/decrease in other assets	7,785	3,791
(Increases)/decreases in operating liabilities	**133,573**	**20,342**
Net increase/(decrease) in financial liabilities designated at fair value through profit or loss	(691)	-
Net increase/(decrease) in deposits and borrowings measured at amortised cost	133,953	19,182
Net increase/(decrease) in other liabilities	311	1,160
Net cash used in operating activities	**(20,275)**	**103,146**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from investing activities	**181,853**	**57,184**
Proceeds from sale of property and equipment and investment property	2,014	1,220
Proceeds from sale of subsidiaries and associates	18,671	238
Proceeds from disposals of debt securities measured at amortised cost	161,131	-
Proceeds from non-current assets held for sale	37	323
Proceeds from disposals of held-to-maturity financial assets	-	55,403

		Payments from investing activities	**(140,328)**	**(52,365)**
		Purchase of property and equipment and investment property	(8,916)	(4,136)
		Purchase of intangible assets	(5,828)	(6,680)
		Purchase of subsidiaries and increase in subsidiaries' equity .	-	-
		Purchase of debt securities measured at amortised cost	(125,584)	-
		Purchase of held-to-maturity financial assets..........................	-	(41,549)
		Net cash flows used in investing activities	**41,525**	**4,819**
		CASH FLOWS FROM FINANCING ACTIVITIES		
		Proceeds from financing activities	**(15,094)**	**(67,430)**
		Dividends paid	(3,116)	(67,430)
		Repayments of subordinated debt	(11,978)	-
		Net cash from financing activities	**(15,094)**	**(67,430)**
		Effects of exchange rate changes on cash and cash equivalents.........	(2,611)	(5,366)
		Net increase/(decrease) in cash and cash equivalents..............	**6,156**	**40,535**
		Cash and cash equivalents at beginning of period................	**1,475,714**	**1,449,275**
		Cash and cash equivalents at end of period..................................	**1,479,259**	**1,484,444**

	NLB	
	Six months ended 30 June	
	2018	2017
	unaudited	*unaudited*
	(EUR thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	116,571	115,492
Interest paid	(12,827)	(15,199)
Dividends received	40,469	27,417
Fee and commission receipts	65,078	62,174
Fee and commission payments	(15,267)	(14,248)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	462	11,574
Net (losses)/gains from financial assets and liabilities held for trading	1,189	(187)
Payments to employees and suppliers	(81,869)	(77,224)
Other income	6,428	7,348
Other expenses	(10,223)	(9,105)
Income tax paid	1,045	2,082
Cash flows from operating activities before changes in operating assets and liabilities	**111,056**	**110,124**
(Increases)/decreases in operating assets	**(141,490)**	**38,080**
Net (increase)/ decrease in trading assets	6,392	(34,454)
Net (increase)/decrease in financial assets designated at fair value through profit or loss	-	-
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss	12,351	-
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income	(211,502)	-
Net (increase)/decrease in available-for-sale financial assets	-	(46,071)
Net decrease in loans and receivables measured at amortised cost	50,990	117,610
Net (increase)/decrease in other assets	279	995
Increase/(decrease) in operating liabilities	**54,883**	**16,231**
Net increase/(decrease) in financial liabilities designated at fair value through profit or loss	(691)	-
Net increase/(decrease) in deposits and borrowings measured at amortised cost	54,882	15,786
Net increase/(decrease) in other liabilities	692	445
Net cash used in operating activities	**24,449**	**164,435**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from investing activities	**171,441**	**55,972**
Proceeds from sale of property and equipment and investment property	5	8
Proceeds from sale of subsidiaries	10,268	238
Proceeds from disposal of debt securities measured at amortised cost	161,131	-
Proceeds from non-current assets held for sale	37	323

Proceeds from disposals of held-to-maturity financial assets...........	-	55,403
Payments from investing activities	**(136,785)**	**(59,861)**
Purchase of property and equipment and investment property...........	(6,344)	(2,146)
Purchase of intangible assets	(4,357)	(5,382)
Purchase of subsidiaries and increase in subsidiaries' equity .	(500)	(10,784)
Increase in associates and joint ventures' equity.........................	-	-
Purchase of debt securities measured at amortised cost	(125,584)	-
Purchase of held-to-maturity financial assets..........................	-	(41,549)
Net cash flows used in investing activities	**34,656**	**(3,889)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from financing activities	**-**	**(63,780)**
Dividends paid	-	(63,780)
Repayments of subordinated debt	-	-
Net cash from financing activities	**-**	**(63,780)**
Effects of exchange rate changes on cash and cash equivalents.........	(402)	(7,661)
Net increase/(decrease) in cash and cash equivalents..............	**59,105**	**96,766**
Cash and cash equivalents at beginning of period................	**662,419**	**670,682**
Cash and cash equivalents at end of period..................................	**721,122**	**759,787**

	NLB Group		
	Year ended 31 December		
	2017	2016	2015
	audited	*audited*	*audited*
		(EUR thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received	383,615	413,337	467,091
Interest paid	(60,165)	(78,401)	(121,143)
Dividends received	179	1,233	1,346
Fee and commission receipts	206,100	192,295	194,133
Fee and commission payments	(56,855)	(51,996)	(48,713)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	12,455	13,296	10,964
Realised losses from financial assets and financial liabilities not at fair value through profit or loss	-	(40)	(234)
Net (losses)/gains from financial assets and liabilities held for trading	9,421	3,246	(23,110)
Payments to employees and suppliers	(254,877)	(262,202)	(271,456)
Other income	27,135	26,352	31,129
Other expenses	(28,775)	(26,132)	(28,935)
Income tax paid	(10,557)	(19,991)	(4,980)
Cash flows from operating activities before changes in operating assets and liabilities	**227,676**	**210,997**	**206,092**
(Increases)/decreases in operating assets	**(227,829)**	**(139,839)**	**(143,429)**
Net (increase)/decrease in trading assets	9,001	163,609	(135,235)
Net (increase)/decrease in financial assets designated at fair value through profit or loss	1,801	1,026	(880)
Net (increase)/decrease in available-for-sale financial assets	(228,936)	(344,588)	(45,544)
Net decrease in loans and advances	(18,524)	37,715	33,155
Net (increase)/decrease in other assets	8,829	2,399	5,075
Increases/(decreases) in operating liabilities	**86,953**	**197,351**	**(200,359)**
Net decrease in financial liabilities designated at fair value through profit or loss	(1,487)	(2,801)	-
Net increase/(decrease) in deposits and borrowings measured at amortised cost	361,928	227,842	(146,993)
Net increase/(decrease) in securities measured at amortised cost	(274,200)	(26,913)	(53,469)
Net increase/(decrease) in other liabilities	712	(777)	103
Net cash used in operating activities	**86,800**	**268,509**	**(137,696)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from investing activities	**112,661**	**77,903**	**178,923**
Proceeds from sale of property and equipment and investment property	37,274	5,536	3,718
Proceeds from sale of subsidiaries	38	-	-
Proceeds from dividends from subsidiaries and associates	4,215	3,587	35
Proceeds from sale associates and joint ventures	238	-	-
Proceeds from non-current assets held for sale	493	128	170
Proceeds from disposals of held-to-maturity financial assets	70,403	68,652	175,000
Payments from investing activities	**96,991**	**(153,178)**	**(51,377)**
Purchase of property and equipment and investment property	(10,793)	(17,896)	(11,404)
Purchase of intangible assets	(10,801)	(6,981)	(7,685)
Purchase of subsidiaries and increase in subsidiaries' equity	(1,596)	-	(404)
Increase in associates and joint ventures' equity	-	(12,250)	-
Purchase of held-to-maturity financial assets	(73,801)	(116,051)	(31,884)
Net cash flows used in investing activities	**15,670**	**(75,275)**	**127,546**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from financing activities	**-**	**-**	**9,900**
Issue of subordinated debt	-	-	9,900
Issue of ordinary shares and other equity instruments	-	-	-
Payments from financing activities	**(67,557)**	**(46,655)**	**(977)**
Dividends paid	(67,512)	(46,655)	(977)
Repayments of subordinated debt	-	-	-
Other payments related to financing activities	(45)	-	-
Net cash from financing activities	**(67,557)**	**(46,655)**	**8,923**
Effects of exchange rate changes on cash and cash equivalents	(8,474)	693	10,246
Net increase/(decrease)in cash and cash equivalents	**34,913**	**146,579**	**(1,227)**
Cash and cash equivalents at beginning of year	**1,449,275**	**1,302,003**	**1,292,984**
Cash and cash equivalents at end of year	**1,475,714**	**1,449,275**	**1,302,003**

	NLB		
	Year ended 31 December		
	2017	2016	2015
	audited	*audited*	*audited*
		(EUR thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received	210,292	240,789	294,113
Interest paid	(33,714)	(44,510)	(72,613)
Dividends received	50	1,139	1,264
Fee and commission receipts	125,760	119,296	126,371
Fee and commission payments	(29,385)	(27,056)	(30,993)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	11,883	13,147	10,886
Realised losses from financial assets and financial liabilities not at fair value through profit or loss	-	(40)	(234)
Net (losses)/gains from financial assets and liabilities held for trading	3,646	(2,785)	(28,335)
Payments to employees and suppliers	(160,484)	(165,579)	(174,051)
Other income	12,391	13,256	14,136
Other expenses	(15,075)	(14,857)	(16,487)
Income tax paid	(509)	(14,489)	(678)
Cash flows from operating activities before changes in operating assets and liabilities	**124,855**	**118,311**	**123,379**
(Increases)/decreases in operating assets	**45,391**	**30,540**	**(34,116)**
Net (increase)/decrease in trading assets	9,001	164,609	(135,235)
Net (increase)/decrease in financial assets designated at fair value through profit or loss	1,487	2,795	-
Net (increase)/decrease in available-for-sale financial assets	(216,235)	(353,677)	(88,304)
Net decrease in loans and advances	250,062	214,615	189,680
Net (increase)/decrease in other assets	1,076	2,198	(257)
Increase/(decrease) in operating liabilities	**(130,582)**	**101,342**	**(208,931)**
Net decrease in financial liabilities designated at fair value through profit or loss	(1,487)	(2,801)	-
Net increase/(decrease) in deposits and borrowings measured at amortised cost	145,241	130,815	(155,700)
Net (decrease)/increase in securities measured at amortised cost	(274,200)	(26,913)	(53,469)
Net increase/(decrease) in other liabilities	(136)	241	238
Net cash used in operating activities	**39,664**	**250,193**	**(119,668)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from investing activities	**129,259**	**98,095**	**188,913**

Proceeds from sale of property and equipment and investment property	75	400	68
Proceeds from sale of subsidiaries	38	-	-
Proceeds from dividends from subsidiaries and associates	58,012	28,915	13,747
Proceeds from sale of associates and joint ventures	238	-	-
Proceeds from non-current assets held for sale........	493	128	98
Proceeds from disposals of held-to-maturity financial assets............................	70,403	68,652	175,000
Payments from investing activities......................	**(99,762)**	**(161,064)**	**(70,863)**
Purchase of property and equipment and investment property......	(5,776)	(10,990)	(5,672)
Purchase of intangible assets............................	(7,605)	(4,466)	(5,577)
Purchase of subsidiaries and increase in subsidiaries' equity	(12,580)	(17,307)	(27,730)
Increase in associates and joint ventures' equity	-	(12,250)	-
Purchase of held-to-maturity financial assets	(73,801)	(116,051)	(31,884)
Net cash flows used in investing activities.......	**29,497**	**(62,969)**	**118,050**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from financing activities......................	**-**	**-**	**-**
Issue of subordinated debt	-	-	-
Issue of ordinary shares and other equity instruments	-	-	-
Payments from financing activities......................	**(63,780)**	**(43,880)**	**-**
Dividends paid	(63,780)	(43,880)	-
Repayments of subordinated debt	-	-	-
Other payments related to financing activities	-	-	-
Net cash from financing activities......................	**(63,780)**	**(43,880)**	**-**
Effects of exchange rate changes on cash and cash equivalents...................	(13,644)	1,507	8,226
Net increase/(decrease) in cash and cash equivalents..................	**5,381**	**143,344**	**(1,618)**
Cash and cash equivalents at beginning of year....	**670,682**	**525,831**	**519,223**
Cash and cash equivalents at end of year..............	**662,419**	**670,682**	**525,831**

Statement of changes in equity of NLB and the NLB Group

The following tables summarises the NLB Group's selected statements of changes in equity for the periods indicated.

NLB Group	**Share capital**	**Share premium premium**	**Accumulated other comprehensive income reserve**	**Profit reserves reserves**	**Retained earnings**	**Equity attributable to owners of the parent**	**Equity attributable to non-controlling interests**	**Total equity**
Balance as at 31 December 2017	200,000	871,378	26,752	13,522	541,901	1,653,553	34,610	1,688,163
Impact of adopting IFRS 9	-	-	(2,008)	-	45,841	43,833	2,281	46,114

Restated opening balance under IFRS 9	**200,000**	871,378	24,744	13,522	587,742	1,697,386	36,891	1,734,277
- Net profit for the period	-	-	-	-	104,847	104,847	4,542	109,389
- Other comprehensive income	-	-	(5,523)	-	-	(5,523)	(89)	(5,612)
Total comprehensive income after tax	-	-	(5,523)	-	104,847	99,324	4,453	103,777
Dividends paid	-	-	-	-	-	-	(3,133)	(3,133)
Other			(51)	-	51	-	(340)	(340)
Balance as at 30 June 2018	**200,000**	**871,378**	**19,170**	**13,522**	**692,640**	**1,796,710**	**37,871**	**1,834,581**

NLB	**Share capital**	**Share premium premium**	**Accumulated other comprehensive income reserve**	**Profit reserves reserves**	**Retained earnings**	**Total equity**
Balance as at 31 December 2017	200,000	871,378	25,699	13,522	270,627	1,381,226
Impact of adopting IFRS 9	-	-	(1,011)	-	28,677	27,666
Restated opening balance under IFRS 9	200,000	871,378	24,688	13,522	299,304	1,408,892
- Net profit for the period	-	-	-	-	103,335	103,335
- Other comprehensive income	-	-	(3,410)	-	-	(3,410)
Total comprehensive income after tax	-	-	(3,410)	-	103,335	99,925
Dividends paid	-	-	-	-	-	-
Other			(44)	-	44	-
Balance as at 30 June 2018	**200,000**	**871,378**	**21,234**	**13,522**	**402,683**	**1,508,817**

NLB Group	**Share capital**	**Share premium premium**	**Accumulated other comprehensive income reserve**	**Profit reserves reserves**	**Retained earnings**	**Equity attributable to owners of the parent**	**Equity attributable to non-controlling interests**	**Total equity**
Balance as at 1 January 2015	200,000	871,378	36,485	13,522	221,676	1,343,061	26,234	1,369,295
- Net profit for the period	-	-	-	-	91,914	91,914	3,464	95,378
- Other comprehensive income	-	-	(12,882)	-	-	(12,882)	23	(12,859)
Total comprehensive income after tax	-	-	(12,882)	-	91,914	79,032	3,487	82,519
Dividends paid	-	-	-	-	-	-	(1,048)	(1,048)
Transactions with non-controlling interest	-	-	-	-	717	717	(1,100)	(383)
Balance as at 31 December 2015	**200,000**	**871,378**	**23,603**	**13,522**	**314,307**	**1,422,810**	**27,573**	**1,450,383**
- Net profit for the period	-	-	-	-	110,017	110,017	5,608	115,625
- Other comprehensive income	-	-	6,366	-	-	6,366	(35)	6,331
Total comprehensive income after tax	-	-	6,366	-	110,017	116,383	5,573	121,956
Dividends paid	-	-	-	-	(43,880)	(43,880)	(2,799)	(46,679)
Balance as at 31 December 2016	**200,000**	**871,378**	**29,969**	**13,522**	**380,444**	**1,495,313**	**30,347**	**1,525,660**
- Net profit for the period	-	-	-	-	225,069	225,069	8,245	233,314
- Other comprehensive income	-	-	(3,217)	-	-	(3,217)	117	(3,100)
Total comprehensive income after tax	-	-	(3,217)	-	225,069	221,852	8,362	230,214
Dividends paid	-	-	-	-	(63,780)	(63,780)	(3,752)	(67,532)
Other	-	-	-	-	168	168	(347)	(179)
Balance as at 31 December 2017	**200,000**	**871,378**	**26,752**	**13,522**	**541,901**	**1,653,553**	**34,610**	**1,688,163**

NLB	**Share capital**	**Share premium premium**	**Accumulated other comprehensive income reserve**	**Profit reserves reserves**	**Retained earnings**	**Total equity**
Balance as at 1 January 2015	200,000	871,378	38,491	13,522	81,529	1,204,920
- Net profit for the period	-	-	-	-	43,881	43,881
- Other comprehensive income	-	-	(6,650)	-	-	(6,650)
Total comprehensive income after tax	-	-	(6,650)	-	43,881	37,231
Balance as at 31 December 2015	**200,000**	**871,378**	**31,841**	**13,522**	**125,410**	**1,242,151**
- Net profit for the period	-	-	-	-	63,783	63,783
- Other comprehensive income	-	-	2,740	-	-	2,740
Total comprehensive income after tax	-	-	2,740	-	63,783	66,523
Dividends paid	-	-	-	-	(43,880)	(43,880)
Balance as at 31 December 2016	**200,000**	**871,378**	**34,581**	**13,522**	**145,313**	**1,264,794**
- Net profit for the period	-	-	-	-	189,094	189,094

- Other comprehensive income	-	-	(8,882)	-	-	(8,882)
Total comprehensive income after tax	-	-	(8,882)	-	189,094	180,212
Dividends paid	-	-	-	-	(63,780)	(63,780)
Balance as at 31 December 2017	**200,000**	**871,378**	**25,699**	**13,522**	**270,627**	**1,381,226**

B.8	*Selected key pro forma financial information, identified as such.* *The selected key pro forma financial information must clearly state the fact that because of its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the company's actual financial position or results.*	Not applicable. The Prospectus does not include any *pro forma* financial information.
B.9	*Where a profit forecast or estimate is made, state the figure.*	Not applicable. The Prospectus does not include a profit forecast or estimate by the Company.
B.10	*A description of the nature of any qualifications in the audit report on the historical financial information.*	Not applicable. There are no qualifications in the audit reports on the historical financial information.
B.11	*If the issuer's working capital is not sufficient for the issuer's present requirements an explanation should be included.*	Not applicable. The Company is of the opinion that it has sufficient working capital for its present requirements, that is, for at least the 12 months following the date of publication of this Prospectus.
B.31	**Information about the issuer of the underlying shares**	
	See elements B.1, B.2, B.3, B.4a, B.5, B.6, B.7, B.9, B.10 and D.4	
	B.4b *A description of any known trends affecting the issuer and the industries in which it operates.*	The NLB Group's operating and financial results are highly dependent on the general economic conditions of the Republic of Slovenia. Operations in the Republic of Slovenia accounted for 51.0 per cent., 53.8 per cent. and 89.4 per cent. of the NLB Group's operating income (calculated as the profit before income tax for the NLB Group's operations in the Republic of Slovenia divided by the profit before income tax for NLB Group operations as a whole) for 2017, 2016 and 2015, respectively. As at 31 December 2017, 2016 and 2015, 67.8 per cent., 69.7 per cent. and 70.1 per cent., respectively, of the NLB Group's total assets (calculated as the amount of total assets for the NLB Group operations in the

			Republic of Slovenia divided by the amount of total assets for the NLB Group operations as a whole) were attributable to Slovenian residents.
			The NLB Group has benefited from the economic growth in the Republic of Slovenia and Southeastern Europe in 2017, with all Core NLB Group Members returning a profit. The Republic of Slovenia's banking system achieved an aggregate profit of EUR 323 million and EUR 443 million for the six months ended 30 June 2018 and the year ended 31 December 2017, respectively, according to the Bank of Slovenia, an increase of 26.5 per cent. in the first six months of 2018 and a 21.9 per cent. increase in 2017, respectively, compared with the same periods a year prior, which corresponds to a return on equity ("**ROE**") of 14.0 per cent. and 9.6 per cent., respectively. This positive trend, continues from 2015, which was the first year with a positive result for the Slovenian banking system in six years, according to the Bank of Slovenia. The Slovenian banking system's balance sheet amounted to EUR 37.9 billion in 2017, representing an increase by 2.4 per cent. compared to the previous year, according to the Bank of Slovenia. The increase was mainly a result of growth in households' deposits and growth in the non-banking loans. The increase in deposits by the non-banking sector is sufficient to fund the increase in loans, and banks thus had no need to increase other sources of funding, according to the Bank of Slovenia. The gradual stabilisation of funding is being reflected in the stabilisation of the non-banking Loan-To-Deposit Ratio ("**LTD**"), which was 78.2 per cent. as at 31 December 2017, a decrease of 0.4 percentage points. Net interest income is still decreasing in the Republic of Slovenia's banking system, though this decrease has been slowed in 2017 and in 2018.
			The level of competition in the Slovenian banking sector, and to a lesser degree in the Southeastern Europe's banking sectors, has a significant impact on the NLB Group's net interest income, net interest margin, net commission and fee income, and volume of loans and customer deposits, which can also impact the NLB Group's overall cost of funding. Higher competitiveness in the banking sector typically leads to increased competition, in particular for lending products, creating downward pressure on the NLB Group's net interest margin, and potentially its profitability, by forcing the NLB Group to offer lower interest rates on loans. The NLB Group's commission and fee income and expenses are also affected by competition in the banking sector. Accordingly, the NLB Group's operating results could be materially impacted by changes in the competitive landscape in the Slovenian and Southeastern European banking sectors. In addition, the Southeastern European region, which includes Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia, is the NLB Group's most significant geographic area of operations outside the Republic of Slovenia, and therefore competition in this region is important to the NLB Group's results of operations and financial condition. The NLB Group derives the majority of its income from net interest income, which represented 62.4 per cent., 63.3 per cent., 66.7 per cent. and 70.4 per cent. of the NLB Group's net operating income (calculated as the sum of net interest income, net fee and commission income, dividend income, net income from financial transactions, net other income and net non-interest income) for the

			six months ended 30 June 2018 and the years ended 2017, 2016 and 2015, respectively. Both the level of market interest rates and the changes in such rates have a material impact on the interest income earned by the NLB Group's loan and securities portfolios, as well as on the interest expenses paid by the NLB Group. Decreases in interest rates on the NLB Group's loans to customers without corresponding decreases in interest rates payable on customer deposits or other interest-bearing liabilities would have a negative impact on the NLB Group's profitability, but would increase the NLB Group's equity due to the revaluation of the NLB Group's securities portfolio measured at fair value through equity. Conversely, increases in interest rates would have positive effect on interest earnings, but would also have an immediate negative impact on the NLB Group's equity due to the revaluation of the NLB Group's securities portfolio measured at fair value.
			Interest rates remain low in most of the countries where the NLB Group operates. As economic growth potential deteriorated and inflation expectations fell during and following the global financial crisis in 2008 and 2009, the ECB has continued to reduce interest rates substantially from 2008 until the date of this Prospectus, resulting in a negative rate for deposit facilities in the Eurozone from June 2014 until the date of this Prospectus. In conjunction with a record low main refinancing rate and quantitative easing, many Eurozone sovereign bond yields have been pushed to extremely low levels, including negative yields. Although the current interest rate environment allows the NLB Group to benefit from lower interest expenses, the NLB Group's profits are also impacted through lower interest income on its loan and receivables portfolio and on its securities portfolios. The cost at which the NLB Group is able to obtain funding for its operations directly impacts the NLB Group's interest expense, which may in turn affect the NLB Group's net interest margin and its overall profitability. The NLB Group's principal source of funding is customer deposits. Interest rates on customer deposits depend mostly on the liquidity position of the NLB Group, the level of competition in the market and market interest rates. Historically, a higher share of customer deposits in total funding have generally lowered the NLB Group's cost of funding by reducing the amount of wholesale funding sources required thus allowing the NLB Group to pay lower interest rates than it would be required to pay for other sources of funding. Consequently, customer deposits represent a reasonably priced source of funding for the NLB Group in comparison to other funding sources. The NLB Group's cost of funding is also impacted by the prevailing interest rate environment, particularly in the Eurozone. The ECB has continued to reduce interest rates substantially in the Eurozone from 2008 until the date of this Prospectus, resulting in a negative rate for deposit facilities in the Eurozone from June 2014 to the date of this Prospectus. ECB's negative interest rates may negatively affect the NLB Group's overall profitability due to legal restrictions intended to prevent customer deposit interest rates below 0 per cent. whereas negative interest rates are applied to the cash position with the ECB as well as with commercial banks.

		In addition to the above factors, the NLB Group is also affected by trends in the quality of its credit portfolio, its impairment methodology, net commission and fee income, prudential regulation to which the NLB Group is subject, its operating expenses and currency exchange rates.
B.32	**Information about the issuer of the depositary receipts.**	
	Name and registered office of the issuer of the depositary receipts. Legislation under which the issuer of the depositary receipts operates and the legal form which it has adopted under the legislation.	The Bank of New York Mellon, having its corporate address at 240 Greenwich Street, New York, New York 10286, United States of America (the "**GDR Depositary**"), is an entity established in the State of New York and is a stated-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Board and the New York State Department of Financial Services.
	Section C – Securities	
C.1	*A description of the type and the class of the shares being offered and/or admitted to trading, including any security identification number.*	The offering ("**Offering**") comprises an offer by the Selling Shareholder of no less than 10,000,001 (excluding the Overallotment Option) and up to 14,999,999 (including the Overallotment Option) Shares in the form of Shares (the "**Offer Shares**") and/or global depositary receipts (the "**GDRs**", and together with the Shares, the "**Securities**") which represent the Shares (the "**Offer GDRs**" and, together with the Offer Shares, the "**Offer Securities**"). In connection with the Offering, WOOD & Company Financial Services, a.s., acting as stabilising manager in relation to the Offer Shares, and Citigroup Global Markets Limited, acting as stabilising manager in relation to the Offer GDRs (together, the "**Stabilising Managers**") (or persons acting on behalf of the Stabilising Managers) may (but will be under no obligation to), to the extent permitted by applicable law, overallot the Offer Securities (provided that, in the case of any Offer Securities to be admitted to trading on the LSE or LJSE, the aggregate number of Offer Securities allotted does not exceed 110 per cent. of the aggregate number of the Offer Securities) or effect transactions with a view to supporting the market price of the Securities during the Stabilisation Period at a level higher than that which might otherwise prevail. However, stabilisation action may not necessarily occur. Any stabilisation action may begin on or after the Closing Date and, if begun, may be ended at any time but must end no later than 30 calendar days after the Closing Date. Any stabilisation action or overallotment must be conducted by the Stabilising Managers (or persons acting on their behalf) in accordance with all applicable laws and rules and will be undertaken at the offices of the Stabilising Managers (or persons acting on their behalf) and on the LSE and LJSE. The underwriting agreement to be entered into among the Company, the Selling Shareholder and the Managers dated on or about the date of this Prospectus (the "**Underwriting Agreement**") provides that the Stabilising Managers may, for purposes of the stabilising transactions, over-allot Offer Securities up to a maximum of 10 per cent. of the total number of Offer Securities sold in the Offering. The Underwriting Agreement provides that to the extent that the Stabilising Managers earn any

		profit directly from stabilising transactions, the Stabilising Managers will remit the aggregate amount of any such profits to the Selling Shareholder. All losses incurred by the Stabilising Managers in the course of the stabilising transactions are for the account of and shared pro rata by the Managers. In connection with the Overallotment Option, up to a maximum of 10 per cent. of the total number of Offer Securities have been made available by the Selling Shareholder to the Stabilising Managers for the account of the Managers through a securities loan. Application will be made for the GDRs to be traded on the standard segment of the London Stock Exchange plc (the "**LSE**") through its International Order Book.
		The security code and identification numbers and trading symbols of the Shares are expected to be as follows: Shares ISIN: SI0021117344 LJSE Share trading symbol: NLBR
C.2	*Currency of the shares issue.*	The currency of the Shares is EUR.
C.3	*The number of shares issued and fully paid and issued but not fully paid. The par value per share, or that the shares have no par value.*	As at the date of the Prospectus, the Company's issued share capital comprises 20,000,000 Shares of an accountable par value of EUR 10.0, each of which is fully paid.
C.4	*A description of the rights attached to the shares.*	All holders of Shares have the same rights, with the material rights set forth below: • the pre-emptive right of the shareholders to subscribe for any issue of new shares on a *pro rata* basis (*prednostna pravica do novih delnic*), unless such pre-emptive right is limited by the Company's general meeting of shareholders (the "**General Meeting**") in accordance with the law and the *Statut*; • the right to vote and participate in the General Meeting; • the right to receive dividends; • the right to information (e.g., accurate information on the Company's affairs to the extent necessary for the assessment of the General Meeting's agenda); • the right to a *pro rata* distribution of remaining assets in case of bankruptcy or liquidation of the Company; • the right to challenge the decisions of the General Meeting; and • other rights provided under *the Statut*, the Companies Act and other laws and regulations currently in force.
C.5	*A description of any restrictions on the free*	The Securities are freely transferable subject, in the case of the Shares to the provisions of the *Statut* which require the consent of

	transferability of the Securities.	the Company's Supervisory Board for the acquisition of Shares representing more than 25 per cent. of all Shares, the rules of the Prime Market (*prva kotacija*) of the LJSE (or the Standard Market sub-segment if admission to the Prime Market sub-segment is not possible), and the rules of KDD and other applicable legislation, and in the case of the GDRs, to the clearing and settlement rules of The Bank of New York Mellon, London Branch, as common depository for the accounts of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *Société anonyme* ("**Clearstream, Luxembourg**"), as applicable and the terms and conditions of the GDRs and free from all liens, subject to selling and transfer restrictions under the relevant laws in certain jurisdictions applicable to the transferor or transferee, including the United States, the UK, the EEA and the Republic of Slovenia and contractual lock-up arrangements applicable to the Selling Shareholder.
C.6	*An indication as to whether the shares offered are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded.*	Application will be made: (1) to the LJSE for an admission of the Shares to trading on the Prime Market of the LJSE (or the Standard Market sub-segment if admission to the Prime Market sub-segment is not possible); and (2) (i) to the United Kingdom FCA, for 74,999,995 GDRs, consisting of (a) the GDRs to be issued in connection with the Offering and (b) any additional GDRs to be issued from time to time against the deposit of Shares (to the extent permitted by law) with the Custodian, to be admitted to listing on the Official List and (ii) to the LSE, for admission to trading of such GDRs on the LSE's main market for listed securities (together, "**Admission**"). The LJSE and the LSE are both regulated markets in the EEA for the purposes of Directive 2014/65/EU (the "**Directive on Markets in Financial Instruments**").
C.7	*A description of dividend policy.*	The Company has no binding dividend policy in place. Nevertheless, the Company is committed to deliver shareholder returns, including by paying an attractive dividend, subject at all times to the maintenance of a strong balance sheet that will enable the Company to finance its investment needs and to comply with capital requirements. The Management Board recognises the value to shareholders of a stable dividend. The Company paid a dividend on 22 October 2018 to the registered Shareholders of NLB as of 19 October 2018 in line with the decision of the General Meeting of NLB's Shareholders dated 12 October 2018 and in line with the New Commitments in the amount of EUR 270.6 million (which consists of 100 per cent. of net profit for the fiscal year 2017 in the amount of EUR 189.1 million and EUR 81.5 million of retained profit of NLB from previous years). Investors in the Offering will not receive this dividend.

			As permitted by the ECB, the interim profit resulting from NLB's semi-annual financial statements as of 30 June 2018 was included in its common equity tier 1 ("**CET1**") capital on 30 September 2018, on both an individual and consolidated basis. It is expected that NLB will also partially include its profits for the financial year ending 31 December 2018 in its CET1 capital before the formal decision confirming the final profit for 2018 is taken by NLB, subject to obtaining permission from the ECB. In accordance with the regulatory requirements for the inclusion of the interim profit resulting from NLB's semi-annual financial statements as of 30 June 2018 in CET1 capital, the Management Board of NLB adopted a resolution to propose to the Supervisory Board of NLB and to the General Meeting of NLB's Shareholders the allocation of the interim profit resulting from NLB's semi-annual financial statements as of 30 June 2018 (EUR 103.3 million on the NLB level and EUR 108.8 million on the NLB Group level) into retained earnings, and consequently not to distribute this amount as dividend. In addition, NLB has agreed with the ECB that it will include a portion of its profit for the financial year ending 31 December 2018 that is sufficient to maintain the NLB Group's total capital ratio above 17 per cent. As a result, it is expected that the Management Board of NLB will propose to the Supervisory Board of NLB and to the General Meeting of NLB's Shareholders the allocation of that portion of the year-end profits into retained earnings, and consequently not to distribute such amount as dividend. The declaration of dividends for the financial year ending 31 December 2018 will be subject to all legal limitations and the General Meeting of NLB's Shareholders to adopt such dividend.
			Following completion of the Offering and subject to the limitations and other factors described herein, in line with its medium-term financial plan, NLB targets to distribute approximately 70 per cent. of its consolidated group profit in the medium term. The declaration of any dividends in the future will be subject to the discretion of the Management Board and the Supervisory Board or any shareholder to recommend, subject to all legal limitations and the General Meeting of NLB's Shareholders to adopt such dividend.
C.13	**Information about the shares underlying the GDRs**		
	See elements C.1, C.2, C.3, C.4, C.5, C.6 and C.7.		
C.14	**Information about the GDRs**		
	C.1	*A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number.*	The Offering comprises an offer by the Selling Shareholder of no less than 10,000,001 (excluding the Overallotment Option) and up to 14,999,999 (including the Overallotment Option) Shares (in the form of Shares and/or GDRs) at the Final Offer Price, with five GDRs representing one Share. In addition, in connection with the Offering, the Selling Shareholder has granted the Managers the Overallotment Option. The GDRs will be issued pursuant to a deposit agreement dated on or before the Closing Date between NLB and The Bank of New York Mellon (the "**Deposit Agreement**").

			The security identification codes and numbers and trading symbol of the GDRs are expected to be as follows: Regulation S GDR ISIN: US66980N2036 Regulation S GDR CUSIP: 66980N 203 Rule 144A GDR ISIN: US66980N1046 Rule 144A GDR CUSIP: 66980N 104 London Stock Exchange GDR trading symbol: NLB
	C.2	*Currency of the securities issue.*	The currency of the GDRs is EUR.
	C.4	*A description of the rights attached to the securities.*	Five GDRs represent one Share held in the name of the GDR Depositary on a "*fiduciarni račun*", as such term is defined under Slovenian law, with KDD, operated by NLB as custodian (the "**Custodian**") on behalf of the GDR Depositary (the "**Deposited Shares**"). A holder of GDRs (each, a "**GDR Holder**") will have the rights set out in the terms and conditions of the GDRs (as endorsed on each GDR certificate) and the Master GDRs which may be summarised as: • the right to withdraw the Shares and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares; • the right to receive payment in EUR from the GDR Depositary of an amount equal to cash dividends or other cash distributions received by the GDR Depositary from the Company in respect of the Deposited Shares; • the right to receive from the GDR Depositary additional GDRs representing Additional Shares received by the GDR Depositary from the Company by way of dividend or free distribution (or if the issue of additional GDRs is deemed by the GDR Depositary not to be reasonably practicable or to be unlawful, the net proceeds in EUR of the sale of such Shares); • the right to receive from the GDR Depositary any dividend or distribution in the form of property other than Shares or cash received by the GDR Depositary from the Company (or if such distribution is deemed by the GDR Depositary not to be reasonably practicable or to be unlawful, the net proceeds in EUR of the sale of such property); • the right to request the GDR Depositary to exercise subscription, pre-emptive (*prednostna pravica do novih delnic*) or similar rights made available by the Company to holders of Shares (or if such process is deemed by the GDR Depositary not to be reasonably practicable or to be unlawful, the right to receive the net proceeds in EUR of the sale of the relevant rights or the sale of the assets resulting from the exercise of such rights); • the right to instruct the GDR Depositary regarding the exercise of any voting rights notified by the Company to the GDR Depositary subject to conditions; and

			• the right to receive from the GDR Depositary copies received by the GDR Depositary of notices provided by the Company to holders of shares or other material information,
			in each case subject to applicable law, the detailed terms set out in the terms and conditions of the GDRs (as endorsed on each GDR certificate) and the Master GDRs.
	C.5	*A description of any restrictions on the free transferability of the securities.*	The GDRs will be freely transferable, subject to the clearing and settlement rules of Euroclear and Clearstream, Luxembourg, as applicable, and subject to selling and transfer restrictions under the relevant laws in certain jurisdictions applicable to the transferor or transferee, including the United States, the UK, the Republic of Slovenia and the EEA, lock-ups provided in the lock-up contractual arrangements applicable for the Selling Shareholder and the Company and the terms and conditions of the GDRs.
	C.14	*Information about the depositary receipts.* *Describe the exercise of and benefit from the rights attaching to the underlying shares – in particular, voting rights, the conditions on which the issuer of the depositary receipts may exercise such rights, and measures envisaged to obtain the instructions of the depositary receipt holders – and the right to share in profits and any liquidations surplus which are not to be passed on to the holder of*	**Distributions** With respect to distributions by the Company, a GDR Holder will have the rights set out in the terms and conditions of the GDRs, which may be summarised as follows: • the right to receive payment in EUR from the GDR Depositary of an amount equal to cash dividends or other cash distributions received by the GDR Depositary from the Company in respect of the Deposited Shares; • the right to receive from the GDR Depositary additional GDRs representing Additional Shares received by the GDR Depositary from the Company by way of dividend or free distribution (or if the issue of additional GDRs is deemed by the GDR Depositary not to be reasonably practicable or to be unlawful, the net proceeds in EUR of the sale of such Shares); and • the right to receive from the GDR Depositary any dividend or distribution in the form of property other than Shares or cash received by the GDR Depositary from the Company (or if such distribution is deemed by the GDR Depositary not to be reasonably practicable or to be unlawful, the net proceeds in EUR of the sale of such property);
			Rights Issues Subject to an agreement between the Company and the GDR Depositary that the GDR Depositary shall act as an agent in the case of any rights issue, each GDR Holder is entitled, subject in each case to applicable law and to the provision by the GDR Holder of relevant information required by the GDR Depositary and the relevant payments (including fees, taxes, duties, charges, costs and expenses required under the Deposit Agreement), and to the extent reasonably practicable, either: (i) to request the GDR Depositary to exercise rights to subscribe for or to acquire Shares, securities or other assets where such rights are made available by the Company to holders of Shares (and where applicable, to subscribe for additional rights not subscribed by other GDR

		the depositary receipt.	Holder); or (ii) to receive a distribution of such rights or the proceeds of any sale thereof.
			Voting Rights With respect to voting of Deposited Shares and other Deposited Property represented by GDRs, the terms and conditions of the GDRs and the Deposit Agreement provide that, if instructed by the Company, the GDR Depositary shall send to any person who is a GDR Holder on the record date established by the GDR Depositary for that purpose voting materials and instructions for voting. The GDR Depositary will not act upon any such instruction unless the completed voting instruction form (i) includes the name, address and other details as may be from time to time specified by the Company of each person who is the ultimate beneficial owner of GDRs at the record date specified by the GDR Depositary and the total number of Shares in the form of GDRs or otherwise, whether held directly or indirectly, to which such ultimate beneficial owner is entitled, (ii) includes confirmation that the beneficial owner(s) of the GDRs in respect of which votes are to be exercised does not hold in the aggregate, directly, indirectly and/or as a concerted party an interest in the voting share capital of the Company (a) a "qualified holding" (under ZBan-2 or any other banking legislation or regulation applicable to the Company from time to time) for the holding of which such beneficial owner(s) has not received the approval of the European Central Bank ("**ECB**") or other banking authority with jurisdiction over the Company or (b) which exceeds 25 per cent. (or any other limit imposed on investors from time to time by Slovenian law or the *Statut* and, in any such case, notified to the GDR Depositary by the Company in writing) of the total voting rights attributable to the voting share capital of the Company, or (c) a controlling shareholding within the meaning of applicable competition law for which the beneficial owner(s) has not received the approval of the competent national competition authority or the European Commission, as the case may be, and if required, or (d) which exceeds the takeover threshold pursuant to Slovenian law, (iii) includes certification from a third party intermediary that the beneficial owner of the GDRs has duly authorised it to give the instructions and statements contained in the voting instructions in the name and on behalf of such beneficial owner, and such third party intermediary undertakes, for the benefit of the GDR Depositary and the Company, to obtain and keep evidence of such authorisation and to provide it to NLB and/or the GDR Depositary upon their request, (iv) is completed and deemed duly signed by a third party intermediary and/or the respective ultimate beneficial owner and (v) is returned to the GDR Depositary by such date as specified by the GDR Depositary. Pursuant to the Deposit Agreement and the terms and conditions of the GDRs, NLB may not instruct the GDR Depositary to extend voting with respect to Shares represented by GDRs to GDR Holders if it is advised, in a legal opinion of an independent law firm, that such an extension would breach applicable law or the *Statut*. The Deposit Agreement provides that the GDR Depositary will endeavour to exercise or cause to be exercised the voting rights with respect to Deposited Shares in accordance with instructions from GDR Holders.
			Payment Entitlements

			The only cash amounts to which a GDR Holder is entitled are: • an amount in euros equal to: (i) the amount of any cash dividend or other cash distribution on or in respect of the Shares represented by the GDR Holder's GDRs (including any amounts received in the liquidation of the Company) or otherwise in connection with such Shares received by the GDR Depositary; (ii) the net proceeds of sale of any Shares received by the GDR Depositary from the Company by way of dividend or free distribution where issuance of GDRs representing such Shares is deemed by the GDR Depositary not to be reasonably practicable or to be unlawful; (iii) the net proceeds of sale of assets (other than Shares or cash) received by the GDR Depositary from the Company where distribution of such assets to GDR Holders is deemed by the GDR Depositary not to be reasonably practicable or to be unlawful or (iv) the net proceeds of sale of subscription or other rights made available to the GDR Depositary as a holder of Shares by the Company (or the sale of the assets resulting from the exercise of such rights) where the exercise of such rights by the GDR Holders is deemed not to be lawful or reasonably practicable;
			• and on cancellation of GDRs or termination of the Deposit Agreement, amounts equal to the cash amounts currently held by the GDR Depositary for the GDR Holder of each cancelled GDR or GDR in issue at the time of termination of the Deposit Agreement, in each case subject to applicable law, and the detailed terms set out in the terms and conditions of the GDRs (as endorsed on each GDR certificate) and the Master GDRs.
		Description of the bank or other guarantee attached to the depositary receipt and intended to underwrite the issuer's obligations.	Not applicable. There are no bank or other guarantees attached to the GDRs.
Section D – Risks			
D.1	*Key information on the key risks that are specific to the issuer or its industry.*		• The NLB Group is subject to risks arising from the global macroeconomic environment. • The NLB Group is subject to risks arising from the Slovenian macroeconomic and political environment.

		• The NLB Group is subject to risks arising from the macroeconomic and political environment in Southeastern Europe. • The results of the UK's exit from the EU may have a negative effect on global economic conditions, financial markets and our business, which could have an adverse effect NLB Group's business, financial conditions and results of operations. • The abandonment of the euro or dissolution of the European Monetary Union could materially adversely affect the NLB Group's business, financial condition and results of operations. • The NLB Group is exposed to credit risk and has in the past experienced material increases in non-performing loans leading to significant increases in impairment allowances, which have materially adversely affected the NLB Group's business, financial condition and results of operations. • The NLB Group is exposed to risks in relation to market impacts on collateral value and the enforcement of such collateral.
		• A substantial portion of the NLB Group's loans are secured by property interests and the NLB Group is therefore exposed to any downturn in the property markets in which it operates, including various disrupting factors in Southeastern Europe which influence volatility in the local real estate market. • Delays or incomplete implementation in the divestment process of non-core assets could have an adverse effect on the financial performance of the NLB Group. • Delays or incomplete implementation of the NPL reduction strategy could have an adverse effect on the financial performance of the NLB Group. • The NLB Group has significant concentrations of both loans and deposits in terms of both geographic and customer type. These concentrations, along with an associated concentration of its investment portfolio, expose the NLB Group to enhanced levels of risk. • Any failure by the NLB Group and/or the Republic of Slovenia to adhere to the New Commitments towards the EC could have a negative effect on the NLB Group. • Any failure of the Republic of Slovenia to reduce its shareholding in NLB in accordance with the New Commitments could have a negative effect on the NLB Group.

		• The NLB Group adopted a new strategy in August 2016, the implementation of which may be compromised by several factors. • The NLB Group is exposed to risks related to potential future acquisitions or disposals of assets. • The NLB Group is subject to the risk that liquidity and sources of funding that it currently utilises may not always be readily available. • NLB's borrowing costs, access to the capital markets, reputation and competitive position depend significantly on its credit ratings and the credit rating of the Republic of Slovenia. • The NLB Group is exposed to risks related to volatility in global liquidity in financial markets resulting from the monetary policies of central banks. • Fluctuations in interest rates may adversely affect the NLB Group's results. • The NLB Group is exposed to risks related to exchange rate fluctuations.
		• NLB may be required to increase its capital in the future for a range of different reasons, including as a result of changing regulatory requirements, and may experience material difficulty in raising any such additional capital and other Group banks are subject to capital requirements in their own jurisdictions of operation and any failure by one or more of these banks to maintain appropriate levels of capital could have a material adverse effect on the NLB Group. • The NLB Group may be negatively affected by increased competition. • The NLB Group may be exposed to losses if critical accounting judgements or estimates are subsequently found to be incorrect or inaccurate. • The NLB Group is dependent on the strength of its reputation. • The NLB Group's continued success depends upon retaining key members of its senior management and its ability to recruit, train and motivate qualified staff. • The NLB Group's business and financial results may change as a result of NLB's becoming a non majority state-owned company of the Republic of Slovenia. • Following the Offering NLB will have a significant shareholder who will have the capacity to exert considerable influence on decisions regarding its business. • The NLB Group faces risks associated with its mutual

		funds operations. • The NLB Group is subject to operational risk, including IT risks, and such risks may not be entirely covered by insurance. • The NLB Group faces market risks, including risks associated with its life insurance operations. • NLB Group is subject to risk of money laundering and financing terrorism in a way that third parties might use NLB Group as a conduit for illegal or terrorist activities without knowledge of the NLB Group, which could have a material adverse effect on the NLB Group. • The NLB Group is exposed to the risk of external or internal fraud. • The NLB Group faces interest rate, liquidity, foreign exchange, credit, market, investment and operational risks that could adversely affect it should its risk management policies not succeed.
		• The NLB Group's IT systems may fail or their security may be compromised. • Unfavourable outcomes in pending litigation may adversely affect NLB and the Group. • Litigation in Croatia may have a negative financial impact on NLB. • If NLB is found liable for claims relating to the Bail-In, it may incur substantial financial burden. • Catastrophic or unforeseen events such as acts of war, acts of terrorism, earthquakes, floods, other natural disasters, pandemic diseases or other geopolitical events may have a material adverse effect on the NLB Group. • The NLB Group is reliant on its network of branches in key locations • The NLB Group's insurance policies and own risk assessment premiums may not cover particular future losses. • Delays or incomplete implementation of digitalisation processes, including the NLB Group's transition to non-branch client interaction, could have a significant effect on the business results in coming years and could adversely affect the development of the NLB Group's business strategy. • The NLB Group is subject to changes in the regulatory framework within which they operate and any such changes could have a material adverse effect on NLB or the NLB Group. • The NLB Group may fail to successfully manage the diverse sets of regulatory requirements it is subject to,

including in relation to capital and liquidity requirements, stress tests and other requirements in the process of being implemented.

- The NLB Group is exposed to risks arising out of large exposures to companies in the NLB Group.
- Regulation and compliance requirements could expose the NLB Group to further legal risk.
- The NLB Group may be adversely impacted by Slovenian and/or European banking reform initiatives.
- The NLB Group is subject to recently implemented rules on markets in financial instruments.
- The NLB Group is subject to recently implemented rules on deposit guarantee schemes.

- The NLB Group is subject to regulatory changes in relation to payment services.
- The NLB Group is subject to regulatory developments in relation to EMIR.
- The NLB Group is exposed to risks related to tax regulations.
- The NLB Group is exposed to risks related to tax loss carry forwards.
- The NLB Group is subject to regulatory developments in relation to intermediaries involved in the promotion, sale and administration of certain insurance products.
- The NLB Group must comply with data protection and privacy laws and may be targeted by cybercriminals.
- The NLB Group is subject to changes in labour laws.
- The NLB Group has implemented systems and mechanisms to ensure compliance with regulations and internal procedures throughout the NLB Group, the failure of which could impact the compliance by NLB or other member companies in the NLB Group with local and EU regulations, as well as the ability of NLB or other member companies in the NLB Group to properly assess and prepare themselves for regulatory changes in a timely manner.
- Non-compliance with certain EU and national rules may result in financial sanctions for the NLB Group and its management team.

		• NLB Group is subject of regular audits from ECB and risk exists that it is sanctioned in case of any deficiencies. • Failing to properly and timely to prepare for upcoming regulatory changes could result in additional costs, inefficiency and business limitations or set-backs, as well as further non-compliance.
D.3	*Key information on the key risks that are specific to the securities.*	• There has been no prior trading market for the Securities and an active or liquid market for the Securities may not develop and admission of the Shares to the Prime Market of the LJSE may not be obtained which could lead to, among other things, the Shares being considered less attractive by some investors. • The value of the Securities may fluctuate significantly. • GDR Holders may not be able to exercise their pre-emptive rights. • The real or perceived possibility of sales or actual future sales of a significant number of the Securities in the public market could adversely affect the prevailing trading price of the Securities.
		• There are restrictions on the ability of NLB to pay dividends. • After the Offering, the Selling Shareholder will continue to be able to exercise significant influence over NLB, its management and its operations. • The exercise of voting rights attached to the Securities is subject to the ownership ceiling of 25 per cent. of the issued share capital and to the declaration of beneficial ownership. • Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement between NLB and the GDR Depositary for the GDRs and relevant requirements of Slovenian law. • Following the Offering, holders of Shares may not be able to deposit the Shares in NLB's GDR facility in order to receive GDRs, and changes in Slovenian regulatory policy with respect to the placement and circulation of the Shares outside the Republic of Slovenia in the form of GDRs or otherwise may negatively affect the market for the Securities being offered including resulting in the cancellation of GDRs. • Investors may be unable to enforce judgements obtained in U.S. courts against the Company. • Approvals are required to increase the holding in NLB over certain percentages of its share capital. • Acquisition of Shares or GDRs representing 1/3 of NLB's issued share capital will trigger the obligation to launch a takeover bid.

			• Securities holders may be required to comply with requests for information. • Payments on the Securities may be subject to U.S. withholding tax under FATCA.
D.4	**Information about the underlying shares**		
	D.2	*Key information on the key risks that are specific to the issuer.*	See element D.1.
D.5	**Information about depositary receipts**		
	D.3	*Key information on the key risks that are specific to the securities.*	See element D.3.
		Section E – Offer	
E.1	*The total net proceeds and an estimate of the total expenses of the issue/offer, including estimated expenses charged to the investor by the issuer or the offeror.*		The Company will not receive any proceeds of the Offering. The Selling Shareholder will receive the net proceeds of the Offering. The total commissions, fees and expenses payable by the Selling Shareholder in connection with the Offering are expected to be approximately EUR 6.7 million (without VAT), assuming no exercise of the Overallotment Option, or approximately EUR 7 million (without VAT), assuming that the Overallotment Option is exercised in full. The total commissions, fees and expenses payable by the Company in connection with the Offering are expected to be approximately EUR 1.6 million (without VAT).
E.2a	*Reasons for the offer, use of proceeds, estimated net amount of the proceeds.*		Pursuant to the New Commitments (see "*6. Business—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy—The European Commission's decision on state aid and Final EC Decision*"), the Selling Shareholder is required to sell at least 50 per cent. plus one Share by 31 December 2018 and to reduce its shareholding in NLB to 25 per cent. plus one Share by 31 December 2019. In accordance with the State Assets Management Ordinance adopted pursuant to the ZSDH-1, the Republic of Slovenia shall retain a controlling interest of 25 per cent. plus one Share in the issued share capital of NLB and no shareholder may hold an interest in the issued share capital of NLB that is greater than the interest of the Republic of Slovenia (see "*16. Description of certain obligations and restrictions attaching to the Shares—Restriction on acquisition of Shares*"). To achieve this, the Selling Shareholder is making the Offering. In the event that the Selling Shareholder is unable to sell at least 10,000,001 Shares (excluding the Overallotment Option) in the

		Offering, the Offering will not proceed and Admission will not occur. The Company will not receive any of the proceeds of the Offering from the Selling Shareholder. The Selling Shareholder will receive all the proceeds from the sale of the Offer Securities and will use the proceeds from the Offering in accordance with the Public Finance Act (*Zakon o javnih financah (ZJF)*) (the "**Public Finance Act**") and the Implementation of the Republic of Slovenia's Budget for 2018 and 2019 Act (*Zakon o izvrševanju proračunov Republike Slovenije za leti 2018 in 2019 (ZIPRS1819)*) (the "**Budget Act**").
E.3	*A description of the terms and conditions of the offer.*	The Offering is structured as an offering of Offer Securities (1) to the public and to Institutional Investors (as defined below) in the Republic of Slovenia in reliance on Regulation S under the Securities Act and in reliance on ZTFI; (2) in the United States to certain qualified institutional buyers as defined in, and in reliance on, Rule 144A under the Securities Act or another exemption from the registration requirements of the Securities Act; and (3) outside the United States and the Republic of Slovenia in offshore transactions in reliance on Regulation S under the Securities Act. The Offering consist of two tranches: (1) a tranche of Securities (in the form of Shares and GDRs) will be wholly offered to (i) credit institutions, (ii) investment firms, (iii) undertakings for collective investments (collective investment schemes, investment companies and/or investment management companies), (iv) insurance companies, (v) pension funds and management companies of such funds, (vi) traders, (vii) trust companies, (viii) international financial institutions (IFIs), and (ix) other financial institutions, including depositary banks and including qualified investors (*dobro poučeni vlagatelji*) as defined in ZTFI (the "**Institutional Investors**") (the "**Institutional Tranche**"); and (2) a tranche of Securities (in the form of Shares and GDRs) will be offered in a public offering in the Republic of Slovenia to persons not falling within (1) above (each a "**Retail Investor**") (the "**Retail Tranche**", and together with the Institutional Tranche, the "**Offer Tranches**"), in each case as permitted by applicable laws and regulations and the terms included in this Prospectus.
		10 per cent. of the Offer Securities (no less than 1,000,000 and up to 1,499,999 Shares in the form of Shares or GDRs will be offered in the Retail Tranche and remaining 90 per cent. of the Offer Securities (no less than 9,000,001 and up to 13,500,000 Shares in the form of Shares or GDRs) will be offered in the Institutional Tranche. The Selling Shareholder, in consultation with the Joint Global Coordinators, may re-allocate Securities from either the Institutional Tranche to the Retail Tranche or from the Retail Tranche to the Institutional Tranche depending on the level of subscription of each tranche. The final size of each Offer Tranche will be decided by the Selling Shareholder upon the recommendation of the Joint Bookrunners, based on the level of subscriptions. The Offering is conditional on the Underwriting Agreement not having been terminated in accordance with its terms.

E.4	*A description of any interest that is material to the issue/offer including conflicting interests.*	Other than as disclosed in element B.6, there are no other interests (including conflicting interests) that are material to the Offering.
E.5	*Name of the person or entity offering to sell the security. Lock-up agreements: the parties involved; and an indication of the period of the lock-up.*	The Selling Shareholder is the Republic of Slovenia, acting through SSH. Pursuant to the Underwriting Agreement, each of Selling Shareholder and NLB has agreed with the Managers that neither it, nor any person acting on its or their behalf will, from the date hereof up to and including 180 days from the Closing Date, without the prior written consent of the Joint Global Coordinators: (i) directly or indirectly, issue (in the case of NLB only), offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any Shares, or any securities convertible into or exercisable or exchangeable for Shares (including, for the avoidance of doubt, GDRs), or file any registration statement under the Securities Act or any similar document with any other securities regulator, stock exchange, or listing authority with respect to any of the foregoing; or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any Shares or other securities of NLB, whether any such transaction described in (i) to (ii) above is to be settled by delivery of Shares or other securities, in cash or otherwise; or (iii) publicly announce such an intention to effect any such transaction. In the case of the Selling Shareholder only, the above restrictions shall not apply in respect of Offer Shares or GDRs sold pursuant to the Offering (including pursuant to the Overallotment Option) and shall not prohibit the Selling Shareholder from: (i) accepting a takeover offer made to holders of issued Shares or GDRs on terms which treat all such holders alike; (ii) executing and delivering an irrevocable commitment or undertaking to accept a general offer as is referred to in sub-paragraph (i) above; (iii) selling or otherwise disposing of Shares pursuant to any offer by the Company to purchase its own Shares or GDRs which is made on identical terms to all holders of Shares or GDRs in the Company; and (iv) transferring or disposing of Shares in accordance with any order made by a court with competent jurisdiction. The above restrictions shall also not prevent the Selling Shareholder from entering into the Securities Lending Agreement (as defined below).

E.6	*The amount and percentage of immediate dilution resulting from the offer. In the case of a subscription offer to existing equity holders, the amount and percentage of immediate dilution if they do not subscribe to the new offer.*	Not applicable. No dilution of the existing shareholders will result from the Offering.
E.7	*Estimated expenses charged to the investor by the issuer or offeror.*	Not applicable. No commissions, fees or expenses in connection with the Offering will be charged to investors by the Company or the Selling Shareholder. The GDR Depositary will be entitled to charge certain fees to the GDR Holders.

2. RISK FACTORS

Any investment in the Securities is subject to a number of risks. Prior to investing in the Securities, prospective investors should consider carefully the factors and risks associated with any investment in the Securities, the NLB Group's business and the industry in which it operates, together with all other information contained in this Prospectus, including, in particular, the risk factors described below.

Prospective investors should note that the risks relating to the NLB Group, its industry and the Securities summarised in the section of this document headed "1. Summary" are the risks that NLB believes to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Securities.

However, as the risks that the NLB Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this document headed "1. Summary" but also, amongst other things, the risks and uncertainties described below.

The following is not an exhaustive list or explanation of all risks that investors may face when making an investment in the Securities and should be used as guidance only. Additional risks and uncertainties relating to the NLB Group that are not currently known to the NLB Group, or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on the NLB Group's business, results of operations, financial condition and prospects and, if any such risk should occur, the price of the Securities may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Securities is suitable for them in the light of the information in this Prospectus and their personal circumstances.

2.1 RISKS RELATING TO NLB AND THE GROUP

The NLB Group is subject to risks arising from the global macroeconomic environment

The financial services industry generally prospers in conditions of economic growth, stable geopolitical conditions, transparent, liquid and buoyant capital markets and positive investor sentiment. During recessionary periods, there may be less demand for loan products and a greater number of customers may default on their loans and other obligations. Interest rate rises may also have a negative impact on the demand for mortgages and other loan products. The NLB Group is affected by general economic and geopolitical conditions, which can cause its financial condition and results of operations to fluctuate from year to year as well as on a long-term basis.

In recent years, there has been significant volatility in the financial markets around the world. The financial turbulence in 2008 and its after-effects on the wider economy have led to generally more difficult earnings conditions for the financial sector and resulted in the failures of a number of financial institutions in the United States and Europe and unprecedented action by governmental authorities, regulators and central banks around the world. A number of countries in Europe, such as Greece, Italy, Ireland, Portugal, Spain and Cyprus, were particularly affected by the financial and economic conditions and have struggled with large public budget deficits. The public budget deficits, weak economies and the disruption in the capital markets necessitated rescue packages from European institutions and/or from the International Monetary Fund (the "**IMF**") for Greece, Ireland, Portugal and Cyprus. While the risk that faster debt restructuring may be needed in these countries has diminished, it has not completely faded.

In 2017 and 2018, there has been a noticeable increase in the potential for political instability worldwide and in Europe. The rise of populist political parties and populist sentiment globally and, in particular, in Europe and in the United States, has significantly increased the potential for political tensions worldwide. In combination with a recent rekindling of tensions between the West and Russia, such populist political parties and populist sentiment have the potential to disrupt the economic environment in which the NLB Group operates. In the UK, the aforementioned populist political trend resulted in a referendum decision to leave the EU, which carries with it considerable disruptive potential for the economies of Europe in the near term. A significant regional economic downturn, as a result of failed or contentious exit negotiations, could have a strongly negative impact on the NLB Group's financial stability, due to the reliance of the financial services industry on a stable macroeconomic environment. Additionally, although the populist parties running on nationalist and anti-EU platforms failed to secure the presidency in the May 2017 election in France or a significant number of additional seats in the March 2017 parliamentary election in the Netherlands, the Italian elections in 2018, encouraged by the ongoing European migrant crisis, have resulted in a formation of government with a strong anti-European agenda. Furthermore, the European migrant crisis has also sparked a serious confrontation in Germany between German Chancellor Angela Merkel and Minister of the Interior Horst Seehofer. While these disagreements have been resolved, there can be no assurance that similar developments will not arise in the future. Such developments could threaten the foundations of the EU as a whole and could significantly disrupt the positive macroeconomic trend of recent years, which would severely disrupt the NLB Group's operations and would likely negatively impact its financial stability and earnings potential.

The macroeconomic environment is the major driver of risk to the NLB Group's earnings and financial stability, in particular, due to the effects on its asset quality. Weaker macroeconomic conditions may lead to a decline in net interest margins, credit quality and loan portfolio growth, as well as further corrections in prices of real estate and other property held as collateral for loans, which may lead to continued large loan impairment charges. These risks materialised during and following the global economic crisis of 2008, wherein the contagion effect has influenced Slovenian and Southeastern European economies and their respective financial markets. Economic recession in countries that represented important trading partners of the Republic of Slovenia caused the country's export-driven private sector to collapse and suffer substantial losses, while a large number of businesses went bankrupt, all of which had a major impact on the level of economic activity and unemployment rate. These factors, combined with extensive leverage of the Slovenian corporate sector that had been suffering from falling profitability due to decreasing economic activity at the time, impacted the entire banking sector, with NLB reporting the largest financial losses during 2013. In addition, the Slovenian stock market crash in 2007 has induced devaluation of equities which were used as collateral in lending and such devaluation has consequently diminished banks' capital.

In addition, volatility in credit, currency and equity markets globally may result in uncertainty that could affect all banks, including the NLB Group. Market volatility during the global financial crisis led to, and may in the future lead to, the following negative effects (amongst other things) for the banking industry:

- increased cost of funding and/or reduced availability of funding;
- deterioration in the value and liquidity of assets (including collateral);
- inability to price, or difficulty in pricing, certain assets;
- higher provisions for bad and doubtful debts;
- an increased likelihood of customer and counterparty default and credit losses;
- mark-to-market losses in the value of assets and liabilities;
- economic exposures from hedging activities; and
- lower growth, business revenues and earnings.

No assurance can be given as to future economic conditions in any market or as to the possibility of improvement in any market. If economic conditions deteriorate or stagnate in any of the NLB Group's main markets, its business, financial condition, results of operations, liquidity and prospects are likely to be negatively affected.

The NLB Group is subject to risks arising from the Slovenian macroeconomic and political environment

The Republic of Slovenia is the NLB Group's most important geographic area of operation, and, despite a positive trend in gross domestic product ("**GDP**") growth in recent years, with a growth rate reaching 4.9 per cent. in 2017, according to information provided by Eurostat, its economic performance remains vulnerable to domestic and external economic conditions and shocks. Such factors include the delayed restoration of economic activity in the Slovenian private sector and dependency on the level of economic activity and pace of recovery in its largest export partners, which mostly consist of EU countries. Exports have been a key driver of economic recovery in the Republic of Slovenia and represent an important segment of GDP. Thus, negative changes in the volume of exports and trade balance for an extended period of time could have material effects on the country's fiscal budget, public debt and lower economic activity.

The country has experienced significant growth in public debt in recent years due to the recent economic crisis. However, due to fiscal tightening, a moderate decline occurred in the last two years with a public debt-to-GDP ratio of 73.6 per cent. in 2017, 78.6 per cent. in 2016 and 82.6 per cent. in 2015 (up from 21.8 per cent. in 2008). A deterioration in the macroeconomic situation would likely have a significant effect on budget revenues and may result in an increase to the budget deficit, which may further lead to an increase in public debt to unsustainable levels. Additionally, given current demographic trends, public pension liabilities are likely to increase in the foreseeable future, which may contribute towards an increase in the budget deficit.

The Republic of Slovenia's economy is also subject to the risk of possible further deterioration in domestic demand. Although domestic consumption has been improving in recent years, making a significant contribution to GDP growth, it is still affected by a high savings rate, which is still increasing, despite low interest rates. If the economic situation in the Republic of Slovenia deteriorates, this could result in decreased economic activity that would lead eventually to higher unemployment which would in turn deter private and household consumption. This could significantly weaken demand for financial products, which could have a negative effect on the NLB Group.

Furthermore, because international investors' reactions to the events occurring in one market may cause a "contagion" effect, in which an entire region or class of investment is disfavoured by international investors, the Republic of Slovenia could be adversely affected by negative economic or financial developments in other European countries or countries with credit ratings similar to those of the Republic of Slovenia. While concerns over credit risk (including that of sovereigns) and the large amount of sovereign debt and the fiscal deficits of several European countries (such as Italy, Ireland, Greece, Spain and Cyprus) have been somewhat mitigated recently, the default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions, or any EU or Eurozone exits (or threats thereof), including in the UK (see "*—The results of the United Kingdom's exit from the European Union may have a negative effect on global economic conditions, financial markets and our business, which could have an adverse effect on the NLB Group's business, financial condition and results of operations*"), could cause severe stress in the financial system generally and could adversely affect the global financial markets in ways that are difficult to predict. A slow or delayed recovery of the Eurozone economy could cause the Republic of Slovenia to face difficulties in accessing funding for the Slovenian government and domestic banks.

Additionally, political instability and a lack of government efficiency in the Republic of Slovenia or frequent changes of key government officials and ministers, excessive bureaucracy and a lack of trust in public institutions (including due to perceived or alleged corruption) may slow or impede economic development or favourable reforms in laws and policies affecting the NLB Group's business. For instance, as of 29 August 2018, a new government coalition agreement in Slovenia provides, among other initiatives, taxation reform, which poses an additional risk to the NLB Group operations and profit. Namely, a gradual increase of the contribution rate for employers relating to pensions could result in additional pressure on the NLB Group's costs and therefore adversely affect its profit. Moreover, the introduction of new taxes on real estate could lead to less demand for residential loans, which could also negatively impact the NLB Group's interest income and profit. Furthermore, taxation on income from capital and rent with a universal income tax (whereas a schedular tax is currently applied) could have an adverse effect on capital market activities and could adversely affect the NLB Group's operations in the future, while the announced intention to introduce of a minimum corporate income tax could increase the NLB Group's tax cost. The significant and influential presence of public sector unions may create pressure on public financial institutions and government officials, as well as leading to social unrest and disruptive protests, all of which may undermine favourable political conditions for the NLB Group.

There can be no assurance that NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects will not be materially adversely affected as a result of one or more of these or any other factors.

The NLB Group is subject to risks arising from the macroeconomic and political environment in Southeastern Europe

The Southeastern European region, which includes Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia, is the NLB Group's most significant geographic area of operations outside of the Republic of Slovenia and therefore the economic conditions in the region are important to the NLB Group's results of operations and financial condition. While the medium-term outlook for the Southeastern European economy is currently favourable, downward trends in the global macroeconomic environment, including the ongoing migrant crisis which continues to affect public expenditures and human capital in the region, could negatively impact the economies of Southeastern Europe, whose nascent economic recoveries have been assisted by export-oriented growth, which could affect the NLB Group's business.

The wave of democratisation in Southeastern Europe during the late 1980s and 1990s profoundly affected the former Socialist Federal Republic of Yugoslavia (the "**SFRY**"), as a series of political upheavals and conflicts in the early 1990s led to the Yugoslav Wars. Since the early 2000s, when NLB entered the region, the political situation has become relatively stable. However, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia are not members of the EU and may therefore have less developed regulation and control standards than other countries in which the NLB Group operates. In recent years, EU membership prospects have served as an incentive for political, fiscal and monetary reforms. However, the membership process is a protracted procedure and remains in the early stages. New laws are being enacted within many of these markets, but many remain untested, and laws, regulations and case law applicable to the securities and financial services industries and many of the transactions in which the NLB Group is involved are still evolving. The laws and courts of these countries have not been fully tested in contract enforcement and other types of commercial disputes. These conditions can lead to delays in enforcement proceedings, restructuring and other aspects of the NLB Group's operations in these markets. The NLB Group is also subject to risks of possible price controls, capital controls and other restrictive government actions in these markets. In addition, the laws on foreign investment currently allow free repatriation of funds to the Republic of Slovenia. However, no assurance can be given that these provisions will not be modified or repealed in the future.

Although Macedonia's favourable macroeconomic performance is expected to persist, current unemployment rate was still relatively high at 22.4 per cent. at the end of 2017, according to the State Statistical Office of the Republic of Macedonia. Inflation is stagnating from the end of 2017 and in June 2018 showed 1.4 per cent. annual growth. Macedonia's economy expanded by 0.0 per cent. in 2017 and 0.1 per cent. in the first quarter of 2018. In its April edition of the World Economic Outlook, IMF has lowered its projection for Macedonia's 2018 economic growth from 3.2 to 2.8 per cent. However, regarding the latest macroeconomic indicators, after stagnation of the economy in 2017, current indicators for the activity in the first quarter of 2018 generally point to solid economic growth. This is indicated by data on industry and trade, while construction activity continues to decline. Additionally, future growth projections rely heavily on the stability of a government and assumptions of the maintenance of political and social stability and the management of political and ethnic tensions. In recent years, political instability has culminated in multiple boycotts of the Assembly of the Republic of Macedonia by opposition parties, resulting in uncertainty, social unrest and riots. The aforementioned political situation will most likely affect progress towards formal accession to the EU. In addition, the Macedonian parliament endorsed 30 September 2018 as the official date for the referendum on the agreement with Greece that would change the country's name to the Republic of North Macedonia in order to resolve a longstanding dispute between the two nations. The results of the referendum question, "Are you in favour of NATO and EU membership, and accepting the name agreement between the Republic of Macedonia and Greece?", have been called into question on constitutional grounds as a result of the turnout of eligible voters being below 50 percent, which has led to ongoing uncertainty with regards to the name change. In addition, as a result of the referendum result being non-binding, its ratification will still require two-thirds approval of the parliament. The Macedonian Prime Minister Zoran Zaev has vowed to push forward with the changes in parliament despite the assertions that the result is invalid. Ongoing uncertainty regarding the referendum and any potential negative outcome in this respect could have material negative effect on development of the country, and thus may impact NLB Banka Skopje.

Serbia's economy returned to growth in 2015 and 2016, which continue to expand by 1.9 per cent. in 2017. However, the growth still remains fragile, suffering from a high unemployment rate, standing at 14.7 per cent. at the end of 2017, according to the Statistical Office of the Republic of Serbia. Serbia has a relatively weak banking sector with a high level of non-performing loans ("**NPLs**") at 7.8 per cent. as of 30 June 2018, according to the National Bank of Serbia. Political risks in Serbia include potential delays in the implementation of major fiscal and economic reform and political interference and opacity in privatisation processes, administration and judicial proceedings. Serbia also experiences widespread corruption at all levels in its society and ongoing regional tensions between Kosovars and Serbs in northern Kosovo. In particular, recent public statements by politicians in Kosovo and Serbia regarding the re-drawing of the Serbia-Kosovo border have led to increased tensions. While Serbia's prospects for joining the EU have improved in recent years, in part due to Serbia's efforts to normalise relations with Kosovo, membership is unlikely to be obtained in the near term, particularly if Serbia and Kosovo are unable to normalize their diplomatic relations.

Montenegro's economy experienced a rebound in 2016 and in 2017, growing 2.9 per cent. and 4.3 per cent., respectively, according to the Statistical Office of Montenegro, largely due to strong performance in the tourism sector and industrial production. The country's outlook is heavily dependent on tourism and external investment growth, which in turn are sensitive to security and stability risks. The economy also suffers from an unemployment rate of 17.0 per cent. at the end of 2017, according to the Statistical Office of Montenegro and a lack of qualified personnel, Montenegro became a member of NATO in June 2017 with the disapproval of Russia, whose presence in finance and property markets is significant in Montenegro. At a systemic level, the country also suffers from high levels of political corruption and organised crime, the politicisation of justice, slow and inefficient administrative procedures and insufficient controls over the public budget and debt. The nation's highway project, which is expected to benefit from economic growth in the medium term, is also expected to result in a further strain on government finances and could lead to further credit rating downgrades and rising debt servicing costs, which could negatively impact the NLB Group's operations.

Bosnia and Herzegovina's growth potential, despite a recovery, is limited by political and institutional instability and a weak labour market, which suffers from an unemployment rate of 20.5 per cent. in 2017, according to the Agency for Statistics of Bosnia and Herzegovina. Limited job opportunities have resulted in a large black market and informal sector, as well as a dependency on remittances from expatriate workers. The country is hindered by underdeveloped institutions, low civil service capacity, a weak and inefficient judiciary branch and a complex system of public administration with multiple layers of government, which affects efficiency in implementing structural and economic reforms. The legal and institutional framework remains weak and inadequate to fight corruption effectively; corruption continues to be widespread and the political commitment to fighting corruption may not translate into concrete results, which can negatively affect business activity in the country and the level of foreign investments. Political instability stems from the separatist sentiment from the largely autonomous Republika Srpska which is reluctant to adhere to specific federal laws of Bosnia and Herzegovina and resists moves to strengthen central state institutions. On 15 February 2016 Bosnia and Herzegovina submitted its application to the EC for EU membership, the application was accepted in September 2016 and the country's candidacy is under review, but it is unlikely to be granted EU candidate status in the near term. On 7 October 2018, Bosnia and Herzegovina held a general election where the national Presidency and House of Representatives, as well as the respective Presidents and legislatures of the Republika Srpska and the Federation of Bosnia and Herzegovina and the legislatures of the ten cantons of the Federation of Bosnia and Herzegovina were elected. The ballot was seen by many as a test for Bosnia and Herzegovina to determine if it will progress toward European Union membership and NATO integration or remain held back by the aforementioned ethnic rivalries and instability. However, the election results are unlikely to ease Bosnia and Herzegovina's political crisis. The ongoing political instability and a lack of consensus concerning the adoption of reforms delay Bosnia and Herzegovina's accession to the EU and limit the country's competitiveness.

While Kosovo is characterised by a strong current and forecasted economic growth with GDP growth of 4.0 per cent. in 2018 and 2019 and also 4.0 per cent.in the medium term, according to the IMF, its economy suffered from an unemployment rate of 29.4 per cent. as of the second quarter of 2018 and limited job opportunities that have resulted in a large grey and black market economy and a dependency on remittances from expatriate workers, which continue to represent a significant portion of the country's economy; they amounted to 15.6 per cent. of GDP in 2017 according to the World Bank. Furthermore, ongoing regional and ethnic tensions between Kosovars and Serbs in northern Kosovo (as discussed above) and widespread systemic corruption continue to impede economic and political development.

There can be no assurance that NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects will not be materially adversely affected as a result of one or more of these risks.

The results of the United Kingdom's exit from the European Union may have a negative effect on global economic conditions, financial markets and our business, which could have an adverse effect on the NLB Group's business, financial condition and results of operations

The NLB Group operates solely in Europe. In June 2016, a majority of voters in the UK elected to withdraw from the EU in a national referendum. On 29 March 2017, the government of the UK invoked Article 50 of the Treaty on the Functioning of the European Union ("**TFEU**") and formally initiated the process of negotiations with the EU. These negotiations to adopt Brexit plans with the EU are scheduled to end by 29 March 2019. The government's current plans to achieve a soft Brexit scenario have resulted in the resignations of Brexit Minister David Davis and Foreign Secretary Boris Johnson which has led to increased uncertainty regarding the outcome of the Brexit negotiation. Nevertheless, and despite the limited direct links between the economies of the UK and the Republic of Slovenia, the referendum and the withdrawal process have created significant uncertainty about the future relationship between the UK and the EU.

In recent months, the prospect of a "no-deal Brexit" appears to have grown after the EU's negotiator rejected central elements of UK Prime Minister Theresa May's July 2018 proposals for a new trade agreement, with the Bank of England Governor Mark Carney stating that the possibility of Britain leaving the EU without reaching any deal with Brussels was "uncomfortably high". Should no deal be reached, it is expected to have a negative impact on both the British and EU economy. According to the IMF, if no deal between the UK and the EU is reached, the EU's economic output would, in the long run, be reduced by around 1.5 per cent. of GDP. With an ambitious free-trade agreement, the IMF forecasts that the decrease would be just 0.5 per cent.

These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets in Europe with regard to passporting of banks and financial institutions. Asset valuations, currency exchange rates and credit ratings may in particular be subject to increased market volatility. Lack of clarity about future UK laws and regulations as the UK determines which EU laws to replace or replicate in the event of a withdrawal could depress economic activity and restrict access to capital. If the UK and the EU are unable to negotiate acceptable withdrawal terms, barrier-free access between the UK and other EU member states ("**EU member states**") or in the EEA overall could be diminished or eliminated. Any of these factors could have an adverse effect on the NLB Group's business, financial condition and results of operations.

The abandonment of the euro or dissolution of the European Monetary Union could materially adversely affect the NLB Group's business, financial condition and results of operations

In addition, the NLB Group's business and financial performance would likely be materially affected by a break-up of the countries using the euro currency. Although the risk diminished substantially following the height of the financial and sovereign debt crises, it has once again emerged in 2016 and 2017 as a result of pre-election campaigns of populist and far-right parties across the EU. The Eurozone break-up risk has been elevated again in 2018 with the rise of the anti-establishment Five-Star Movement and far-right League in Italy which has nominated a Eurosceptic, Paolo Savona, as Minister of Economy and Finances. Although fears that Italy could exit the euro have diminished for the time being following the rejection of Mr. Savona's nomination by the Italian president, Mr. Sergio Mattarella, there can be no assurance that anti-Euro policies will not continue or grow in Italy. Future elections in various European nations could potentially result in the election of populist parties with strong anti-EU and anti-euro agendas. As such, the possibility remains that the euro could be abandoned as a currency by one or more countries that have already adopted its use. In an extreme scenario where the institutions created by and economic reforms put in place by the EU fail to prevent a future crisis or are put into question, it could lead to the abandonment of the euro and the dissolution of the European Monetary Union (the "**EMU**"). This would lead to the reintroduction of individual currencies in one or more EMU member states.

The effects on the Slovenian and European economies of the dissolution of the EMU, the exit of one or more EU member states from the EMU and/or the redenomination of financial instruments from the euro to a different currency, are impossible to predict fully but would likely result in significant market dislocation and heightened counterparty risk and adversely affect the ability to manage market risk. The NLB Group anticipates that such an event would be likely to have an adverse impact on the cost and availability of wholesale funding, thereby increasing competition for retail funds and adversely impacting the NLB Group's net interest income and net interest margin.

A redenomination of the Republic of Slovenia's public debt from the euro to a new domestic currency could result in a sharp rise of debt servicing costs, which could directly result in the country's debt default. Due to a notable concentration of Slovenian government debt (including bonds issued by the Motorway Company in the Republic of Slovenia (*Družba za avtoceste v Republiki Sloveniji*) ("**DARS**")) in the NLB Group's investment portfolio (51.3 per cent., 55.7 per cent. and 66.1 per cent. of the NLB Group's equity as at 30 June 2018, 31 December 2017 and 31 December 2016, respectively), a default by the Republic of Slovenia would have a strong materially adverse effect on the NLB Group's financial performance. Additionally, the NLB Group's considerable exposure to the EMU banking system, which would also likely be negatively impacted by the events, would have a materially adverse impact on the NLB Group's operations.

Turmoil in the EMU, as a result of its dissolution, the exit of one or more EU member states, the redenomination of financial instruments from the euro to a different currency and/or the abandonment of the euro, would likely also result in significant political and economic turmoil, which could adversely affect the NLB Group's operations. As a result of a loss in confidence in the regional economy and a resultant risk averse attitude to the region's future prospects, investments and consumption would likely be negatively impacted and economic growth in the EMU would again slow. Due to high trade linkages of the Republic of Slovenia and NLB's markets with the EMU, a slowdown in the region would have a significant negative impact on the economies that comprise the NLB Group's region of operations. Due to the financial industry's strong linkage with positive economic trends, a significant economic slowdown in the NLB Group's region of operation would have a materially adverse impact on operations, and would likely result, amongst other factors, in a considerable deterioration of the quality of the credit portfolio, a substantial rise of country risk and rising government yields, which would in turn result in investment portfolio losses, a considerable decrease in loan generation and impaired profitability within the NLB Group's region of operation. The aforementioned factors would have a materially adverse impact on operations and profitability of the NLB Group.

In case that one or more EU member states exit the EMU, but the EMU would not be dissolved and/or euro would not be abandoned this would likely result in a need for considerable further monetary easing from the ECB as a counter to the event's negative impact on economic growth and stability of the region. A further strengthening and likely extension of the ECB's easing monetary policies would result in a further weakening of the euro, while interest rates in the region would likely remain subdued for longer, following the initial upward shock directly following the event. A prolonged extension of the low rate environment, following the political turmoil of an EU member state's exit, would have an adverse impact on the operations and profitability of the NLB Group and the regional banking sector and could lead to another regional banking crisis. Any of these factors could have a material adverse effect on the NLB Group's business, financial condition and results of operations.

The NLB Group is exposed to credit risk and has in the past experienced material increases in non-performing loans leading to significant increases in impairment allowances which have in the past materially adversely affected the NLB Group's business, financial condition and results of operations

The NLB Group is exposed to the risk that its borrowers may not repay their loans according to their contractual terms and that the collateral securing the payment of these loans may be insufficient. This risk is materially enhanced in times of economic slowdown (see "*—The NLB Group is subject to risks arising from the global macroeconomic environment*").

As at 30 June 2018 and 31 December in each of 2017, 2016 and 2015, NLB's NPLs were EUR 407 million, EUR 478 million, EUR 753 million and EUR 1,101 million, respectively, and NLB's NPL ratio (being the ratio of its NPLs to its total gross loans, including money market placements and cash balances with central banks) was 7.0 per cent., 8.1 per cent., 11.9 per cent. and 16.5 per cent., respectively. As at 30 June 2018 and 31 December in each of 2017, 2016 and 2015, the NLB Group's NPLs were EUR 752 million, EUR 844 million, EUR 1,299 million and EUR 1,896 million, respectively, and the NLB Group's NPL ratio was 8.3 per cent., 9.2 per cent., 13.8 per cent. and 19.3 per cent., respectively. The NLB Group achieved a 67.8 per cent. reduction in its NPL portfolio in the last three years (31 December 2017 in comparison with 31 December 2014). The NLB Group's NPL coverage ratio (impairments on the NPL loan portfolio divided by gross non-performing loan portfolio) amounts to 64.0 per cent. as at 30 June 2018 which is above the EU average published by European Banking Authority (the "**EBA**") (46.3 per cent. for the first quarter of 2018), and which should enable further reduction of NPLs without significant influence on cost of risk in the coming years.

Cost of risk as at 31 December 2016 was positive 38 bps, and for the twelve months ending 31 December 2017 and six months ending 30 June 2018 was negative 62 bps and negative 46 bps, respectively, which is the result of the release of impairments recorded in prior years. The NLB Group released impairments on loans in the amount of EUR 12.4 million in the first half of 2018 and EUR 41.1 million in 2017, while in 2016 the impairment charges amounted to EUR 36.0 million and in 2015 EUR 55.5 million. The release of these impairment charges was driven by the successful restructuring of certain significant exposures and the recovery of non-performing loans (cured clients, repayments and sale of receivables).

The quality of the NLB Group's loan portfolio depends primarily on the creditworthiness of the NLB Group's clients and their ability to service and repay their loans on time. It is also dependent on the NLB Group's ability to realise collateral in a timely fashion if the NLB Group's clients fail to service and repay their loans. Nevertheless, collateral serves as a secondary source of repayment. The NLB Group also approves non-collateralised loans in the retail segment where there might be lower repayment expected in case of default. The creditworthiness of the NLB Group's clients is affected by a range of factors, including factors beyond the NLB Group's control, such as the continuing negative situation in the economy of the Republic of Slovenia and Southeastern Europe generally and any future negative developments in the financial markets (including, in particular, periods of constrained liquidity). Additionally, as part of the ordinary course of its operations, the NLB Group estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures. This process, which is critical to the NLB Group's results and financial condition, requires expert judgements, including forecasts of how changing macroeconomic conditions might impair the ability of customers to repay their loans. The NLB Group may fail to identify adequately the relevant factors or estimate accurately the impact or magnitude of identified factors.

NLB's impairment allowances for loans and advances to customers are determined by the Management Board based upon an assessment of future cash flows for individually significant loans, prior loss experiences and the results of grading and scoring, the volume and type of lending being conducted, collateral type, the volume of past due loans, economic conditions and other factors related to the collectability of NLB's loan portfolio. In the period 2010-2013, the NLB Group made material impairment charges in respect of loans made to corporate customers (including both large corporations and small and medium-sized enterprises ("**SMEs**")), particularly those operating in the construction, financial holdings and transport sectors. At the end of 2013, NLB transferred a significant portion of NPL receivables and receivables from customers related to Slovenian clients in default and from non-strategic activities to the Bank Assets Management Company ("**BAMC**"). In accordance with the provisions of the Act Regulating Measures of the Republic of Slovenia to Strengthen the Stability of Banks (*Zakon o ukrepih Republike Slovenije za krepitev stabilnosti bank (ZUKSB)*) ("**ZUKSB**"), loan receivables from Slovenian companies in default and from customers in non-strategic activities were transferred.

In order to manage NPLs or loans with higher risk, NLB has taken several measures in recent years, including the introduction and development of a restructuring and work-out unit and the introduction of an early warning system and a loan watch committee, and put in place a new credit process and rating methodology as well as new scoring models for certain segments. Notwithstanding these new procedures and the improvements in the NLB Group's NPLs, there can be no assurance that these procedures will materially reduce NLB's and the NLB Group's NPLs or the impairments which are made in respect of future periods. Any potential increase in the impairment allowances for loans and advances to customers, any potential loan losses in excess of the previously determined impairment allowances for loans and advances to customers with respect thereto or any potential changes in the estimate of the risk of loss inherent in the portfolio of non-impaired loans may have a material adverse effect on NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects.

The NLB Group is exposed to risks in relation to market impacts on collateral value and the enforcement of such collateral

NLB's total credit portfolio as at 30 June 2018, 31 December 2017, 31 December 2016 and 31 December 2015 was EUR 5,774 million, EUR 5,866 million, EUR 6,346 million and EUR 6,663 million, respectively, of which lending was secured by collateral amounted to EUR 3,156 million, EUR 3,321 million, EUR 3,417 million and EUR 3,804 million, respectively. The NLB Group's total credit portfolio as at 30 June 2018, 31 December 2017, 31 December 2016 and 31 December 2015 was EUR 9,090 million, EUR 9,130 million, EUR 9,444 million and EUR 9,829 million, respectively, of which lending secured by collateral amounted to EUR 4,654 million, EUR 4,796 million, EUR 4,836 million and EUR 5,236 million, respectively.

The NLB Group generally seeks collateral for its loans. A significant proportion of this collateral takes the form of mortgages or other security over assets and there are particular risks associated with this form of collateral when a client defaults (see "*—A substantial portion of the NLB Group's loans are secured by property interests and the NLB Group is therefore exposed to any downturn in the property markets in which it operates, including various disrupting factors in Southeastern Europe which influence volatility in the local real estate market*"). In addition, a part of the collateral taken by the NLB Group comprises share pledges. The fair value of share pledges at the NLB Group level as at 30 June 2018 and 31 December 2017 amounted to EUR 209.7 million and EUR 193.2 million (or 2.3 per cent. and 2.1 per cent. of total collateral received), respectively, compared to EUR 173.4 million (or 1.8 per cent. of total collateral received) as at 31 December 2016 and compared to EUR 166.6 million (or 1.6 per cent. of total collateral received) as at 31 December 2015. The value of this collateral can be adversely affected by falling stock market values (in the case of listed shares) or adverse developments in the business concerned (in the case of non-listed shares). Additionally, guarantees by the Republic of Slovenia represent a significant amount of collateral, with such guarantee to one customer valued at approximately EUR 500 million. In addition, the NLB Group may experience difficulty in enforcing certain collateral, particularly in the case of non-listed shares.

In addition to operations in the Republic of Slovenia, the NLB Group's operations include banking subsidiaries in Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia. In connection with its loans or other banking operations in the above-mentioned jurisdictions and in Croatia, the NLB Group holds mortgages over assets, as well as movable collateral, including machinery, equipment and vehicles and other form of collateral. The procedures allowing for the sale or other enforcement efforts in relation to a mortgage on real property in particular may be protracted and difficult to implement in practice. In cases where the NLB Group is unable to enforce effectively against real estate or other collateral granted to it, this will delay recovery of the relevant loan and could expose the NLB Group to increased losses on the relevant loan in the case of falling property markets.

The enforcement of security over assets located outside the EU may often prove to be more difficult, more time consuming and more expensive than it is within the EU, and may be subject to different requirements and restrictions than inside the EU. As at 30 June 2018 and 31 December 2017, 44.1 per cent. and 44.2 per cent., respectively, of the NLB Group's loan portfolio was secured by collateral held outside the EU.

If the NLB Group is not able to enforce security over collateral held inside or outside the EU in a timely fashion or at all, it may have an adverse effect on the NLB Group's business, prospects, financial condition, results of operations or cash flow.

A substantial portion of the NLB Group's loans are secured by property interests and the NLB Group is therefore exposed to any downturn in the property markets in which it operates, including various disrupting factors in Southeastern Europe which influence volatility in the local real estate market

Of the EUR 3,156 million, EUR 3,321 million, EUR 3,417 million and EUR 3,804 million of lending in NLB's credit portfolio was secured by collateral as at 30 June 2018, 31 December 2017, 31 December 2016 and 31 December 2015, respectively, EUR 1,725 million, EUR 1,761 million, EUR 1,824 million and EUR 2,075 million was secured by real estate collateral. Of the EUR 4,654 million, EUR 4,796 million, EUR 4,836 million and EUR 5,236 million of lending in the NLB Group's credit portfolio was secured by collateral as at 30 June 2018, 31 December 2017, 31 December 2016 and 31 December 2015, respectively, EUR 2,950 million, EUR 2,944 million, EUR 2,964 million and EUR 3,235 million was secured by real estate collateral.

Beginning in 2015, prices of residential real estate in the Republic of Slovenia started to grow again after a period of substantial decline. The largest growth took place in the segment of existing dwellings in Ljubljana and peaked at 31.6 per cent. from the beginning of 2015 till the end of the first quarter of 2018. Although the real estate market is currently favourable, it cannot be excluded that a potential downturn in the economic activity and subsequently in the real estate market could in the future adversely influence the value of the collateral pool.

The NLB Group applies a cash-flow based credit policy that considers the repayment capacity of the customer when extending credit. This policy also applies to all lending backed by residential or commercial real estate. However, circumstances may change over time. Any economic downturn in the Republic of Slovenia and other countries in which the NLB Group operates, including declines in the value of real estate and increases in unemployment, could adversely affect NLB's and the NLB Group's collateral coverage of its loan portfolio with respect to new and existing NPLs and generate increases in impairment losses, which could materially affect NLB's and the NLB Group's financial condition and results of operations. In addition, the effects of declining property values on the wider economies in which the NLB Group operates may also contribute to higher default rates and impairment losses on other loans extended by them.

Delays or incomplete implementation in the divestment process of non-core assets could have an adverse effect on the financial performance of the NLB Group

Uncertainty in the financial markets, deteriorating macroeconomic conditions or a reduced appetite for, or illiquid markets for, corporate acquisitions and portfolio purchases could adversely affect NLB's ability to make divestments and/or wind-down of non-core assets in a timely manner or at all. This could have an impact on costs related to management of non-core assets. Since these assets represent a marginal percentage of the entire portfolio and have been accordingly provisioned for, the NLB Group does not expect this an inability to divest or delays in the timely wind down of non-core assets to result in materially higher impairment costs in the current circumstances.

Although most of the divestment process relating to the requirements of the Restructuring Plan (the "**Restructuring Plan**") and the Commitments has already been implemented as at 31 December 2016, with the wind down of portfolios and commencement of liquidation proceedings in non-core subsidiaries (see "*6. Business—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy*"), NLB's inability to make further divestments and/or wind-down non-core assets in a timely manner or at all could result in the failure to meet such requirements. See also "*—Any failure by the NLB Group and/or the Republic of Slovenia to adhere to the Restructuring Plan or the New Commitments towards the EC could have a negative effect on the NLB Group*".

Delays or incomplete implementation of the NPL reduction strategy could have an adverse effect on the financial performance of the NLB Group

Although the NLB Group has taken an active approach to the management of its NPL stock through the implementation of its NPL reduction strategy (the "**NPL Strategy**"), under which the share of non-performing exposures ("**NPEs**") by EBA methodology reduced from 14.3 per cent. to 5.8 per cent. between December 2015 and June 2018 (see "*6. Business—Diversified credit portfolio with important progress with asset quality*"), the overall implementation and success of the NPL Strategy may be affected by delays in meeting targets or in achieving desired reductions. If the NPL Strategy is less effective than anticipated or the planned implementation is not able to be completed as currently envisioned, more management resources may be diverted to alternative measures to reduce the NLB Group's NPL levels, which could detract from the performance of other aspects of the NLB Group's operations.

The NLB Group has significant concentrations of both loans and deposits in terms of both geographic and customer type. These concentrations, along with an associated concentration of its investment portfolio, expose the NLB Group to enhanced levels of risk

The NLB Group faces a concentration of loans and deposits in the geographic segment in which it operates. Geographically, the NLB Group's corporate, retail and SME loans are largely concentrated in the Republic of Slovenia (53.6 per cent. of funded loans as at 30 June 2018, 54.6 per cent. as at 31 December 2017, 55.1 per cent. as at 31 December 2016 and 54.4 per cent. as at 31 December 2015). By focusing on retail and reducing individual large exposures, the NLB Group seeks to diversify its credit portfolio and contribute to lower concentration risk. With respect to liabilities, 67.6 per cent., 67.8 per cent., 69.0 per cent., 68.8 per cent. and 68.4 per cent. of its deposits were from Slovenian depositors at 30 June 2018, 31 December 2017, 30 June 2017, 31 December 2016 and 31 December 2015, respectively.

The NLB Group's investment portfolio also has a concentration of Slovenian credit risk, with 30.6 per cent., 32.5 per cent., 33.7 per cent., 38.8 per cent. and 47.6 per cent. of the portfolio representing Slovenian Government and private sector bonds held by the NLB Group at 30 June 2018, 31 December 2017, 30 June 2017, 31 December 2016 and 31 December 2015, respectively. Accordingly, the NLB Group is particularly exposed to any future downturn in the economy of the Republic of Slovenia; see "*—The NLB Group is subject to risks arising from the global macroeconomic environment*".

In addition, the NLB Group's loan portfolio is concentrated in relation to its largest corporate customers (as at 30 June 2018 the NLB Group's 10 and 20 largest customers accounted for 10.4 per cent. and 13.2 per cent., respectively, of the NLB Group's total loan portfolio). As a result, any decision by one or more of these customers to move its business to another bank or any default by one or more of these customers would be likely to have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

Any failure by the NLB Group and/or the Republic of Slovenia to adhere to the New Commitments towards the EC could have a negative effect on the NLB Group

As part of the state aid provided to NLB by the Republic of Slovenia in 2011-2013 in the wake of the financial crisis, the Restructuring Plan was agreed with the EC in relation to the EC decision issued in December 2013. The Restructuring Plan contained a number of significant requirements for NLB, and the then strategy of the NLB Group reflected these requirements (except for the requirement regarding the reduction of the NLB Group's balance sheet). The Restructuring Plan and/or the Commitments towards the EC (which were amended on 11 May 2017 and were an integral part of the Restructuring Plan) were valid until 31 December 2017 and included, among others, special requirements regarding the reduction of the balance sheet (or, if certain conditions were met, a limitation of total loans (excluding those to the financial sector)) and the reduction of the shareholding of the Republic of Slovenia in NLB by at least 50 per cent. by 31 December 2017 and to 25 per cent. plus one Share by 31 December 2018. The Republic of Slovenia failed to comply with this requirement and proposed an amendment of the Commitments to the EC. On 26 January 2018, the EC issued a document titled "*SA.33229 (2018/C) (ex 2017/N-3) – Slovenia – Amendment of the restructuring commitments of Nova Ljubljanska banka d.d.*" (the "**Opening Decision**"), by which it began the procedure set in Article 108(2) of the TFEU. Following the alignment with the EC, the Republic of Slovenia proposed an amendment to the Commitments to the EC on 13 July 2018, and the EC approved this by the decision SA.33229 (2018/N-4) (ex 2017/C-3) of 10 August 2018 – Amendment of the restructuring commitments of Nova Ljubljanska banka d.d. (the "**Final EC Decision**" and such newly approved commitments "**New Commitments**"). In accordance with the New Commitments if it were to fail to reduce its shareholding in NLB to 25 per cent. plus one Share by 31 December 2019, the Republic of Slovenia would become obligated to grant to a Divestiture Trustee (the "**Divestiture Trustee**") approved by the EC an exclusive mandate to reduce the Republic of Slovenia's shareholding in NLB to 25 per cent. plus one Share for the then prevailing market price. Should the Republic of Slovenia not grant an exclusive mandate to a Divestiture Trustee in accordance with the New Commitments when required, this may result in the reopening of state aid proceedings, and a demand for the repayment of the amount of EUR 2,320.9 million which NLB received as state aid. A reopening of the proceedings may occur in the event of the Republic of Slovenia not reducing its shareholding in NLB in accordance with the New Commitments and there can be no assurances that the EC will accept a sale of less than 75 per cent. minus one share of the Republic of Slovenia's ownership in NLB.

The implementation of, and compliance with, the New Commitments is monitored by a Monitoring Trustee (the "**MT**") throughout the remaining restructuring period. There are different time limits prescribed for the completion of different obligations set out in the New Commitments, with the longest possible time period for the completion of or compliance with a specific obligation ending on 31 December 2019 (except if the shareholding of the Republic of Slovenia in NLB is not reduced to 25 per cent. plus one Share by that date in which case the last such deadline expires when the shareholding of the Republic of Slovenia in NLB is reduced to 25 per cent. plus one Share). For further information on the EC Decision, Restructuring Plan, Commitments, Final EC Decision, and New Commitments, see "*6. Business—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy*". Should the NLB Group or the Republic of Slovenia fail to adhere to the New Commitments, the possible consequences include reopening of the EU state aid proceedings, which may have a material adverse effect on the NLB Group's business, financial condition, results of operations, cash flows and prospects.

Any failure of the Republic of Slovenia to reduce its shareholding in NLB in accordance with the New Commitments could have a negative effect on the NLB Group

The New Commitments provide for the reduction of the Republic of Slovenia's shareholding in NLB by at least 50 per cent. plus one Share by 31 December 2018 and to 25 per cent. plus one Share by 31 December 2019. If the Republic of Slovenia were to fail to reduce its shareholding in NLB by 31 December 2019 to 25 per cent., plus one Share, then the Republic of Slovenia would become obligated to grant to a Divestiture Trustee approved by the EC an exclusive mandate to reduce the Republic of Slovenia's shareholding in NLB to 25 per cent. plus one Share for the then prevailing market price. Should the Republic of Slovenia not grant an exclusive mandate to a Divestiture Trustee in accordance with the New Commitments when required, this may result in the reopening of state aid proceedings, and a demand for the repayment of the amount of EUR 2,320.9 million which NLB received as state aid. A reopening of the proceedings may occur in the event of the Republic of Slovenia not reducing its shareholding in NLB in accordance with the New Commitments and there can be no assurances that the EC will accept a sale of less than 75 per cent. minus one share of the Republic of Slovenia's ownership in NLB. See "*—The real or perceived possibility* *of sales or actual future sales of a significant number of the Securities in the public market could adversely affect the prevailing trading price of the Securities*".

The NLB Group adopted a new strategy in August 2016, the implementation of which may be compromised by several factors

In August 2016 the NLB Group approved a new five-year strategy, renewing the previous strategy implemented in February 2014, aimed at creating an innovative bank with simple customer-oriented solutions and exclusive strategic focus on countries in Southeastern Europe; see "*6. Business—Strategy*".

Risks that may impact the achievement of strategic targets are, amongst others, as follows:

(i) The NLB Group's multi-year transformation and investment programme is expected to require a certain level of stability of management to ensure oversight over the change programme and such stability of management cannot be fully assured.

(ii) Future results of the NLB Group are based to an important extent on the favourable development of banking markets in Southeastern Europe. Political and security risks in any of these markets could impact the results of subsidiaries.

(iii) The high complexity of the programme, the high level of interdependencies of strategic initiatives or the ability of IT to support automation of certain processes and provide a specific platform to implement strategic initiatives cannot be fully assured.

(iv) Market-based remuneration is required to attract talent not only within the Republic of Slovenia but also from abroad. It cannot be fully assured that NLB will be able to attract the necessary talent to implement strategic initiatives.

(v) Disruptive action by labour groups could result from the expected reduction of employees at NLB by 2023.

The strategy may need to be amended from time to time as a result of developments in external conditions (economic growth, interest rate, foreign exchange rates) that would deviate from assumptions that underline strategic projections. Hence, such necessary adjustments of the strategy may negatively impact the NLB Group's results.

The implementation of the new strategy is also dependent on the successful exit from, or wind-down of, remaining activities which management no longer considers of strategic importance in order to ensure financial and business results as defined in the strategy. See "*—Delays or incomplete implementation in the divestment process of non-core assets could have an adverse effect on the financial performance of the NLB Group*". If one or more of the above mentioned factors occur, the NLB Group may be unable to implement its strategy successfully and this may have a material adverse effect on the NLB Group's business, financial condition, results of operations, cash flows and prospects.

The NLB Group is exposed to risks related to potential future acquisitions or disposals of assets

NLB may undertake mergers, acquisitions and disposals of assets and entities in the course of implementation of its strategy and in satisfaction of the New Commitments (as applicable). Such transactions may entail significant risks related to implementation of transactions, including risk of mispricing assets or entities, inadequate due diligence, risks related to contractual obligations entered into in such transactions and others.

The NLB Group is subject to the risk that liquidity and sources of funding that it currently utilises may not always be readily available

Liquidity risk is the risk that an entity will be unable to meet its obligations, including funding commitments, as they fall due. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. In particular, since the start of the global financial crisis, the capital and credit markets have been volatile and, at times, this has resulted in significant liquidity problems for some financial institutions. As a result, in addition to partially limited access to wholesale markets, the cost to the NLB Group of accessing traditional sources of liquidity (other than deposits) continues to be higher than in the period before the financial crisis. Currently, the NLB Group's funding cost are relatively low due to its funding structure and low market interest rates; however, they could increase due to changes in market conditions or new regulatory requirements, including developments surrounding the implementation of the minimum requirement for own funds and eligible liabilities ("**MREL**"), which may require NLB to increase its long-term funding requirements, which would in turn increase its cost of funding. During periods when liquidity has been constrained, a number of banks, including NLB, were reliant on central banks as one of their principal sources of liquidity, but as of 31 December 2017 and 30 June 2018 there is no ECB funding provided to NLB Group. As at 30 June 2018 and 31 December 2017, respectively, the NLB Group's main funding base is predominantly deposits from customers with a LTD of 70 per cent. and 71 per cent. (74 per cent. and 75 per cent. in 2016 and 2015, respectively) and non-banking sector deposits account for 80 per cent. and 81 per cent. of the NLB Group's total liabilities (including equity; 78 per cent. and 76 per cent. in 2016 and 2015, respectively). In addition, as at 30 June 2018, NLB Group has a Liquidity Coverage Ratio ("**LCR**") of 304 per cent., liquid assets represent 43.8 per cent. in total assets and unencumbered eligible reserves amount to EUR 5.06 billion, accounting for 40.4 per cent. of the total balance sheet. The NLB Group's Net Stable Funding Ratio ("**NSFR**") is 157% as of 30 June 2018.

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

However, even a perception amongst market participants that a financial institution is experiencing greater liquidity risk can cause significant damage to the institution. If the NLB Group's short-term funding sources become volatile or are unavailable, the NLB Group would be required to utilise other, more expensive, sources to meet its funding needs, such as collateralised borrowing or asset sales. The NLB Group's ability to sell assets at a commercially desirable price or at all may be impaired if other market participants are seeking to sell similar assets at the same time or are not in a position to finance themselves, or when the market value of assets, including financial instruments underlying derivative transactions to which the NLB Group members are party, is difficult to ascertain, as has occurred at certain times during and since the global financial crisis. In addition, financial institutions with which the NLB Group interacts may exercise set-off rights or rights to require additional collateral. Any of these or other events could impair the NLB Group's access to liquidity.

Future disruptions, uncertainty or volatility in the capital and credit markets could limit the NLB Group's ability to refinance maturing liabilities with long-term funding. The availability to the NLB Group of any additional financing it may need will depend on a variety of factors, such as market conditions, the availability of credit generally and to borrowers in the financial services industry specifically, the volume of trading activities, the NLB Group's financial condition, its credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of the NLB Group's financial prospects if, for example, the NLB Group continues to incur large losses, experiences significant deposit outflows or if the level of the NLB Group's business activity decreases due to a market downturn. In particular, the NLB Group's access to funds may be impaired if regulatory authorities or rating agencies impose additional regulatory capital requirements or downgrade the NLB Group's debt rating. Any of these developments may limit the NLB Group's ability to raise additional capital to support business growth or to counterbalance the consequence of losses or increased regulatory capital requirements, and could have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, liquidity and prospects.

In addition, like many banks, the NLB Group relies on customer deposits to meet a substantial portion of its funding requirements. Such deposits are subject to fluctuation due to certain factors outside the NLB Group's control, such as any possible loss of confidence and competitive pressures, which could result in a significant outflow of deposits within a short period of time. A material decrease in the NLB Group's deposits could have a negative impact on the NLB Group's liquidity unless corresponding actions in accordance with a liquidity contingency plan are taken.

NLB's borrowing costs, access to the capital markets, reputation and competitive position depend significantly on its credit ratings and the credit rating of the Republic of Slovenia

NLB's credit ratings are important to its business. In April 2018, Fitch assigned NLB a BB long-term credit rating (outlook Rating watch evolving) that was affirmed in October 2018, in May 2018, S&P assigned NLB a long-term credit rating of BB+ (outlook Developing) and, in August 2018, Moody's assigned NLB a Ba1 long-term credit rating (outlook Positive).

Key factors for determining NLB's credit ratings include: (i) the external environment (including the health and structure of the economy, banking system and capital markets, effectiveness of regulation and transparency in the banking and legal systems); (ii) the ownership and management of the bank (including corporate governance, external support and organisational structure); (iii) brand strength; (iv) profitability of NLB (taking into account its sources of revenue and cost-efficiency); (v) NLB's corporate governance and risk profile (including the quality of management and risk management and the structure of the credit, market, liquidity, operational and other risks); (vi) NLB's capitalisation (taking into account factors such as regulatory capital, economic capital and Basel III (BRRD)); and (vii) NLB's business strategy.

Credit ratings represent an important component of the NLB Group's liquidity profile and affect the cost and other terms upon which the NLB Group is able to obtain funding. Changes to the NLB Group's credit ratings reflect, apart from changes to the rating of the Republic of Slovenia, a series of factors intrinsic to the NLB Group. Currently, the ratings assigned to the NLB Group are non-investment grade. Rating agencies also consider the following additional risk factors: (i) the quality of the loan portfolio and exposure to SMEs in Southeastern Europe; (ii) the NLB Group's exposure to public debt; and (iii) the NLB Group's exposure to its main clients. The Republic of Slovenia currently has a long-term credit rating of A+ (positive outlook) by S&P from June 2018, a long-term credit rating of A- (stable outlook) assigned by Fitch in August 2018 and a long-term credit rating of Baa1 (stable outlook) by Moody's from September 2017. As NLB's credit rating is partially a reflection of the sovereign credit rating of the Republic of Slovenia, it could be impacted by a negative change to the latter.

Any downgrade in NLB's or the Republic of Slovenia's credit ratings could materially adversely affect NLB's liquidity including by negatively impacting its risk profile and competitive position, undermine confidence in the NLB Group, increase its borrowing costs, limit its access to the capital markets, or limit the range of counterparties willing to enter into transactions with NLB and other NLB Group members. NLB's credit ratings are subject to change and could be downgraded as a result of many factors, including the failure of the NLB Group to implement successfully its strategies. A downgrade of NLB's credit ratings could lead to reputational damage for the NLB Group, which may also lead to a loss of customers and counterparties that could in turn have an adverse effect on the NLB Group's business, results of operations and financial condition. A substantial downgrade in either NLB's or the Republic of Slovenia's credit ratings could potentially prevent NLB's issuance of a Tier 2 instrument and thus in compliance with the New Commitments (see "*6. Business—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy*").

The NLB Group is exposed to risks related to volatility in global liquidity in financial markets resulting from the monetary policies of central banks

Central banks around the world have made efforts to increase liquidity in the financial markets, by taking measures such as increasing the amounts they lend directly to financial institutions and lowering interest rates. However, it is not certain how long or on what terms these central bank schemes will continue. It is now clear that certain central banks may start tightening their monetary policy to increase interest rates back to levels closer to historical norms and eliminate quantitative easing. The ECB has already decided to end its EUR 2.6 trillion eurobond purchase programme by the close of the year 2018. The financial markets currently do not expect an interest rate rise from the ECB in the current year, however there is a wide market expectation that the first increase to deposit rate might come in autumn 2019. Should inflationary dynamics continue to improve, the pressure could intensify and result in an interest rate rise from the ECB sooner than markets anticipate. The U.S. Federal Reserve Board of Governors on the other hand voted to raise the target range for the federal funds rate to 2.00 to 2.25 per cent. at their meeting in September 2018, following an interest rate rise in March and June 2018 (and three rate hikes in 2017). Additionally, current market expectations point to a likelihood of one additional interest rate rise from the Federal Reserve in December 2018.

As a result of the aforementioned resurgence of inflationary dynamics, the possibility of rising interest rates has increased significantly globally, as some central banks (including the ECB) already announced the unwinding of the extraordinary pro-growth monetary policies that have been the central macroeconomic theme of past years and have directly resulted in falling interest rates worldwide. A prolonged period of low interest rates, such as in the current market, carries the risk that market participants may have taken on more risk than they expected in a 'search for yield', leaving them exposed to more rapid than expected tightening in monetary policy. An earlier than expected increase in interest rates or a divergence in the timing of tightening of monetary policy by the U.S. Federal Reserve Board of Governors and other central banks, including the ECB may also result in volatility in capital flows, adverse fluctuations in currency markets, a suppression of demand and a reduction in the availability of credit, which may limit economic recovery in the Republic of Slovenia or elsewhere. In addition to market participants, corporations and households may be negatively impacted by rising interest rates and their ability to make payments on debt or loans could be negatively affected, which could lead to rising defaults and a further economic slowdown and negatively impact future economic development in areas in which the NLB Group operates.

In addition, the resurgence of inflationary dynamics poses an additional risk to the NLB Group's operations, namely the conclusion of the ECB's asset purchasing programme. Anecdotal evidence from 2013, when the Federal Reserve began scaling back asset purchases, indicates that a notable upward movement of yields on government debt is a possibility when the ECB ends its purchase programme. The end of the asset purchase programme carries with it two key risks for the NLB Group: in the short term, a sharp rise in government bond yields will negatively impact valuations of investment portfolios containing large amounts of European government debt, which could result in instabilities within the financial system; in addition, the end of the ECB purchasing programme will also likely result in higher government debt servicing costs. A regional rise in debt servicing costs could result in instability, should fears of a potential EU member state default again come to the forefront of financial markets. While, as of 30 June 2018, the NLB Group had a comfortable liquidity position with a high level of liquidity reserves and strong deposit base, mostly in the form of retail deposits, should past fears again arise within the region, they could negatively impact the regional macroeconomic recovery and negatively impact the operations and financial results of the NLB Group.

Fluctuations in interest rates may adversely affect the NLB Group's results

NLB's and the NLB Group's profitability is to a large extent based on their respective net interest income levels. This is the reason that stabilising net interest income is NLB's primary goal when managing interest rate risk. While the NLB Group monitors its interest rate sensitivity by analysing the composition of its assets and liabilities and off-balance sheet financial instruments, any significant and unanticipated interest rate movements in the Republic of Slovenia and the Eurozone and in other markets where the NLB Group operates could adversely affect NLB's and the NLB Group's operations and financial condition.

An increase in market interest rates may decrease the fair value of fixed rate loans and the fixed rate investment securities portfolio, but would have, at the same time, a positive effect on net interest income. Conversely, a decrease in interest rates would lower net interest income, but would have a positive effect on the fair value of fixed rate loans and securities. In the light of the primary goal of stabilising net interest income, a decreasing interest rate environment represents a greater risk to NLB's business (since in the interest rate risk structure Euribor-linked assets have made up the dominant share, although zero-floor clauses have been introduced) than an increasing interest rate environment. The NLB Group risk appetite for interest rate risk is low to moderate and, in order to avoid negative effects on basis point value ("**BPV**") and net interest income sensitivity, limits are imposed. Although NLB seeks to manage interest rate risk proactively in accordance with relatively conservative interest rate risk policies and limits, any significant mismatch between interest-earning assets and interest-bearing liabilities in a given period may have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

The NLB Group is exposed to risks related to exchange rate fluctuations

When considering foreign exchange risks of the NLB Group, such risks should not significantly impact on a single NLB Group's subsidiary or the whole of NLB Group's operations. The NLB Group operates its main business activities in euro, while other banking group members beside its domestic currencies partially operate also in euro. NLB Group's dominant currency is euro, which represents around 82 per cent. of total assets as at 30 June 2018. Total foreign exchange loans (non-EUR loans) as at 30 June 2018 were EUR 1,186 million, which represented 9.5 per cent. of total assets.

The NLB Group does not currently engage in any strategic currency exchange transactions for investment purposes. Some of the NLB Group's banking members operate their main business activities in euro, whereby they are exposed to foreign exchange lending risk if the domestic currency materially depreciates against the euro, even though they include this risk evaluation within the process of a client's creditworthiness assessment. As at 30 June 2018, the largest amount of EUR-denominated loans to the non-banking sector are held by NLB Banka, Skopje, ("**NLB Macedonia**") amounting to EUR 331 million.

Nonetheless, fluctuations in exchange rates between the EUR and other currencies could impact the NLB Group's financial results in a number of ways. Future changes in the financial markets, namely foreign exchange fluctuations, may have a material effect on NLB's and the NLB Group's business and operations. No assurance can be given that they will not have an adverse effect on the results of operations of the NLB Group.

NLB may be required to increase its capital in the future for a range of different reasons, including as a result of changing regulatory requirements, and may experience material difficulty in raising any such additional capital and other Group banks are subject to capital requirements in their own jurisdictions of operation and any failure by one or more of these banks to maintain appropriate levels of capital could have a material adverse effect on the NLB Group

In 2018, NLB is required to maintain a minimum capital adequacy ratio on a consolidated level of at least 13.375 per cent. (11.50 per cent. total SREP capital requirement ("**TSCR**") + 1.875 per cent. capital conservation buffer in 2018) based on an ECB decision from December 2017, in accordance with EU regulations on capital adequacy and in accordance with discretions given by legislation to competent supervisory authorities, including the Bank of Slovenia and the ECB (see "*10. Asset, Liability and Risk Management—*" and "*15. Regulation of the banking sector in the Republic of Slovenia—Capital requirements and risk management requirements*"). As the regulations may change in the future (see "*—The NLB Group is subject to changes in the regulatory framework within which they operate and any such changes could have a material adverse effect on NLB or the NLB Group*"), capital requirements and the required capital adequacy ratio could be increasing in future years.

Should NLB be required to increase its capital in the future for any reason, including continued significant losses, no assurance can be given that it will be successful in so doing on favourable terms, in a timely manner or at all. NLB's ability to obtain additional capital may be restricted by a number of factors, including:

- its ability to obtain any required regulatory approvals;
- decisions of the Shareholders with respect to the approval of future capital increases;
- general market conditions for capital-raising activities by commercial banks;
- the financial condition, results of operations and cash flows of NLB at the time of the proposed capital increase; and
- the credit rating of NLB at the time of the proposed capital increase (see "*—NLB's borrowing costs, access to the capital markets, reputation and competitive position depend significantly on its credit ratings and the credit rating of the Republic of Slovenia* ").

Any failure by NLB to comply with applicable capital adequacy regulations or otherwise to maintain sufficient levels of capital to conduct its business could have a material adverse effect on NLB's and the NLB Group's business, financial condition and results of operations. Moreover, a breach of existing laws relating to the minimum capital adequacy and other regulatory ratios could result in NLB being subject to administrative sanctions which could result in an increase in its operating costs and an adverse effect on its reputation, and, consequently, could have a material adverse effect on NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects.

Each of the other banks in the NLB Group is subject to local regulations relating to required levels of capital, including:

- local capital regulations in line with Basel III guidelines, subject to different stages of convergence to EU regulation;

- a minimum required level of capital adequacy is, in general, higher than 8 per cent., with most countries setting the minimum above it (12 per cent. in Bosnia and Hercegovina, Kosovo and 10 per cent. in Montenegro). In line with newly adopted regulation, which approached to CRR rules more closely, minimum capital adequacy requirements in Macedonia and Serbia were set at 8 per cent. However, these requirements are not directly or fully comparable to the EU requirement for a minimum required level of capital adequacy, as the definitions of risk-weighted assets ("**RWA**") and capital may differ; and

- locally defined Pillar 2 requirements (ICAAP) and capital deductions referring to provisions as a result of differences between local standards and IFRS, whose implementation and enforcement may depend on the local regulator's view and guidance.

Should any banking member be required to increase its capital for any reason, it is likely to look first to NLB (as principal shareholder) to assure such capital increase. If NLB would be unable to provide the required capital, its shareholding in the banking member concerned may be diluted by the issue of additional shares or sale of the capital investment to the other potential shareholders. Each of these outcomes could adversely affect the NLB Group's business, financial condition, results of operations, cash flows and prospects.

The NLB Group may be negatively affected by increased competition

The NLB Group operates in a highly competitive market alongside a significant number of competitors. Increasing competition in the banking sector and/or the inability of NLB or any other NLB Group member to compete effectively in its market may have a material adverse effect on NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects.

The competition that most significantly affects the NLB Group is in the Republic of Slovenia, where NLB is subject to competition from both domestic and foreign banks, some of which may have significantly greater resources and/or access to cheaper funding than NLB. As at 31 December 2017 there were a total of 12 banks, three saving banks, two branches of foreign banks and one representative office operating in the Republic of Slovenia according to the Bank of Slovenia. There is significant concentration, as the five largest banks in terms of total assets (NLB, NKBM, Abanka, SKB, and UniCredit) together accounted for 60.6 per cent. of the total banking sector's assets at 31 December 2017 (Source: Bank of Slovenia and NLB's analysis). Potential further market consolidation as the result of certain of these other banks potentially acquiring or merging with other, smaller banks in the market could lead to increased competition for the NLB Group in the future. NLB faces its strongest competition in the Republic of Slovenia from institutions with foreign investors and local subsidiaries of foreign banks, which in 2016 and 2017 mostly grew their market shares in lending. These banks may be able to offer better terms or more attractive products, and to leverage the international experience and reputation of their shareholders, and, as a result, be more attractive to foreign companies operating in the Republic of Slovenia and Slovenian corporate and private customers operating internationally. Foreseeable privatization of the third largest bank in the country, Abanka, by the end of 2019 in accordance with the EC commitments would further consolidate the Republic of Slovenia's banking system. As reported in the media, the private equity fund Apollo, who already owns the majority of NKBM's shares, OTP and Erste have been mentioned as a potential buyer of Abanka's shares as of the date of this Prospectus. If Apollo were to acquire a majority shareholding of Abanka, the possibility that NKBM and Abanka are integrated into one legal entity could arise, subject to prior approvals by the relevant authorities. In such a case, this merged entity could rival NLB in terms of market share and could therefore affect its leading position in the Republic of Slovenia's banking system. Furthermore, this could lead to increased competition, resulting in cheaper banking products that could adversely affect NLB's income. Moreover, in the most adverse scenario, this could also increase the risk for potential leakage of NLB's deposit clients to the new competitor, which could have harmful impacts on NLB's current stable funding base.

The NLB Group also has a number of competitors in other jurisdictions in which it operates and in which it does not have as large a market presence as in the Republic of Slovenia. In these markets, the NLB Group is generally able to compete only in terms of quality of service rather than interest rates, which reduces its ability to compete in these markets on the price level. Additionally, the NLB Group may face new or increased competition from current or other competitors as the result of the introduction of new products or technology in the banking industry ("**fintech**"), which the NLB Group may fail to develop or implement adequately. Further, certain non-traditional competitors, such as retailers offering credit cards and other financial products comparable to the NLB Group's offerings, pose a risk. Finally, certain activities of the

NLB Group are further restricted by virtue of certain New Commitments that the NLB Group is currently subject to. These New Commitments limit certain commercial strategies, such as offering certain advantageous conditions to clients, and restrict the engagement in any aggressive commercial strategies that would not have been pursued without the state support received and a prohibition on any advertisements relating to the state support or state ownership of NLB. These restrictions may limit the way in which the NLB Group could otherwise address changing aspects of market demand or respond to initiatives undertaken by competitors that are not bound by the same restrictions, which could place the NLB Group at a competitive disadvantage in certain situations.

All of these competitive forces may have a negative impact on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects, and lead to additional pressure on the price of the products and services which NLB and/or the NLB Group offer.

The NLB Group may be exposed to losses if critical accounting judgements or estimates are subsequently found to be incorrect or inaccurate

The preparation of the NLB Group's financial statements requires management to make estimates and assumptions and to exercise judgement in selecting and applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses, to ensure compliance with IFRS. All estimates and assumptions required in conformity with IFRS are the best estimates undertaken in accordance with applicable standards. Estimates and judgements are evaluated on a continuing basis, and are based on past experience and other factors, including expectations with regard to future events. Some areas involving a higher degree of judgement, or where assumptions are significant to the financial statements, include the recognition of the expected losses for all financial instruments, not measured at fair value through profit and loss, including loan commitments and financial guarantees, recognition of deferred tax assets and the fair value of unquoted financial instruments and investments in subsidiaries, associates and joint ventures. As of 1 January 2018, NLB Group adopted the IFRS 9 Financial Instruments. In relation to the recognition of expected losses, IFRS 9 requires an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. The allowance is based on the expected credit losses associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset ("**LECL**"). When determining whether the risk of default has increased significantly since initial recognition, the NLB Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the NLB Group's historical data, experience, and expert credit assessment and incorporation of forward-looking information.

The NLB Group is dependent on the strength of its reputation

The NLB Group is a leader in banking services in the Republic of Slovenia and amongst the leaders in Southeastern Europe. The NLB Group's market position relies in large part on its reputation and ability to provide a wide range of services to its customers.

Management believes that maintaining and enhancing the NLB Group's brand and quality of service is important in retaining its market share and penetration and growing its business in the future. The NLB Group's ability to maintain and enhance its reputation will depend largely on its ability to continue to provide high-quality, effective and specialised services at prices which meet the requirements of its customers. In the event that the NLB Group's brand or reputation is damaged, for example as a result of litigation or other claims against one or more of the NLB Group members, administrative investigations or proceedings, negative press coverage or general negative perceptions about the NLB Group's services, this may have a negative effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

The NLB Group's continued success depends upon retaining key members of its senior management and its ability to recruit, train and motivate qualified staff

The NLB Group is dependent upon NLB's senior management to implement its strategy and operate its day-to-day business. In addition, corporate, retail and other relationships of members of senior management are important to the conduct of NLB's business. In a small market such as the Republic of Slovenia, demand for highly trained and skilled staff, particularly in NLB's Ljubljana headquarters, is high and requires NLB to reassess continually its compensation and employment policies. NLB's senior management (CEO, CFO, CRO, COO) have led its restructuring since 2013. Their contracts expire in 2021 and failure to renew them or find successors may have a negative impact on NLB. In addition, if members of NLB's senior management were to leave, then the relationships that those employees have that have benefited NLB may not continue with NLB. In addition, NLB's continuing success depends, in part, upon its ability to attract, retain and motivate qualified and experienced banking and management personnel. NLB's failure to recruit and retain necessary personnel or manage its personnel successfully may have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

The NLB Group's business and financial results may change as a result of NLB's becoming a non majority state-owned company of the Republic of Slovenia

Since its incorporation, NLB has been a wholly or majority state-owned entity of the Republic of Slovenia. During this time, NLB has been limited in, or prohibited from, undertaking certain operations or subject to legislation which does not affect its competitors which are privately owned banks. The primary relevant legislation and the operations affected are set out below.

(i) The Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (*Zakon o prejemkih poslovodnih oseb v gospodarskih družbah v večinski lasti Republike Slovenije in samoupravnih lokalnih skupnosti*) ("**ZPPOGD**") limits the remuneration of the Members of the Management Board in companies in which the Republic of Slovenia has a majority ownership.

(ii) The Public Information Access Act (*Zakon o dostopu do informacij javnega značaja*) ("**ZDIJZ**") stipulates that certain information relating to companies under the predominant influence of the Republic of Slovenia is public information and has to be disclosed under conditions stipulated by ZDIJZ. Furthermore, a company that is under the predominant influence of the Republic of Slovenia is obligated to disclose such public information created during the period it was under the predominant influence of the Republic of Slovenia for five years after it ceases to be under such predominant influence.

(iii) The Integrity and Prevention of Corruption Act (*Zakon o integriteti in preprečevanju korupcije*) ("**ZlntPK**") stipulates that the companies in which the Republic of Slovenia has a majority ownership or has the predominant influence have to include in certain of their agreements an anti-corruption clause and the members of their bodies are subject to certain stipulations of ZlntPK.

(iv) ZSDH-1 requires that the legal entities that act in concert with the Selling Shareholder under the Slovenian Takeover Act (*Zakon o prevzemih (ZPre-1)*) (the "**Slovenian Takeover Act**") report to SSH at least seven working days in advance of any acquisition of a capital investment that would trigger a mandatory takeover bid. ZSDH-1 also has stipulations on remuneration of the members of the bodies of the companies whose shares are managed by SSH. In addition, ZSDH-1 also provides for the disclosure of certain information by the members of the bodies of the companies whose shares are managed by SSH and certain restrictions on business of such companies with SSH and related persons.

(v) The Court of Audit Act (*Zakon o računskem sodišču (ZRacS-1)*) ("**Court of Audit Act**") provides that the "users of public funds", including banks in which the Republic of Slovenia holds a majority stake and companies that have received state aid, are subject to audit rights of the Court of Audit (*računsko sodišče*). Similarly, ZSDH-1 stipulates that the Court of Audit has audit rights over companies in which SSH has the predominant share of voting rights.

(vi) Due to being owned and controlled by the Selling Shareholder, in performing its business activities NLB also has to consider the Selling Shareholder and its related persons (their business activities and ownership of other companies) and ensure that NLB does not unintentionally cause any obligation to make a mandatory takeover bid or a breach of the stipulations of the Slovenian Takeover Act or the Act on Prevention of Restriction of Competition (*Zakon o preprečevanju omejevanja konkurence)*) ("**ZPOmK-1**").

Following the Offering, investors should be aware that NLB may conduct its business in a different manner than it has done before and that NLB's business strategy and role in the market may continue to change and develop. As a result, the historical operating and financial results of the NLB Group may not be indicative of its future operating and financial results, and any changes to the NLB Group's business or business strategy may have a material adverse effect on the NLB Group's business, prospects, financial condition, results of operations or cash flows.

Following the Offering, NLB will have a significant shareholder who will have the capacity to exert considerable influence on decisions regarding its business

Following the Offering, the Selling Shareholder will hold between 25 per cent. of all Shares plus one Share and 50 per cent. of all Shares minus one Share interest in the Shares, equating to a holding of at least 5,000,001 but not more than 9,999,999 Shares. The Selling Shareholder will continue to be the largest Shareholder and may have the ability to influence the outcome of matters presented to the shareholders of NLB (the "**Shareholders**"), including the early removal of the Supervisory Board members and approval of significant corporate transactions, including business consolidations and mergers. Therefore, the Selling Shareholder will have substantial influence over the NLB Group and could exercise influence in a manner that is not in the best interests of other Shareholders. This concentration of voting power might also delay or prevent a change of control that other Shareholders may view as beneficial.

The NLB Group faces risks associated with its mutual funds operations

As the leading asset management provider in the Republic of Slovenia, the NLB Group is exposed to risks from shocks in capital markets. As at 30 June 2018, the total volume of managed assets of NLB Skladi ("**NLB Skladi**") amounted to EUR 1.25 billion. As more than half of the assets under management are globally invested in equities, a significant drop in asset values, coupled with large outflows, could significantly reduce profits attributable to asset management activities. Additionally, an adverse change in the taxation regime for Slovenian residents could negatively affect net inflow dynamics for the NLB Group. Similarly, a recession in the domestic market could negatively affect savings flow into mutual funds, although the direct impact on assets under management would be limited as only a small fraction is invested in the Republic of Slovenia.

The NLB Group is subject to operational risk, including IT risks, and such risks may not be entirely covered by insurance

The management of NLB focuses on the identification and management of operational risk throughout the NLB Group, including the risk of fraud by employees and third parties, data leakage, unauthorised personal data handling, unauthorised transactions by employees or operational errors, including those resulting from abuse of information technology and telecommunication systems, breaches of security or errors in financial product design.

The NLB Group continues to upgrade its IT system (for example by the implementation of the Security Operations Centre at the NLB Group level) to meet higher security levels and maintains types and levels of insurance consistent with the banking practice on the markets in which it operates. In addition, although all NLB Group banking members have established an IT back-up location, many of these locations, including that of NLB, are geographically close to the primary location, and as a result a catastrophic event, such as a severe earthquake, at these locations or at the location of any other NLB sites could result in the loss of important or relevant banking data. Nonetheless, some risks, such as fraudulent charge card use, are not insured, and the proceeds of any insurance payments may not always cover the entire loss. The failure of any of the NLB Group's security measures or its inability to protect against fraud and theft could have a material adverse effect on its reputation, business and financial results.

The NLB Group's banking activities are dependent on information technology systems, including an ongoing IT renewal, which could be vulnerable to a number of problems, including viruses, hacking, cybercrime and other causes of system failure, such as internal fraud, errors in daily operations and errors in development and malfunction of IT equipment. These risks may have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

The NLB Group faces risks associated with its life insurance operations

The NLB Group provides life insurance products to its customers, the underlying economics of which are based on a number of assumptions, including, but not limited to, assumptions relating to mathematical reserves, the level of available interest rates and the timing and scale of potential claims. If the NLB Group's assumptions prove to be inaccurate or incorrect, the NLB Group may face increased exposure under such policies, including the risk of increased or accelerated liability.

These risks may have a negative effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

See also "*—The NLB Group is exposed to risks related to tax regulations*".

NLB Group is subject to risk of money laundering and financing terrorism in a way that third parties might use NLB Group as a conduit for illegal or terrorist activities without knowledge of the NLB Group, which could have a material adverse effect on the NLB Group

The NLB Group is required to comply with applicable anti-money laundering and anti-terrorist financing ("**AML/CFT**") laws and regulations, restrictive measures and anti-bribery laws and regulations. NLB Group has in place all required policies and procedures, including internal control and "know-your-customer" procedures, aimed at preventing the use of NLB or other NLB Group members for money laundering and terrorist financing. However, NLB or any of its subsidiaries may fail to assure sufficient compliance with these requirements or fail to assure adequate implementation of restrictive measures or an international sanctions screening system, which could have an adverse effect on NLB and the NLB Group. In addition, while NLB reviews its correspondent banks' internal policies and procedures with respect to such matters, NLB to a large degree relies upon its correspondent banks to maintain and properly apply their own appropriate AML/CFT procedures, restrictive measures related to financial sanctions and embargo.

In the last few years, techniques and typologies of money laundering have changed dramatically and entirely new ways of financing, organising and carrying out terrorist acts have emerged. Several cases were disclosed of large-scale tax evasion, in response to which international institutions have started to highlight the importance of tax evasion as a predicate offence of money laundering. International institutions such as the Financial Action Task Force (the "**FATF**") have issued several documents in the field of anti-money laundering and anti-terrorism financing protocols. In 2015, the EU Fourth AML Directive (2015/849/EU) regarding anti-money laundering measures was adopted by European Parliament and in 2017 implemented to Slovenian laws. In 2018, the EU Fifth AML Directive (2018/843/EU) was adopted by European Parliament and will be transposed to an EU member state's laws, including Slovenia by 10 January 2020. Other new directives in the area of financial sanctions, restrictive measures and embargoes have also been issued or modified (e.g. sanctions against Russia and Ukraine with an emphasis on Crimea and changes in sanctions against Iran), and several EU and U.S. banking groups have implemented new standards and strict requirements in the international banking area in the field of controls on restrictive measures. All of these factors have the potential to increase compliance requirements for NLB and the NLB Group.

NLB is a subject of regular supervision by the ECB and Bank of Slovenia, and under the new AML/CFT law (*Zakon o preprečevanju pranja denarja in financiranja terorizma, ZPPDFT-1*), NLB can be subject to inspection procedures by the Office for Money Laundering Prevention and Securities Markets Agency. These regulators supervise the fulfilment of NLB's obligations in accordance with laws and regulations in force and through the issuance of new recommendations contributing to further upgrading of current AML/CFT protocols. At the time of this Prospectus, there are no material recommendations from regulators which would suggest that NLB or NLB Group is subject to material risks related to the functioning of the systems for AML/CFT. Despite NLB Group's firm commitment to compliance with fulfilling all regulatory requirements, constant upgrading the system for AML/CFT, quality internal policies and instructions, conducting internal control mechanisms as adopted by NLB Group, risks still exist that third parties could use the financial system of NLB or other NLB Group members (or their respective correspondent banks) as a conduit for money laundering or terrorist financing (including illegal cash operations), or bribery or breaches of financial and economic sanctions without NLB's or another NLB Group member's (or their respective correspondent banks') knowledge. Failure to comply adequately with such regulations and standards could have a material adverse effect on the NLB or other NLB Group members or could trigger any other misdemenour procedure for non-material violations.

The management of the AML/CFT risks require modern information technology, wide data resources to support decision-making processes and professional and trained human resources.

In addition, Southeastern Europe is considered as a higher risk region by field experts in the banking industry and at regulatory institutions, as well as by AML, anti-bribery and CFT authorities such as the

FATF and the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (*Moneyval*), with respect to money laundering, bribery, terrorist financing and corruption, particularly in those countries outside the EU, including Bosnia and Herzegovina, Serbia, Montenegro, Macedonia and Kosovo. Such regionally specific risks may include:

- a significantly higher occurrence of cash transactions in comparison to other parts of Europe, which may result in difficulties in establishing the source of funds;

- a large number of transactions to or from high-risk countries, especially those defined as "offshore" by the IMF;

- a significant number of investments and financial transactions involving or deriving from Russian residents as a result of longstanding ties in Southeastern European countries to Russia, where the source of funds is often poorly disclosed; and

- a high corruption perception index as defined by Transparency International.

In accordance with the EU Fourth AML Directive (2015/849/EU), NLB introduced a Risk Based Approach in order to address effectively its recourses to maintain high-risk customers with regard to country risk, product, service and business relationship risk, distribution channels and customer type risk. Increased and in-depth measures are taken with regard to PEP and high-risk country risk areas' customers, including a requirement for approval from senior management when establishing a business relationship with them, the gathering of additional personal and activity information and of information on the source of funds and wealth.

NLB must also comply with the U.S. Patriot Act as a foreign bank, especially in the area of a correspondent banking relationship meeting the definition of high risk. Although special attention is paid to ensure that NLB does not enter into business relationships with shell banks (directly or indirectly), offshore banks and not supporting correspondent accounts which are used directly by third parties to transact business on their own behalf ("**payable through account**"), such measures may not be sufficient to ensure compliance with the U.S. Patriot Act.

In 2017, NLB was subject to extensive media exposure related to AML/CFT as a result of a case involving potential transactions relating to Iran that took place in the years 2009 and 2010 (the "**Iran Case**"). In 2017 and 2018, this case was also subject to a parliamentary investigation where a special Parliamentary Commission was established in order to investigate the alleged AML breach (*Preiskovalna komisija o ugotavljanju domnevnega pranja denarja in financiranja terorizma, jedrske proliferacije ter financiranja aktivnosti tujih obveščevalno-varnostnih služb v NLB d.d. ter domnevnega pranja denarja v Novi KBM d.d.*). The Parliamentary Commission concluded its work in May 2018. Part of the final report of the Parliamentary Commission has been published publicly, with portions of the report still restricted, including from NLB. Based on publicly available information, the Parliamentary Commission has not found any signs of criminal offences or breach of AML legislation in the case. However, the report contains findings that the former Management and Supervisory Boards of NLB (no member of which are in office since 2011) breached their duties. Furthermore, there were criminal charges filed against two former employees of NLB for false testimony during the hearing before the Parliamentary Commission, and former governmental representatives and the former representative of the Bank of Slovenia were found to have political responsibility in this case according to the statements and report of this Parliamentary Commission. Nevertheless, no sanctions were imposed against NLB. For further information, see "*10. Asset, Liability and Risk Management—Compliance, Anti-Money Laundering, Anti-Terrorist Financing, Anti-Bribery and Corruption Risk Management*".

As of the date of this Prospectus, the NLB Group is not aware of any open proceedings against NLB or its current employees with respect to the above investigation of any other proceedings regarding this case or regarding the final findings of the authorities or the Parliamentary Commission mandated to investigate this case. According to Slovenian legislation any civil motion has been time barred in accordance with the general statute of limitations of five years.

If NLB or any other Group member is associated with, or even accused of being associated with, money laundering or terrorist financing, then its and the NLB Group's reputation could suffer and it could become subject to criminal or regulatory fines, sanctions and/or legal enforcement (including being added to any "blacklists" that would prohibit certain parties from engaging in transactions with NLB or other NLB Group members concerned), any one of which may have a material adverse effect on NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects. For further information, see "*10. Asset, Liability and Risk Management—Compliance, Anti-Money Laundering, Anti-Terrorist Financing, Anti-Bribery and Corruption Risk Management*".

The NLB Group is exposed to the risk of external or internal fraud

NLB and the other NLB Group member companies are exposed to various risks resulting from fraudulent activities, particularly in connection with loan approval processes, procurement and client account processing. The NLB Group may be negatively affected by, *inter alia*, instances of stolen or misappropriated NLB Group or customer funds, manipulation of the NLB Group's objective evaluation processes (e.g. for the valuation of collateral, credit risk, etc.) and the breach or falsification of data and documentation and all types of deception.

Following the implementation of the separate fraud investigation and prevention system in 2013, NLB Compliance and Integrity received through different established reporting channels 373 reports of suspicion of misconduct which could be determined as suspected fraudulent activities in the period from 1 January 2014 to 30 June 2018. There were a total of 28, 56, 49, 91 and 147 reports in 2018 (through 30 June, 2018), 2017, 2016, 2015 and 2014, respectively. The large majority of these cases are related to facts and events that occurred prior to 2012.

Furthermore, in 2013, NLB began to systematically investigate the origination of exposures representing the bulk of losses incurred by NLB in the period from 2009 up to and including 2013. This review was completed in the first quarter of 2016 (see "*10. Asset, Liability and Risk Management—Fraud risk management*"). The reviewed loans were generated primarily in the period from 2006 to 2008. As a result of these investigations, NLB identified a total of 97 specific suspected instances of potential abuse of authority by former management of NLB, abuse of trust by employees and/or customer fraud, which are criminal offences in the Republic of Slovenia, and as a result criminal charges were filed by NLB against certain former managers, employees and clients. Disciplinary measures were also taken against NLB employees, as appropriate, as a result of these cases. The aggregate exposure linked to cases under the mentioned review amounted to EUR 1,308,503,114. Following the review of these cases, NLB filed 44 criminal offences, 30 pecuniary claims in criminal proceedings in the total amount of EUR 140,677,635 and four civil actions or claims for damages, of which two are still pending, in the total amount of EUR 10,664,935 million plus default interest.

In order to identify and rectify similar cases, NLB in 2013-2016 carried out a systematic overview of its past practices in order to identify the causes of individual bad investments with the aim of preventing or reducing the possibility of such investments in the future. On the basis of the review, in the years 2013-2016, the NLB Group transmitted to law enforcement authorities more than 60 reports of suspected criminal offenses and filed 30 property claims. Those included also a criminal complaint against the former employees as described in the case above. Although NLB identified the criminal act and suspects in the course of its own investigation and thus conducted all actions to rectify actions by individual employees, NLB was still indicted by the prosecutor in capacity of its legal personality. This is the only case where NLB is also charged as co-defendant.

In April 2017, an incident relating to an employee accessing the vault at NLB Banka Skopje branch was identified, where the employee took approximately EUR 3 million of cash from the vault. After the internal investigation was carried out, certain other employees were also found to be responsible and labour-law disciplinary measures and procedures carried out, including terminating the employment of the responsible employee, as well as the necessary changes in the cash-handling procedure and supervision. Upon review of the case by the insurance company, the NLB Banka Skopje was repaid 80% of the stolen amount from the collateral.

In April 2017, a Montenegrin court imposed a temporary injunction preventing NLB Banka, Podgorica AD ("**NLB Montenegro**") from disposing of certain real estate properties acquired by NLB Montenegro as a result of the enforcement of security related to a non-performing loan which was underwritten in 2009. The loan was also guaranteed by the state of Montenegro for an amount of up to EUR 4.5 million. The loan defaulted in 2010. In 2014, as part of NLB Group's review of exposures to large NPLs, NLB Montenegro discovered certain irregularities in the loan underwriting process and filed a criminal charge against anonymous persons in this case in 2014, however, to the best knowledge of NLB the authorities in Montenegro did not pursue the investigation at the time. Based on information currently available to NLB, the temporary injunction granted in 2017 is related to an alleged criminal abuse of authority by several individuals, including employees of the government of Montenegro and, among others, a former member of the management board of NLB Montenegro. The mandate of this former member of the Management Board expired in 2011. Among other things, the criminal proceedings may focus on the validity of the issuance of the guarantee by Montenegro in 2010. On 24 September 2018, NLB was informed that NLB Montenegro received a formal indictment from the Special Prosecutor's Office of Montenegro which was filed with the High Court of Montenegro, in which, in addition to five other persons, this former member of the Management Board and NLB Montenegro, as a legal entity, were charged for the suspicion of a criminal offense for the misuse of their position. This indictment is not yet final, with the date of an initial hearing with the High Court in Montenegro determining the merits of the indictment yet to be announced. If it were determined that an abuse of authority was carried out in the name of NLB Montenegro, it could be found liable as a legal entity, including a possible financial penalty. Under Montenegrin law, there are a range of potential penalties for such a criminal offence, including a suspended sentencing and also a fine (based on the incurred damage or the gained profit) which can range from *de minimis* amounts up to a multiple of the profits gained as may be determined by the court. The determination of the penalty depends on the particular circumstances of the case, as the law allows the court to take into consideration, among other things, the previous conduct of the legal person and its previous compliance with the relevant legislation, the conduct of the legal person after the criminal offense was committed (including the remedial measures it undertook) and, in particular, if the legal person notified the relevant authorities of the events of the case. According to the indictment, the profits gained amount to EUR 6,651,611.09. Pursuant to the laws of Montenegro, a legal entity may be exempted from punishment or penalties if it voluntarily filed a criminal charge prior to having knowledge of a related investigation. In addition, because in such an instance the court may exempt the legal entity from any punishment, the law also necessarily allows the court to also reduce the fines without any limitation. NLB Montenegro initiated the filing of a criminal charge against persons-then-unknown in 2014 and it does not believe that it should be subject to fines in relation to these proceedings, and therefore has no provisions in relation to these proceedings. However, there can be no assurance that the High Court of Montenegro would not take a different position.

The NLB Group has undertaken measures to upgrade its internal control and compliance system, setting up measures to facilitate fraud risk management and since 2013 no material instances of fraudulent activities other than described have been detected; however, these measures may not fully prevent future fraudulent activities, which could have negative adverse effects on NLB's finances, operations and reputation.

The NLB Group faces interest rate, liquidity, foreign exchange, credit, market, investment and operational risks that could adversely affect it should its risk management policies not succeed

As with any banking group, the NLB Group faces a number of business risks that could adversely affect it. These include interest rate, liquidity, foreign exchange, credit, investment and operational risk (see "*—The NLB Group is subject to operational risk, including IT risks, and such risks may not be entirely covered by insurance*" and "*Fluctuations in interest rates may adversely affect the NLB Group's results*" below). Although NLB invests substantial effort in its risk management strategies and systems, these strategies and systems may nevertheless fail in certain circumstances, particularly when confronted with risks that NLB did not identify correctly or in a timely fashion. Furthermore, NLB may not be able to make a correct evaluation of the risks to which it is exposed.

Some of the measures taken by the NLB Group to manage various risks are to enter into hedging transactions to manage market risks, to set credit risk limits for each counterparty's investment (within a two-stage decision-making process) and, on an NLB Group portfolio level (to which the NLB Group is exposed in its lending business), to have sufficient collateral for credits provided and to do due diligence to manage legal risks. Some of these and other methods used by the NLB Group to manage, estimate and measure risk are based on historic market behaviour. The methods may therefore prove to be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historic experience. Historical market developments may also not adequately allow a sufficiently accurate prediction of future circumstances arising due to government interventions and stimulus packages, which increase the difficulty of evaluating risks. Other methods for risk management are based on evaluation of information regarding markets, customers or other information that is publicly known or otherwise available to the NLB Group. Such information may not always be correct, updated or correctly evaluated.

In addition, the risk methodologies and techniques used by the NLB Group may not cover the entire spectrum of risks to which the NLB Group is subject. If any such risks materialise, the associated losses could be greater than NLB may have anticipated, which may have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

The NLB Group's IT systems may fail or their security may be compromised

The NLB Group relies heavily on its IT systems for a variety of functions, including processing applications, providing information to customers and/or employees, and maintaining financial records. In addition, the NLB Group uses distribution channels based on an IT platform comprising online banking, mobile banking and call centers.

The IT systems used by the NLB Group may be vulnerable to physical and electronic breaches, computer viruses and other attacks by cyber-criminals, internet fraudsters or by virtue of internal abuse which could lead to, amongst other things, a leakage of the NLB Group's customer data, damage related to incursions, destruction of documents, inability or delays in processing transactions and unauthorised transactions (see "*—The NLB Group must comply with data protection and privacy laws and may be targeted by cybercriminals*"). Furthermore, software errors and similar problems could affect the NLB Group's ability to support and satisfy the needs of customers in a timely manner, interrupt the NLB Group's activities, breach its reputation, expose the NLB Group to increased regulatory audits or cause it to incur substantial technical, legal and other costs. Interruptions to the NLB Group's IT systems may occur on a large magnitude and may have significant effects regarding the ability to serve its customers' needs on a timely basis and could result in damage to the NLB Group's reputation, exposure to increased regulatory scrutiny and could require the NLB Group to incur significant expenses. The occurrence of any IT systems failures or a security breach may adversely affect the business, financial condition, results of operations or development prospects of the NLB Group.

Unfavourable outcomes in pending litigation may adversely affect NLB and the Group

NLB and members of the NLB Group are involved in a number of legal proceedings, some of which, if resolved adversely to the interests of NLB or the relevant member of the NLB Group, could have a material adverse effect on NLB and the Group (see "*6. Business—Legal and Administrative Proceedings*"). As at 30 June 2018, NLB was involved in 19 legal disputes with monetary claims against NLB exceeding EUR 1 million per case (excluding accrued interest). The aggregate amount of these claims, excluding accrued interest, was EUR 246.0 million. As at 30 June 2018, the NLB Group was involved in 34 legal disputes with monetary claims against NLB Group members exceeding EUR 1 million per case, excluding accrued interest, in the aggregate principal amount of EUR 411.5 million. Other than the Croatian litigation regarding the Transferred Deposits and the litigation regarding the Bail-In, each discussed below, such legal proceedings have arisen in connection with the ordinary course of business of NLB and the NLB Group.

NLB has established provisions in its financial statements for certain of these proceedings in which it is involved based on an assessment of the possible outcome of the proceedings. As at 30 June 2018, such provisions with respect to monetary claims exceeding EUR 1 million per case were EUR 4.28 million and EUR 5.49 million at the NLB and the NLB Group level, respectively. While management believes that NLB's financial statements make adequate provision for pending legal proceedings, a worse than expected outcome in any legal proceedings would mean that such provisions, or the absence of any provision, insufficiently cover NLB's liabilities and consequently could have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

Litigation in Croatia may have a negative financial impact on NLB

NLB is currently involved in proceedings whereby the plaintiffs claim that NLB is responsible for the liabilities relating to the foreign currency deposits held with Ljubljanska banka, Zagreb Branch ("**Ljubljanska banka Zagreb Branch**"). Ljubljanska banka Zagreb Branch is the Croatian branch of Ljubljanska banka d.d., Ljubljana ("**Ljubljanska banka**"), which in turn is an entity from which NLB received certain assets and liabilities in 1994 (as discussed below).

Two Croatian banks, Privredna banka Zagreb d.d. ("**Privredna banka Zagreb**") and Zagrebačka banka ("**Zagrebačka banka**"), filed claims against Ljubljanska banka and NLB, as the alleged co-debtor, in Croatian courts in relation to deposits in various foreign currencies with Ljubljanska banka Zagreb Branch that were transferred to Privredna banka Zagreb and Zagrebačka banka by their original depositors (the "**Transferred Deposits**") in line with Croatian legislation set up after the dissolution of the SFRY. The proceedings were filed during the period from 1994 to 1996. The aggregate principal amount of the claims against NLB is as per 30 June 2018 equivalent to EUR 167.7 million (calculated at the exchange rates applicable on 29 June 2018), excluding any default interest. Due to the fact that the proceedings have been pending for a significant period of time, the default interest exceeds the principal amount of the Transferred Deposits. If NLB was found liable for these amounts, it would also be responsible for paying the litigation expenses of the plaintiffs.

In assuming the liabilities relating to foreign currency deposits held in banks upon the collapse of the SFRY, the Republic of Slovenia adopted the territorial principle according to which it took responsibility in relation to all deposits held with banks and bank branches in its territory, regardless of the citizenship of the depositor concerned and regardless of whether the bank was Slovenian. While most of the other successor states of the SFRY followed the same territorial principle as the Republic of Slovenia, Croatia applied the "national principle", according to which Croatia assumed the liability for foreign currency deposits deposited with banks which had their registered seat in Croatia. The obligations in respect of foreign currency deposits deposited with Croatian branches of non-Croatian banks were assumed by Croatia only if the depositors had Croatian citizenship and first transferred their rights under such deposit to a Croatian bank, such as Zagrebačka banka or Privredna banka Zagreb. Upon this transfer, a depositor acquired the right to an amount in foreign currency equal to the amount of the relevant Transferred Deposit on the same terms as the depositors which had their deposits with Croatian banks. Although the obligations of Privredna banka Zagreb and Zagrebačka banka in relation to the Transferred Deposits with Ljubljanska banka Zagreb Branch have been compensated in accordance with Croatian legislation and such foreign currency deposits were transformed into public debt of the Republic of Croatia, both banks, which are acting for the account of Croatia, are now claiming repayment of the Transferred Deposits from Ljubljanska banka and NLB. Amongst other arguments, NLB is disputing the right of Privredna banka Zagreb and Zagrebačka banka to act as plaintiff and has filed the separate suit against both banks with a claim that the Power of Attorney issued to both banks by the Republic of Croatia (now interpreted by the plaintiffs as an assignment for collection) well after the proceedings started are declared as null and void.

In addition, the two largest Slovenian banks at the time, under the 1988 New Financing Agreement (the "**NFA**"), the last commercial debt restructuring undertaken by the SFRY prior to its dissolution, Ljubljanska banka and Kreditna banka Maribor d.d. ("**KBM**"), were jointly and severally liable, together with banks from other parts of the SFRY, the National Bank of Yugoslavia (the "**NBY**") and the SFRY as the guarantor, for the entire commercial external debt under the NFA. In order to protect its banking system from liabilities under the NFA which did not originate in the Republic of Slovenia, an act with the force of constitutional law was passed by the National Assembly in 1994 (*Ustavni zakon o dopolnitvah ustavnega zakona za izvedbo Temeljne ustavne listine o samostojnosti in neodvisnosti Republike Slovenije (UZITUL-A)*, the "**Constitutional Act**"). According to the Constitutional Act, Ljubljanska banka's assets and liabilities were split between Ljubljanska banka and NLB. The Constitutional Act maintained the *status quo* with respect to the "branches" of Ljubljanska banka in republics other than the Republic of Slovenia in the territory of the SFRY, and their liabilities and corresponding assets were never transferred to NLB. As a result, according to the Slovene constitutional order, NLB should not be treated as a universal legal successor of Ljubljanska banka.

Due to the dissolution of the SFRY, each of Ljubljanska banka and Ljubljanska banka Zagreb Branch were located in a separate independent sovereign state (the Republic of Slovenia and Croatia, respectively) and were therefore subject to different jurisdictions and legislations. In Croatia, Ljubljanska banka Zagreb Branch continued to exist but the Croatian authorities have prevented the continuation of any meaningful operations, primarily, according to the position of Ljubljanska banka and the Republic of Slovenia, as a result of restrictions resulting in Ljubljanska banka being unable to collect or enforce its loans to third parties.

The successor states of the SFRY concluded an agreement on succession issues (the "**Agreement on Succession**") in Vienna on 29 June 2001 and agreed that the liabilities of the SFRY and the NBY in relation to foreign currency deposits with banks or their branches would be negotiated amongst the successor states under the auspices of the Bank for International Settlements (Annex C of the Agreement on Succession). In addition, in March 2013 the Government of Slovenia and the Government of Croatia concluded a memorandum of understanding (the "**Memorandum of Understanding**") and agreed that the solution for the Transferred Deposits with Ljubljanska banka Zagreb Branch would be based on the Agreement on Succession (Annex C) and that the Government of Croatia would ensure the stay all judicial proceedings initiated by two Croatian banks (Zagrebačka banka and Privredna banka Zagreb) related to the Transferred Deposits. Despite this, Croatia has not fulfilled its obligations under the Memorandum of Understanding and none of the pending proceedings were stayed. See "*6. Business—Legal and Administrative Proceedings—Claims relating to liabilities in respect of the Transferred Deposits*".

Five cases related to the Transferred Deposits have been litigated through to final judgement. The remaining matters are pending in various stages.

In May 2015, the court of appeal in Zagreb ruled, in relation to one claim by Privredna banka Zagreb, to reject the appeals by the Ljubljanska banka and NLB and determined that Privredna banka Zagreb was to be paid the principal value of EUR 254.76 plus default interest in the amount of approximately EUR 327.00, which exceeds the principal amount and costs of the proceedings totalling HRK 15,781.25 (approximately EUR 2,122.00). NLB filed a constitutional appeal against the aforementioned final judgement, as it found the court decision contrary to the legislation in force, as well as the Memorandum of Understanding. Constitutional Court of the Republic of Croatia rejected the constitutional appeal of NLB on 21 May 2018 (received on 8 June 2018). NLB is considering possibilities to challenge decisions of Croatian courts with European forums (including, the ECHR and the Court of Justice of the EU). Meanwhile, Privredna banka Zagreb commenced enforcement proceedings against NLB in Croatia and successfully collected the adjudicated amount from a bank account held by NLB with a Croatian bank in the total amount (principal amount with interest, costs of proceeding with interest and costs of enforcement proceeding) of EUR 3,461.31. NLB reserves the right to use all legal means, including those available under international law, to reverse the judgement on appeal and to obtain repayment from Privredna banka Zagreb of the amount collected thereunder. NLB has already received the reimbursement of the enforced amount from the Fund in full (see the last paragraph below).

In another case, on 8 April 2008, the court of appeal in Zagreb upheld the decision to reject a claim filed by the Privredna banka Zagreb (with a principal value of EUR 788.59). The supreme court of Croatia then rejected the legal remedy of the Privredna banka Zagreb as inadmissible in favour of NLB on 16 June 2015.

On 16 November 2017, NLB received the judgement of Županijski sud in Zagreb, which as the Court of the second instance changed the judgement of the Court of the first instance, with which the claim against NLB was refused, in such a way that the defendants NLB and LB are jointly and severally obliged to pay to the plaintiff, Zagrebačka Banka, the principal in the amount of EUR 492,430.53 plus interest, which exceeds the principal amount and litigation costs in the amount of 748,583.75 HRK (approximately EUR 99 thousand) with default interest. LB and NLB are, in accordance with the judgement, obliged to pay all relevant amounts jointly and severally. The adjudicated amount was settled on due date. NLB challenged the judgement with the extraordinary legal measure on the Supreme Court of the Republic of Croatia and later, if necessary, will also challenge the judgement with all other available remedies, as its position is that the obligations of the old foreign currency savings in accordance with Slovenian Constitutional Law are not the liabilities of the NLB.

In another case Županijski sud in Zagreb, which as the Court of the second instance in a judgement dated 21 November 2017 upheld the judgement of the Court of first instance dated 21 January 2014, with which was decided that the defendants NLB and LB are jointly and severally obliged to pay to the plaintiff, Privredna banka Zagreb, the principal in the amount of EUR 220,115.98 plus interest, which exceeds the principal amount and litigation costs in the amount of HRK 688,268.12 (approximately EUR 93 thousand) with default interest until payment. LB and NLB are, in accordance with the judgement, obliged to pay all relevant amounts jointly and severally. NLB has challenged the judgement with the extraordinary legal measure with the Supreme Court of the Republic of Croatia and later, if necessary, will also challenge the judgement with all other available remedies, as its position is that the obligations of the old foreign currency savings in accordance with Slovenian Constitutional Law are not the liabilities of the NLB.

On 15 May 2018, NLB received in another case the final judgement of the County Court of Zagreb as the Court of Appeals with which it was confirmed the Judgement brought by the Court of First Instance, ordering the defendants NLB and LB a joint and several payment of EUR 222,426.39 to the plaintiff, Privredna banka Zagreb, plus interest, which exceeds the principal amount and litigation costs in the amount of HRK 253,283.37 with default interest until payment. NLB has challenged the judgement with the extraordinary legal measure with the Supreme Court of the Republic of Croatia and later, if necessary, will also challenge the judgement with all other available remedies, as the obligations of the old foreign currency savings in accordance with Slovenian Constitutional Law are not the liabilities of the NLB.

If NLB were to be found liable for the entire amount claimed, it would be obliged to pay significant amounts in principal, default interest and expenses. Accordingly, an unfavourable outcome in any of these pending proceedings may result in a negative financial impact to NLB. NLB currently does not have any provisions in its financial statements relating to such litigation in Croatia. NLB's audit opinion from past years contained an emphasis of matter with respect to the uncertainty related to the outcome of such lawsuits. The question of compensating such negative financial impact has been addressed by the adoption of the Act on the Protection of the Value of Capital Investment of the Republic of Slovenia in NLB (Zakon za zaščito vrednosti kapitalske naložbe Republike Slovenije v Novi Ljubljanski banki d.d., Ljubljana, hereinafter: the ZVKNNLB) on 19 July 2018 by the National Assembly, which provides a legal basis for compensating such negative financial impact to NLB. Therefore, NLB's audit opinion for the six months ended June 2018 did not contain such emphasis of matter. For detailed information refer to the Interim Financial Statements for the six months ended June 2018, note 5.15. Provisions.

ZVKNNLB entered into force on 14 August 2018. In accordance with the ZVKNNLB, the Succession Fund of the Republic of Slovenia (Sklad Republike Slovenije za nasledstvo, javni sklad, (the "**Fund**") shall compensate NLB for the sums recovered from NLB by enforcement of final judgements delivered by Croatian courts with regard to the Transferred Deposits (that is the principle amount, accrued interest, court expenses, attorney's expenses and other expenses of the plaintiff and expenses related to enforcement with the accrued interest). On the basis of ZVKNNLB, the Republic of Slovenia has not assumed any obligations to the Republic of Croatia with regard to the Transferred Deposits, as it is solely protecting the value of its assets. The compensation of negative financial implications is being undertaken because NLB, similar to the Republic of Slovenia, as provided by ZVKNNLB, has no obligations to the Republic of Croatia with regard to the Transferred Deposits. NLB strongly believes that all the provisions and other judgements passed and delivered by the courts and other bodies in the territory of the Republic of Croatia related to NLB in relation to the Transferred Deposits resulting in negative financial implications for NLB are contrary to the Slovenian constitutional order and international legal obligations of the Republic of Croatia. The Fund shall compensate NLB within 30 days after having received notice from NLB that the enforcement has taken place and after the relevant evidence has been presented. If the payment due exceeds the value of the Fund's special-purpose budget or if it could jeopardise the payment of the Fund's other liabilities payable from the Fund's special-purpose budget, the due date shall be extended by as long as deemed necessary for the Republic of Slovenia to provide an increase of the Fund's special-purpose budget, but by no more than 60 days. Should the Fund not settle its obligations in 30 days for the reasons stated in the immediately preceding sentence, the Republic of Slovenia as its founder shall be liable, in addition to the Fund, for the obligations of the Fund and shall to this end increase the special-purpose budget of the Fund so that the Fund can settle its obligation to the NLB in the extended time period. The Fund shall compensate NLB only for the amounts recovered from NLB by enforcement i.e. the amount of the principal, accrued interest, court, lawyers' and other costs of the counterparty, the costs of forced payment and the interest accrued to all the costs mentioned before and shall not compensate NLB for its own costs or for the difference between the book value of its assets sold in enforcement proceedings and the price obtained for such assets in enforcement proceedings.

The Fund shall also not compensate NLB for any payments made by NLB voluntarily in relation to the Transferred Deposits. If payment is made by NLB as a result of a request or decision of a competent regulator, from which the obligation of the NLB arises to make payment under a final judgement issued by any court of the Republic of Croatia in relation to Transferred Deposits, such fulfilment or repayment is not considered voluntary. NLB should repay to the Fund all received sums if after having concluded the Agreement, which was concluded between NLB and the Fund on the basis of the ZVKNNLB ("**Agreement with the Fund**"), NLB voluntarily executes a final judicial decision by a court of the Republic of Croatia relating to the Transferred Deposits.

In accordance with the ZVKNNLB and pursuant to the Agreement with the Fund, NLB has to contest the claims made against it in court proceedings in relation to Transferred Deposits and use all reasonable legal remedies against court decisions that are disadvantageous for NLB, including those which were already enforced against it and take other lawful steps which may prevent or minimise the risk of enforcement of such court decisions.

In accordance with the ZVKNNLB, NLB shall regularly consult the High Representative of the Republic of Slovenia for Succession Issues (Visoki predstavnik Republike Slovenije za nasledestvo) regarding the legal procedures and legal remedies and regarding the contesting of judicial decisions and shall, in particular, obtain his opinion before filing new legal remedies. Should NLB breach its obligation to inform and consult with the High Representative of the Republic of Slovenia for Succession or later takes actions that are different from the ones proposed to, and agreed by, the High Representative of the Republic of Slovenia for Succession Issues, for example by failing to file a legal remedy against a court decision, it shall be obliged to reimburse the Fund within 30 days from receipt of the Fund's request, for all the funds it has received in connection with the enforcement of such court decision, including the default interest accrued since the day NLB received the funds.

In accordance with the ZVKNNLB and the Agreement with the Fund, NLB requested a reimbursement from the Fund of the enforced amount from the first negative final judgment from May 2015, as described above. Pursuant to its request, the Fund acted in accordance with the terms of the signed Agreement with the Fund NLB received the payment from the Fund on 5 October 2018 in the amount of EUR 3,461.31.

If NLB is found liable for claims relating to the Bail-In, it may incur substantial financial burden

In relation to the decision of the Slovenian government for the Republic of Slovenia to participate in capital increases of NLB in 2011 and 2012, the EC initiated a procedure to determine the compatibility of this participation with the EU state aid rules. In accordance with the recommendations of the European Council (the "**European Council**") published in June 2013, NLB (along with the majority of other Slovenian banks) underwent an asset quality review (the "**AQR**") and "bottom-up" stress tests. In December 2013, the results of the AQR and stress test exercise revealed a capital shortfall for NLB of EUR 1,904 million. As a result, several measures aimed at ensuring the capital adequacy of NLB and the NLB Group were taken, including, amongst other measures, termination of all of NLB's obligations in respect of its share capital and subordinated financial instruments ("**Qualified Liabilities**") by way of a bail-in ("**Bail-In**"). For further information, see "*6. Business—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy*".

Pursuant to the Slovenian Banking Act (*Zakon o bančništvu (ZBan-1)*) ("**ZBan-1**"), which was applicable in 2013, the only remedy available to persons who, as a result of the Bail-In, lost their investments in the Qualified Liabilities (the "**Affected Investors**"), is to claim compensation from the Bank of Slovenia. The Constitutional Court of the Republic of Slovenia (the "**Constitutional Court**") conducted the constitutional review of the provisions of ZBan-1 that provided the grounds for the Bank of Slovenia's Decision on extraordinary measures number 24.20-021/13-010 of 17 December 2013 (the "**Bank of Slovenia Decision**"). For further information on the Bank of Slovenia Decision, see "*6. Business—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy*". On 19 October 2016, the Constitutional Court deemed the provisions of ZBan-1 that govern the Bail-In as constitutional, including the provision which excluded the right of the Affected Investors to claim damages or use any contractual remedy against NLB. However, the Constitutional Court further determined that the provisions relating to the claims against the Bank of Slovenia failed to provide an effective remedy and were therefore unconstitutional and ordered the National Assembly to amend the legislation before 19 April 2017 such that it will, amongst other things, take into account disparity in the access to information and evidence between the Bank of Slovenia and the Affected Investors and ruled that all court proceedings in which the Affected Investors claim compensation from the Bank of Slovenia shall be suspended until the said unconstitutionality is removed. As of the date of this Prospectus, a new law has not yet been passed.

Nevertheless, in December 2016, certain Affected Investors publicly announced that they had initiated proceedings against NLB in which they are claiming compensation for the losses they incurred as a result of the Bail-In. The claims made by the plaintiffs are based on various allegations, including misrepresentations made by NLB in the context of the public offering of the subordinated notes, failure to disclose the conflict of interest, failure to contest the Bank of Slovenia Decision, amongst others. Some plaintiffs have not specified the grounds for their claim. As of the date of this Prospectus, all these proceedings are suspended until the preliminary issue whether or not any compensation will be payable to the Affected Investors by the Bank of Slovenia is resolved. See "*6. Business—Legal and Administrative Proceedings—Proceedings relating to the Bank of Slovenia Decision*".

These claims, if determined in favour of the plaintiffs, may result in a substantial financial burden to NLB. As of 30 June 2018, the aggregate amount of these claims received by NLB was EUR 3.6 million. As certain Affected Investors publicly announced claims exceeding such amount and since there is a possibility that NLB has not yet been notified of all the legal proceedings initiated against it in December 2016, this amount may increase in the course of time and such additional claims may be material.

No provisions for any of these claims have been recorded and any losses recorded as a result of such claims may have a material adverse effect on the NLB Group's business, prospects, financial condition, results of operations or cash flows.

Catastrophic or unforeseen events such as acts of war, acts of terrorism, earthquakes, floods, other natural disasters, pandemic diseases or other geopolitical events may have a material adverse effect on the NLB Group

Catastrophic or unforeseen events, such as acts of war, acts of terrorism, earthquakes, floods, other natural disasters, pandemic diseases or other geopolitical events, including the recent refugee crisis in Europe, and the subsequent responses to such events, may cause socio-economic and political uncertainties which may have a negative effect on the economic conditions in the countries where the NLB Group operates and could result in substantial losses being suffered by the NLB Group. Such events and the losses which may result are difficult to foresee and may relate to property, financial assets, trading positions or key employees. If the NLB Group's security, response and business continuity plans do not fully address such events or cannot be adequately implemented, such losses may increase. Unforeseen events may also lead to additional operating costs, such as higher insurance premiums. Insurance coverage for certain catastrophic or unforeseen events may also be unavailable or excluded from existing policies held by the NLB Group, and thus increase the risk to which the NLB Group is exposed.

Moreover, the Republic of Slovenia's economy is vulnerable to the effects of certain natural disasters, such as flooding and ice storms, which have occurred in certain regions in recent years, as well as other forms of destructive weather. Additionally, Southeastern Europe has previously experienced various political and ethnic conflicts which had a destabilising effect on the region. Any further conflicts in the areas or neighbouring areas in which the NLB Group operates could have a material negative effect on its business (see "*—The NLB Group is subject to risks arising from the macroeconomic and political environment in Southeastern Europe*"). Deterioration in the investment environment and investment inflows as a result of domestic or external conditions, including adverse tax conditions, natural disasters, increased corruption, or weakened investor sentiment, could also limit future growth prospects. The occurrence of any catastrophic or unforeseen events may have a material adverse effect on the NLB Group's business, prospects, financial condition, results of operations or cash flows.

The NLB Group is reliant on its network of branches in key locations

The NLB Group believes that its ability to maintain a physical presence in key locations across its operating jurisdictions through its branch network, including branches in key shopping centres and other consumer outlets, is crucial to the successful implementation of the NLB Group's business strategy. Securing leases on such locations, which are typically long term, or purchasing premises in prime locations for its branch network, is an important element of this strategy. However, competition for these types of properties is likely to be significant, and the NLB Group cannot be certain it will be able to secure its premises of choice or necessary planning approvals. The majority of the NLB Group's real estate is owned by the NLB Group member banks, particularly at strategic locations, while real estate located at less strategic locations is the subject of long-term rent with longer rent contract cancellation periods. Any future inability to obtain additional suitable leases or purchases for its properties could have a material adverse effect on the success of the NLB Group's growth strategy and its business, financial condition and results of operations

The NLB Group's insurance policies and own risk assessment premiums may not cover particular future losses

While the NLB Group believes that the insurance policies presently held by the NLB Group to cover its assets and operations are in line with general market practice, and is actively following the development of and implementing insurance products pursuant to changes in the business and regulatory environment, there is no guarantee that the NLB Group's insurance adequately covers every possible future loss, or that the terms of currently implemented insurance will be sufficient to cover losses as they occur.

Furthermore, in the year 2016, NLB began an initiative to reduce collateralization of loans by insurance companies (paid by the consumer, who are mostly private individuals) with the goal to retain the fees within NLB and introduced loans without collateral whereby the consumer pays a certain amount which allows for the risk assessment premium. This amount reflects the cost of risk associated with the loan and an additional margin for execution. As a result, although NLB collects a premium that offsets the cost of risk when the loans are granted and regularly checks whether the cost of risk is covered by the risk assessment premium, NLB is in-sourcing bank credit risk from insurance companies and is therefore exposed to borrowers without collateral. As at 30 June 2018, the exposure from such loans was EUR 227.2 million, which represented approximately 12 per cent. of the retail loan portfolio.

Any loss which is not covered by the NLB Group's existing insurance policies or own risk assessment premiums may have a material adverse effect on the NLB Group's business, prospects, financial condition, results of operations or cash flows, and even if covered, may result in increased insurance costs, rise of risk assessment premiums charged to the clients or difficulties in acquiring insurance in the future for the NLB Group.

Delays or incomplete implementation of digitalisation processes, including the NLB Group's transition to non-branch client interaction, could have a significant effect on the business results in coming years and could adversely affect the development of the NLB Group's business strategy

Failure or delays in implementing changes and upgrades to new support systems related to IT infrastructure could delay the implementation of the NLB Group's business strategy which could have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects. As part of NLB Group's digitalisation strategy, it is focusing on transitioning away from branch-centric distribution channels in order to take advantage of efficiencies in electronic, mobile and other remote functionalities. Delays of the various phases of the IT strategy implementation could also have a direct impact on particular business sites and result in some of the business initiatives not having proper IT support or not being able to achieve expected financial results. In addition, should the NLB Group experience difficulties in the implementation of its distribution channels strategy, the NLB Group may suffer negative publicity, a reduction in new customers or a loss of existing customers, which may have a material adverse effect on the NLB Group's business, prospects, financial condition, results of operations or cash flows, and may limit the NLB Group's ability to implement its business strategy.

2.2 RISKS RELATING TO THE REGULATORY ENVIRONMENT IN WHICH THE NLB GROUP OPERATES

The NLB Group is subject to changes in the regulatory framework within which they operate and any such changes could have a material adverse effect on NLB or the NLB Group

NLB is subject to extensive regulation and supervision by the Bank of Slovenia and the ECB. The banking laws to which NLB is subject govern the activities in which banks may engage and are designed to maintain the safety and soundness of banks, and limit their exposure to risk. In addition, NLB must comply with financial services laws that govern its marketing and selling practices.

The NLB Group is subject to a wide variety of banking, insurance and financial services laws and regulations and faces the risk of significant interventions by a number of regulatory and enforcement authorities in each of the jurisdictions in which it operates.

As a result, NLB and the NLB Group are exposed to many forms of risk (including legal risk) which could have an adverse effect on their business, and which may arise in a number of ways, primarily:

- changes in the monetary, interest rate, capital adequacy and other policies of central banks and regulatory authorities;
- changes in laws and regulations or changes in regulatory regimes that may significantly influence investor decisions in particular markets in which the NLB Group operates or may increase the costs of doing business in those markets;
- changes in regulatory requirements, such as prudential rules relating to the capital adequacy framework and the imposition of onerous compliance obligations (as to which, see further below);
- restrictions on business growth or pricing and requirements to operate in a way that prioritises objectives other than shareholder value creation;
- changes to financial reporting standards;
- changes in competition and pricing environments, such as harmonisation of card payment interchange fees;
- differentiation amongst financial institutions by governments with respect to the extension of guarantees to bank customer deposits and the terms attaching to such guarantees, including requirements for certain members of the NLB Group to accept exposure to the risk of any third-

party participants in such guarantee schemes failing;

- the design and implementation of government-mandated resolution or insolvency regimes;
- implementation of, or costs related to, local customer or depositor compensation or reimbursement schemes;
- regulations relating to, and enforcement of, anti-bribery, anti-money laundering, anti-terrorist financing or other similar regimes;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to ownership; and
- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty that, in turn, may affect demand for the NLB Group's products and services.

Regulation of financial markets has changed as a result of government intervention, including nationalisations and partial nationalisations in the United States, the UK and a number of other European countries during the global financial crisis and the perception that one of the causes of the financial crisis is attributable in part to the failure of regulatory structures. The NLB Group is facing greater regulation in the jurisdictions in which it operates. Compliance with such regulations is likely to increase the NLB Group's capital requirements, expose it to additional costs and liabilities, and require it to change how it conducts its business, including the reduction of risk and leverage of certain activities, or otherwise have an adverse impact on its business, the products and services it offers and the value of its assets.

In April 2014, ZDIJZ was adopted, under which NLB is obliged to disclose certain information publicly on its business, including certain information relating to its agreements with third parties. Disclosure of business agreements with NLB's suppliers of goods and services and/or the terms of such agreements (e.g. prices) may cause such suppliers to end such agreements or to seek to change their terms, which could potentially have a material adverse effect on NLB. The obligations of NLB under ZDIJZ may also result in potential suppliers no longer being willing to do business with NLB as a result of such obligations, which could also potentially have a material adverse effect on NLB.

Changes in the regulatory requirements could lead to the increase of NLB Group own funds requirements. Currently, the minimum ratios banks must achieve pursuant to CRR are the following:

- CET1 capital ratio: 4.5 per cent.,
- Tier 1 capital ratio: 6 per cent., and
- Total capital ratio: 8 per cent.

In addition to the aforementioned ratios, which form the Pillar 1 requirement, the NLB Group must meet other requirements and recommendations that are being imposed by the supervisory institutions or by the legislation:

- Pillar 2 Requirement (supervisory review and evaluation process ("**SREP**") requirement): bank specific, obligatory requirement set by the supervisory institution through the SREP process (together with the Pillar 1 requirement it represents the minimum total SREP requirement – the TSCR);
- Applicable combined buffer requirement ("**CBR**"): system of capital buffers to be added on top of TSCR – breaching of the CBR is not a breach of capital requirement but triggers limitations in payment of dividends and other distributions from capital. Some of the buffers are prescribed by law for all banks and some of them are bank specific, set by the supervisory institution (CBR and TSCR together form the overall capital requirement – "**OCR**");
- Pillar 2 Guidance: capital recommendation, set by the supervisory institution through the SREP process. It is bank specific and as a recommendation not obligatory. Any non-compliance does not affect dividends or other distributions from capital, however it might lead to intensified supervision and imposition of measures to re-establish a prudent level of capital.

As at 31 December 2017, NLB was obliged to maintain the OCR of 12.75 per cent. (this requirement includes the Pillar 1 requirement, the Pillar 2 requirement and the capital conservation buffer of 1.25 per cent. for 2017).

Starting from 1 January 2018, the requirement for the OCR (including Pillar 1, Pillar 2 and a capital conservation buffer of 1.875 per cent. for 2018) is set at 13.375 per cent.

In the coming years, certain other capital buffers are expected to apply as well and the applicable CBR is expected to increase to at least 3.5 per cent. in 2019:

- Capital conservation buffer is increasing by 0.625 per cent. per annum up to 2.5 per cent. in 2019 and from then on;

- Other systemically important institutions ("**O-SII**") buffer: in line with the Bank of Slovenia's decision to identify NLB as an "other systemically important institution" (decision of 17 December 2015), NLB must provide CET1 capital in the amount of 1 per cent. of RWA as O-SII buffer on top of the Pillar 1 and Pillar 2 requirements on the consolidated level from 1 January 2019 on.

The countercyclical buffer is subject to macroeconomic developments, but in the near future it is not expected to increase significantly. The requirement for the systemic risk buffer can potentially apply in the future, although it is not anticipated at the moment. Pillar 2 (SREP) requirement can also increase in the future, whereas the Pillar 2 guidance is expected to be assigned a different treatment and be applied over and above the OCR from 1 January 2019.

As of 31 December 2017, NLB Group capital ratios (CET1 ratio / Tier 1 ratio / Total Capital ratio) on a consolidated basis reached 15.9% (envisaging dividend payment in 100% profit after tax of NLB, i.e. EUR 189.1 million), fulfilling all regulatory requirements and the NLB Group's risk appetite.

At the end of June 2018, the capital ratios for NLB Group stood at 18.7% (or 2.8 percentage points higher than at the end of 2017), and for NLB at 26.2% (or 4.4 percentage points higher than at the end of 2017). The improvement of capital adequacy derives from higher capital, mainly due to unallocated NLB's profit for the year 2017 (EUR 189.1 million), the inclusion of the positive effect from the implementation of IFRS 9 (EUR 43.8 million for NLB Group and EUR 27.7 million for NLB), and the conclusion of transitional arrangements relevant until the end of 2017.

In order to improve the banks' resilience to risks relating to short-term liquidity loss, the CRR has implemented a liquidity coverage requirement (the "**Liquidity Coverage Requirement**") that banks should maintain liquid assets covering the liquidity outflows less the liquidity inflows under stressed conditions. This is to ensure that the institutions maintain levels of liquidity buffers which are adequate to face any possible imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of thirty days. The Commission Delegated Regulation (EU) 2015/61 of 10 October 2014, which supplements the CRR in respect of net inflow coverage requirements for credit institutions, states this ratio must be maintained at a level of at least 100 per cent. The LCR was implemented in four phases, from 1 October 2015 to 1 January 2018. In addition to the short-term liquidity requirements, Basel III also provides for stable long-term funding requirements and introduces a requirement that the NSFR should be maintained at a level of at least 100 per cent.

NLB received a decision from the Bank of Slovenia on the determination of MREL, set on a multiple point of entry ("**MPE**") basis. It must be fulfilled by 31 March 2019 at the latest, and NLB expects the MREL requirement to be covered by CET1, existing MREL-eligible senior debt and other eligible liabilities. However, in the future MREL requirements (see "*—The NLB Group may be adversely impacted by Slovenian and/or European banking reform initiatives*") might vary, depending on the liabilities structure and the SRB's decisions responsible for implementing the Single Resolution Mechanism ("**SRM**") in connection with possible changes in the recovery and resolution regulations.

Future changes in the regulatory framework may have a material effect on NLB's and the NLB Group's business and operations. No assurance can be given that laws and regulations will be adopted, enforced or interpreted in a manner that will not have an adverse effect on the business, financial condition, cash flows and results of operations of the NLB Group.

The NLB Group may fail to successfully manage the diverse sets of regulatory requirements it is subject to, including in relation to capital and liquidity requirements, stress tests and other requirements in the process of being implemented

The NLB Group is also subject to capital adequacy and liquidity rules imposed by EU Capital Requirements Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms ("**CRD IV**") as implemented in the Republic of Slovenia and the Regulation 575/2013 on prudential requirements for credit institutions and investment firms ("**CRR**" and, together with CRD IV, the "**CRD IV Package**"), which aim to put in place a comprehensive and risk-sensitive legal framework and to ensure enhanced risk management amongst financial institutions. For a discussion of these requirements, see "*10. Asset, Liability and Risk Management*" and "*15. Regulation of the banking sector in the Republic of Slovenia—Capital requirements and risk management requirements*". The NLB Group prepares long-term capital plan projections and regularly (on a quarterly basis) monitors capital usage or prepares projections where changes in CRR requests are estimated. Nevertheless, different capital requirements or other conditions, if implemented, could force the NLB Group to acquire additional capital, which may be unavailable in the future or unavailable at an attractive rate or within the timeframe necessary in order to ensure compliance with such requirements.

Additionally, the NLB Group is subject to stress tests, including regular stress testing exercises by the ECB, and other regulatory enquiries. Any negative outcomes could lead to a loss of trust in the NLB Group and materially and adversely affect the NLB Group's reputation and financing costs in addition to potentially triggering an enforcement action by relevant supervisory authorities. In 2016 and 2018, the NLB Group has been included in the ECB stress testing exercise. In 2016, the NLB Group has concluded the ECB's stress testing exercise in accordance with its requirements and the results were included in the SREP decision for the NLB Group. As of the date of this Prospectus, the 2018 stress testing is still in progress.

Failure to comply with or successfully manage these and other requirements could lead to administrative sanctions, which may also affect the NLB Group's long-term ability to conduct its business and in turn its financial condition and results of operations.

The NLB Group is exposed to risks arising out of large exposures to companies in the NLB Group

The Governing Board of the Bank of Slovenia had adopted a decision that the discretions related to exemption of large exposure are exercised as discretions of the competent authorities according to Article 400(2) of the CRR (from 1 October 2016 onwards), meaning that for every exemption of large exposures the bank has to fulfil the conditions laid down in Article 400(3) of the CRR. A 100 per cent. exemption is used for those NLB Group members, which, in the opinion of the NLB Group, meet the prescribed conditions required for exemptions (including that the member is included in full consolidation the member meets the conditions for exclusion and the member is a strategic bank or non-banking company registered in Slovenia, which provides services complementary to banking services). The Joint Supervisory Team ("**JST**") may at any time verify compliance with the criteria set out in the CRR and requires the submission of supporting documents. An unfavourable interpretation of large exposures regulation by the JST could mean that the NLB disinvestment process of non-core subsidiaries would likely need to accelerate, while funding of core banking group members would be limited. The first review of compliance by the ECB was performed in 2017 and the NLB Group has not received requests to change the current approach.

The NLB Group's intragroup gross exposure as of 30 June 2018 and 31 December 2017 amounted to EUR 1,484 million and EUR 1,491 million, respectively. Net exposure to NLB Group after use of discretions amounted to 12.6% of the bank's capital as of 31 December 2017 and 9.7% of the bank's capital as per as of 30 June 2018.

Regulation and compliance requirements could expose the NLB Group to further legal risk

NLB and the NLB Group operate in a legal and regulatory environment that exposes them to potentially significant litigation and regulatory risks. As a result, the NLB Group members are, and may in the future also be, involved in material disputes and legal proceedings, including litigation and regulatory investigations (see "*6. Business—Legal and Administrative Proceedings*"). These disputes and legal proceedings are subject to many uncertainties, and their outcomes are often difficult to predict, particularly in the earlier stages of a case or investigation. Adverse regulatory action or adverse judgements in litigation could result in fines or in restrictions or limitations on the NLB Group's operations, any of which could result in a material adverse effect on its reputation or financial condition. In addition, any determination by local regulators that one or more NLB Group members have not acted in compliance with applicable local laws in a particular market, or any failure to develop effective working relationships with local regulators, could have a significant and negative effect not only on the NLB Group's businesses in that market but also on its reputation generally.

The NLB Group may be adversely impacted by Slovenian and/or European banking reform initiatives

In recent years, the relevant regulatory authorities in Europe have proposed significant reforms to many aspects of the banking sector, including, amongst others, institutional structure, resolution procedures and deposit guarantees. While the final form and impact of a number of the outstanding regulatory developments remain uncertain, the NLB Group expects that the evolution of these and future initiatives will have an impact on the NLB Group's business, and may have a material adverse effect on the NLB Group's business, prospects, financial condition, results of operations or cash flows.

The Directive No 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (the "**BRRD**") provides for resolution authorities to have the power to require financial institutions and groups facing insolvency to make structural changes to ensure legal and operational separation of "critical functions" that are necessary for the functioning of the real economy of one or more EU member states from other functions where necessary, to ensure the survival of such functions, or to require financial institutions to limit or cease existing or proposed activities in certain circumstances. It also includes certain powers provided to resolution authorities, including write-down powers, to ensure relevant capital instruments absorb losses upon, amongst other events, the occurrence of the non-viability of the relevant financial institution or its parent company, as well as a bail-in tool comprising a more general power for resolution authorities to reduce or cancel the shares of an institution under resolution and write down the claims of unsecured creditors of a failing institution and to convert unsecured debt claims to equity. The Resolution and Compulsory Dissolution of Credit Institutions Act (*Zakon o reševanju in prisilnem prenehanju bank (ZRPPB)*) ("**ZRPPB**") implementing the BRRD in Slovenian law, entered into force on 25 June 2016. Use of bail-in powers by the relevant authorities may result in the reduction or cancellation of shares or the issuance of additional share capital or capital instruments, and existing shareholders may experience a dilution of their holdings or reduced profitability and returns.

The Resolution Unit within the Bank of Slovenia (the "**Resolution Unit**") has been designated as the Slovenian resolution authority that is empowered to apply the resolution tools and exercise resolution powers. Every credit institution, including NLB, is required to develop a recovery plan which must be approved by the Management Board and the Supervisory Board and updated annually. The law provides tools, including the company's sale, divestiture of assets, the establishment of provisional institutions and internal recapitalisation, which can be used for relief if the financial situation of a credit institution rapidly deteriorates. The Resolution Unit has the right to impose various measures, including changes in business strategy or changes to the legal and operational structures, implementation of the recovery plan, convening a shareholders' meeting, replacing a member of the management bodies and preparing a plan for negotiation of debt. Under the new framework of the BRRD, shareholders, subordinated creditors and customers with deposits above EUR 100,000 are required to provide financial contributions and bear first losses at the beginning of the recovery process.

Given that the BRRD powers have yet to be tested in the Republic of Slovenia, it is impossible to predict the financial obligations that may be imposed by the EU or the Bank of Slovenia in relation to the BRRD, or the effect that these changes may have on NLB's business, or how any of the above proposals will be implemented. Depending, however, on the specific nature of the requirements and how they are enforced, such changes may have a material adverse effect on NLB's business, prospects, financial condition, results of operations or cash flows.

In addition, the power of the resolution authority to decide which liabilities to transfer out of a failing institution based upon the objectives of ensuring the continuity of services and avoiding adverse effects on financial stability may affect the equal treatment of creditors. To avoid having institutions structure their liabilities in a way that impedes the effectiveness of the bail-in or other resolution tools and to avoid the risk of contagion or a bank run, the BRRD requires that institutions meet a minimum requirement for MREL at all times.

For each of the components of the MREL, the resolution authority may consider upward or downward adjustments, on the basis of a thorough case-by-case analysis of financial information, supervisory data and resolution strategies. In order to meet MREL requirements, NLB may need to issue MREL-eligible instruments, impacting its funding structure and financing costs. Such mechanisms and procedures, besides having the capacity to restrain NLB's strategy, could increase the average cost of NLB's liabilities, in particular, without limitation, the cost of additional Tier 1 and Tier 2 instruments and thus negatively affect NLB's earnings. Tier 1 instruments may also result in a potential dilution of the percentage of ownership of existing shareholders, given their convertibility features.

MREL, which became effective during 2016, involves a transition period and should have implications on the issuance of debt by banking institutions. It may lead to the introduction of alterations in the liability structure through the issuance of new senior debt with some subordination structure or by strengthening the Tier 2 capital.

On 30 April 2018, the NLB Group received instructions from the Single Resolution Board (the "**SRB**") regarding the adoption of the NLB Group Resolution Plan based on items taken from the recovery plan submitted by the NLB Group and the Bank of Slovenia decision on the determination on the MREL. MREL is expressed as ratio of Total Liabilities and Own Funds ("**TLOF**") on the sub-consolidated level of the NLB Resolution Group (composed of NLB and all members of the NLB Group except the six banking members: NLB Banka Skopje, NLB Banka Beograd, NLB Banka Banja Luka, NLB Banka Sarajevo, NLB Banka Podgorica and NLB Banka Prishtina) and must be attained by 31 March 2019. The MREL requirement for the NLB Group is based on the MPE and was determined to be in the amount of 17.40 per cent. of TLOF, which, as per the NLB Group's historical financials for the year ended 31 December 2016, amounts to EUR 1,512.79 million as at that date. In the future, MREL requirements will continue to be subjected to the SRB's decisions, and possible changes in MREL regulation.

In addition, the EU adopted, in October 2013, the Regulation (EU) 468/2014 (“**SSM Regulation**”) establishing the Single Supervisory Mechanism (the "**SSM**") under the supervision of the ECB. As a consequence, since November 2014 all significant institutions in the Eurozone, including NLB, are now under the direct supervision of the ECB. It is not yet possible to assess the full impact of such measures, if any, on NLB; however, the ongoing uncertainty regarding the application of several measures by the ECB and the implementation of additional measures may be a source of additional uncertainty and a risk of non-compliance and, generally speaking, the costs incurred due to the implementation of the SSM may have a negative impact on NLB's results of operations and financial condition.

The Council of the EU (the "**Council**") further adopted on 15 July 2014 a regulation the Regulation (EU) 806/2014 (“**SRM Regulation**”) establishing the SRM, which provides for the establishment of the SRB as the authority in charge of the implementation of the SRM and the establishment of a Single Resolution Fund (the "**SRF**") financed by banks at the national level. The SRM is applicable from 1 January 2016. Pursuant to the SRM, on 8 October 2014, the European Commission ("**EC**") adopted the delegated regulation on the provisional system of instalments on contributions to cover the administrative expenditures of the SRB during the provisional period; on 19 December 2014, the Council adopted the proposal for a Council implementing act to calculate the contributions of banks to the SRF, which provides for annual contributions to the SRF to be made by the banks calculated on the basis of their liabilities, excluding own funds and covered deposits and adjusted for risks. The SRF has replaced national resolution funds as of 1 January 2016 pursuant to the BRRD. As a consequence, the regular yearly and possible extraordinary contributions to the SRF could be significant to NLB and may have a negative impact on its results of operations. During the year ended 31 December 2017, NLB accrued expenses of EUR 2.6 million in connection with contributions to the SRF. As of 30 June 2018, NLB contributed EUR 44.5 million to the Republic of Slovenia's fund (the "**National Resolution Fund**") established by the Bank Resolution Authority and Fund Act (*Zakon o organu in skladu za reševanje bank*) (the "**ZOSRB-A**"), which was 23.3 per cent. of total amount of cash contributions.

The NLB Group is subject to recently implemented rules on markets in financial instruments

On 15 May 2014, the European Parliament and European Council adopted a directive (Directive 2014/65/EU) and related regulation (Regulation 600/2014) on markets in Financial Instruments (together, "**MiFID II**"), which will repeal and recast the existing Directive 2004/39/EC on Markets in Financial Instruments. MiFID II introduces a number of new measures which are designed to overhaul existing rules for market infrastructures (including the application of regulatory requirements to a new category of multilateral, discretionary trading venues for non-equities, the Organised Trading Facility), increase transparency and transaction reporting requirements, enhance existing conduct of business requirements and supervisory enforcement powers, increase regulation of commodities business and introduce new rules for third-country firms accessing EU markets. The new requirements introduce a number of changes to the banking sector's market infrastructure and conduct rules (including enhanced suitability requirements) and introduce new investor protection measures, including product governance requirements.

MiFID II entered into force on July 2014, but it was amended by Directive (EU) 2016/1034 of the European Parliament and of the Council of 23 June 2016; the application of the majority of the provisions was postponed to 3 January 2018. Final regulatory and implementing technical standards and guidelines regarding the implementation of various provisions were published by ESMA and the EC in 2016 and in 2017. EU member states were required to transpose national implementation measures by July 2017, the Republic of Slovenia has not yet done so, with only the Regulation 600/2014 implemented on 3 January 2018. Nevertheless, the NLB is ready for the entry into force of the MIFID II provisions and is already implementing them in a certain part. At the end of April 2018, Regulation (EU) 1286/2014 on key information documents on packaged retail and insurance-based investment products (PRIIP) entered into force in Slovenia, which lays down uniform rules on the format and content of the key information document to be drawn up by PRIIP manufacturers and on the provision of the key information document to retail investors in order to enable retail investors to understand and compare the key features and risks of the PRIIP.

These new requirements could increase the cost of distributing financial products to both retail and wholesale clients, and may consequently expose the NLB Group to higher sanctions as prescribed by the new legislation. This could have a material adverse effect on the NLB Group's business, financial condition, results of operations and prospects.

The NLB Group is subject to recently implemented rules on deposit guarantee schemes

In April 2014, the EU Deposit Guarantee Scheme Directive was recast and replaced by the current Directive 2014/49/EU of the European Parliament and the Council of 16 April 2014 on deposit guarantee schemes (the "**EU DGSD**"). The main aims of the recast EU DGSD are to restrict the definition of "deposit", to exclude deposits made by certain financial institutions and certain public authorities, to reduce time limits for payments of verified claims to depositors and to make provisions on how deposit guarantee schemes should be funded. In addition, the recast EU DGSD allows for temporary increases in the coverage level in relation to deposits arising from certain events, such as the sale of a residential property. The rules on depositor protection rules and supervisory statements have already taken effect in the Republic of Slovenia. The Deposit Guarantee Scheme Act (*Zakon o sistemu jamstva za vloge (ZSJV)*) ("**ZSJV**") implementing the EU DGSD entered into force on 12 April 2016. Bank of Slovenia as the designated deposit guarantee scheme ("**DGS**") authority has already adopted additional rules on DGS with the Regulation on Deposit Guarantee Scheme which also implements the EU DGSD. NLB's annual contributions to the Slovenian regulatory DGS amounted to EUR 4.2 million in 2016. NLB's contribution to the DGS for 2017 was EUR 4.7 million, for 2018 the amount was 5.7 million EUR. New EU rules on DGS and related financing as well as reporting requirements may result in an increased compliance burden for the NLB Group and failure to comply with these rules could have a material adverse effect on the NLB Group's business, financial condition and results of operations. In other banking members of the NLB Group, which operate outside the EU, similar schemes were already in place in previous years. In 2017, the contributions of all bank members totalled EUR 8.7 million. As part of the last missing pillar of the EU Banking Union, the EC proposed a new EU Regulation in 2015 establishing European Deposit Insurance Scheme, which is still in the co-legislative process at the EU level, and it is unclear when it would be adopted.

It is possible, as a result of these reforms and subsequent Slovenian implementation, that future DGS levies on the NLB Group may differ from those at present, and such reforms could result in the NLB Group incurring additional costs and liabilities.

The NLB Group is subject to regulatory changes in relation to payment services

In October 2015, the European Parliament adopted the EC proposal for a Directive on payment services in the internal market (EU) 2015/2366 ("**PSD2**").

In preparation for the adoption of PSD2 into Slovenian law, the NLB Group has established a multidisciplinary working group to examine and address the impact of PSD2. Regulatory and implementing technical standards have already been published, as well as the respective guidelines (as stipulated in PSD2) as well as national legislation implementing PSD2 provisions. Amongst other issues, special attention has been dedicated to security of payment services, also in respect to access to bank accounts from third party providers, as regulated in PSD2.

Slovenian law transposing PSD2 was adopted in February 2018, the Payment Services, Services of Issuing Electronic Money and Payment Systems Act (*Zakon o plačilnih storitvah, storitvah izdajanja elektronskega denarja in plačilnih sistemih*) (the "**Payments Act**") and came into force on 22 February 2018. RTS on strong customer authentication and secure communication under PSD2 was published in the EU Official Journal 13 March 2018 and is applicable from 14 September 2019, except for paragraphs 3 and 5 of Article 30 (test environment to be provided by ASPSP for TPP by 14 March 2019 at the latest).

PSD2 implementation, including API management system and consent management as well as fraud and major incident reporting require major IT changes of the IT systems in place and may therefore result in further financial costs.

Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (the "**Payment Accounts Directive**") introduced measures that banks and other payment service providers must comply with, including, in relation to provision of standard fee information in relation to payment accounts to consumers, facilitation of account switching and ensuring basic bank accounts are available to all EU consumers. The Payment Accounts Directive came into force in September 2014, with EU member states being required to transpose their provisions into national law by September 2016. The Republic of Slovenia introduced local legislation in June 2016, with the requirements to offer a new type of basic account services and facilitate account switching amongst banks, which NLB has since implemented with no material effects yet noted. Parts of the Payment Accounts Directive that relate to standard fee information already came into place with bylaws and no material variances from current planned numbers are expected.

The NLB Group is subject to regulatory developments in relation to EMIR

The European Market Infrastructure Regulation ("**EMIR**") was adopted by the European Parliament and European Council on 4 July 2012 and entered into force on 16 August 2012. EMIR provides for certain over-the-counter ("**OTC**") derivatives contracts to be submitted to central clearing and imposes, *inter alia*, margin posting and other risk mitigation techniques, reporting and record keeping requirements. The NLB Group is subject to reporting obligations which have already been in force since 12 February 2014, with the latest revised requirements from 1 November 2017. The clearing and margin requirements are being phased in. The NLB Group will be subject to clearing requirements in relation to those classes of derivatives that are declared to be subject to the clearing obligation, from 21 June 2019, but irrespective of this deadline clearing processes for indirect clearings through a clearing broker have already been implemented since June 2013. Margin requirements for OTC derivatives contracts not cleared by a central clearing counterparty, which reduce counterparty credit risk and mitigate a potential systemic risk, are applied to the NLB Group from 1 March 2017.

While these requirements do not represent a significant risk for the NLB Group, they could increase the cost of distributing financial products to clients and also the risk of non-compliance. From a global point of view, a significant volume of counterparty, liquidity and operational risk will be concentrated on central clearing counterparties, as a higher proportion of trading will be cleared across them and they will themselves become potential sources of systemic risk.

The NLB Group is exposed to risks related to tax regulations

The NLB Group is subject to financial reporting regulations and tax liabilities in all of the jurisdictions in which it operates. The NLB Group's activities are principally conducted in the Republic of Slovenia and it is therefore subject to a range of Slovenian taxes at various rates. Future actions by the Slovenian government to increase tax rates or to impose additional taxes could reduce the NLB Group's profitability. Revisions to tax legislation or to its interpretation might also affect the NLB Group's financial condition in the future. In addition, the NLB Group is subject to tax audits which could result in additional tax assessments, which may be material, relating to past periods of up to five years being made. Any such assessments could be material which might also affect the NLB Group's financial condition in the future.

Negative dispositions from tax authorities or unanticipated changes to financial reporting regulations and tax liabilities in any of the jurisdictions in which it operates could have a material adverse effect on the NLB Group's business, prospects, financial condition, results of operations or cash flow.

In March 2018, the Financial Authority of the Republic of Slovenia (*Finančna uprava Republike Slovenije*) ("**FURS**") granted a special tax status to the NLB for a period of 3 years (until 9 March 2021). Such a status was granted after FURS assessed that NLB has established internal tax controls over majority of the business. As a result of this status, FURS ensures prompt and responsive resolution of difficulties in complying with tax obligations to NLB.

The NLB Group is exposed to risks related to tax loss carry forwards

Possible revisions to tax legislation or to its interpretation may affect the NLB Group's financial condition in the future.

NLB has unrecognized deferred tax assets for tax loss carry forward in the amount of EUR 204.7 million for the year ended 31 December 2017 (EUR 208.7 million for the year ended 31 December 2016). Although deferred tax assets are not recognized, Slovenian tax legislation allows that tax losses may be carried forward into subsequent years without limitations and that it may reduce the actual Slovenian tax base of NLB by 50 per cent.

Although NLB Group currently has no information or indications of a change in relation to tax loss carry forwards, this may be revised in the future, with the imposition of a time limit for carry forward losses.

The NLB Group is subject to regulatory developments in relation to intermediaries involved in the promotion, sale and administration of certain insurance products

On 20 January 2016, the European Parliament and the Council adopted revision of the Insurance Mediation Directive (2002/92/EC) - Directive 2016/97/EC ("**IMD2**"). IMD2 expands the scope of the original Insurance Mediation Directive to cover sales of all insurance products and, amongst other things, (i) introduces more stringent advertising and disclosure requirements (in particular in relation to bundled products), (ii) introduces rules covering the management of conflicts of interests and (iii) introduces rules covering the disclosure of remuneration received by insurance intermediaries. IMD2, when transposed into Slovenian law, is expected to have a more limited impact on the Slovenian intermediary regime than in other EU member states as the Slovenian intermediary regime already incorporates a number of the requirements proposed by IMD2.

The IMD2 may increase regulatory compliance costs for the NLB Group in implementing the new regulations.

The NLB Group must comply with data protection and privacy laws and may be targeted by cybercriminals

The NLB Group's operations are subject to a number of laws relating to data privacy. The requirements of these laws may affect the NLB Group's ability to collect and use personal data, transfer personal data to countries that do not have adequate data protection laws or to countries outside the EU or the EEA and also to utilise cookies in a way that is of commercial benefit to the NLB Group. From 25 May 2018 the NLB's operations are also be affected by the new Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (General Data Protection Regulation). Enforcement of data privacy legislation has become increasingly frequent and could result in the NLB Group being subjected to claims from its customers that it has infringed their privacy rights, and it could face administrative proceedings initiated by the Slovenian Information Commissioner as well as fines for non-compliance with regulatory requirements regarding data protection. In addition, any enquiries made, or proceedings initiated, by individuals or regulators may lead to negative publicity and potential liability for the NLB Group. The NLB Group must also comply with the Payment Card Industry Data Security Standards in respect of any data collected, transferred or processed in respect of any customer payments from branded payment cards. Non-compliance with these standards may lead to the NLB Group facing fines, increased card handling fees or withdrawal of payment processing services in the future.

The secure transmission of confidential information over the internet and the security of the NLB Group's systems are essential to its maintaining customer confidence and ensuring compliance with data privacy legislation. If the NLB Group or any of its third-party suppliers fail to transmit customer information and payment details online securely, or if they otherwise fail to protect customer privacy in online transactions, or if third parties obtain and/or reveal the NLB Group's confidential information, the NLB Group may lose customers and potential customers may be deterred from using the NLB Group's products and services, which could expose the NLB Group to liability and could have a material adverse effect on its business, financial condition and results of operations.

The NLB Group is subject to changes in labour laws

Potential changes to the Employment Relations Act of 2013 (*Zakon o delovnih razmerjih)* ("**ZDR-1**") are currently in public discussion. Some of the proposed potential changes are particularly restrictive towards employers, including for example, a proposal to eliminate the possibility to dismiss employees due to their poor performance. If such changes to ZDR-1 were enacted, this could negatively impact the achievement of strategic targets (see "*6. Business—Medium-Term Strategic and Financial Targets*").

Demographic trends tend to dictate reforms and changes in the labour legislation affecting the NLB Group. During the years of the economic crisis, certain rights arising from collective bargaining agreements were frozen and there is now some expectation that trade unions may attempt to lift such restrictions, which could in turn increase the labour costs and affect the NLB Group's business results. For instance, two measures the NLB Group expects to be pushed for reimplementation are increases of salaries based on cost of living (inflation index) and end of year business performance bonuses. The reimplementation of either or both of these could lead to an increase in labour costs and therefore may have an adverse effect on the Group's results of operations.

There also exists a potential risk, based on reports that an agreement signed amongst political parties that will form a new coalition government in Slovenia, includes the intention to raise the contribution rates for pension and disability insurance paid by employers, which could have an impact on workforce costs.

The NLB Group has implemented systems and mechanisms to ensure compliance with regulations and internal procedures throughout the NLB Group, the failure of which could impact the compliance by NLB or other member companies in the NLB Group with local and EU regulations, as well as the ability of NLB or other member companies in the NLB Group to properly assess and prepare themselves for regulatory changes in a timely manner

The NLB Group is subject to a wide variety of laws and regulations relating to banking, insurance and financial services, including those governing its marketing and selling practices, and faces the risk of significant interventions by a number of regulatory and enforcement authorities in each of the jurisdictions in which it operates. As a result, the NLB Group is exposed to many forms of risk arising from compliance with regulations which could have an adverse effect on its business, and which may arise in a number of ways, including the following two risk factors.

Non-compliance with certain EU and national rules may result in financial sanctions for the NLB Group and its management team

Non-compliance with regulations could trigger regulatory procedures, inspections or investigations by regulatory or other competent authorities, which would cause administrative burden and additional costs for the NLB Group; in case of more severe regulatory breaches, supervision could also cause a set-back in business as well as reputational damage. Supervisory procedures in cases of regulatory breach could further result in financial or non-financial penalties, including licence limitations or withdrawal, regulatory orders or other kinds of business controlling or limiting measures (e.g. increasing capital or other regulatory requirements, exposing it to additional costs and liabilities and requiring the bank to change how it conducts its business, including the reduction of risk and leverage of certain activities). Such measures and sanctions in the event of regulatory breaches could have a material adverse impact on the NLB Group's business, products and services and the value of its assets.

The NLB Group is subject to regular audits from the ECB and there is a risk that it becomes the subject of sanctions in the case of any deficiencies

The NLB Group is subject to regular audits from ECB under the SSM as a systemically important bank. In regular audits from ECB in past years, certain deficiencies were identified relating among others to retail financing, credit risk, governance and RWA, which were immediately, or on the basis of an ECB confirmed action plan, corrected by NLB and have not lead to any penalties as of the date of this Prospectus. However, there remains a risk as the ECB according to their competences under the SSM may impose sanctions arising from any on- or off-site inspection reviews, letters, requests or regulatory breaches, relating to past or future inspections. Sanctions may be imposed up to twice the amount of the profits gained or losses avoided because of the breach, or up to 10% of the bank's total annual turnover in the preceding business year.

Failing properly and timely to prepare for upcoming regulatory changes could result in additional costs, inefficiency and business limitations or set-backs as well as further non-compliance

Failure of systems and mechanisms to ensure compliance with regulations and internal procedures throughout the NLB Group could also impact its obligations with respect to business partners and foreign authorities that arise from compliance assurance clauses in contracts with such business partners or authorities or from conducting business activities in other markets (directly or indirectly). In the event of such non-compliance, the NLB Group could become exposed to legal liability from foreign entities and authorities. In this case, the NLB Group could suffer from financial and reputational losses, including as a result of measures such as blacklisting by international financial institutions, the termination of international business partnerships and legal proceedings and penalisation by foreign authorities.

2.3 RISKS RELATING TO THE OFFER AND THE SECURITIES

There has been no prior trading market for the Securities and an active or liquid market for the Securities may not develop and admission of the Shares to the Prime Market of the LJSE may not be obtained which could lead to, among other things, the Shares being considered less attractive by some investors

Prior to the Offering, there has been no public trading market for the Securities. The Final Offer Price will be determined by the Selling Shareholder after consultation with the Joint Global Coordinators and may not be indicative of the market price for the Securities following start of trading. Although NLB intends to apply to the LJSE for admission of the Shares to trading on its Prime Market (or the Standard Market sub-segment if admission to the Prime Market sub-segment is not possible) and to apply to the United Kingdom FCA for admission of the GDRs to listing on the Official List and to the LSE for admission of the GDRs to trading on its main market for listed securities, NLB can give no assurances that the Shares will be admitted to the Prime Market of the LJSE in the event that the free float requirements of the LJSE are not satisfied at the time the Shares are to be admitted. In such circumstances, the Shares will instead be admitted to the Standard Market of the LJSE. While the Standard Market is a regulated market for the purposes of the EU Market In Financial Instruments Directive, there are certain differences compared to being admitted to the Prime Market of the LJSE, including certain additional disclosure requirements which only apply to issuers whose shares are admitted to the Prime Market, such as publication of quarterly financial statements, financial reporting in compliance with IFRS and mandatory publication of certain information and documents, such as financial calendars, summaries of its announcements in English language and declaration of compliance with the Slovenian corporate governance code. The LJSE's decision not to admit the Shares to the Prime Market may also result in the Shares being considered less attractive by some investors. The admission of the Shares to the Standard Market may therefore adversely affect the price of the Shares.

Even if the Shares are admitted to the Prime Market of the LJSE, free float eligibility requirements of the Prime Market in respect of the Shares will have to be satisfied following Admission on an ongoing basis. Should such minimum free float requirements not be met for two consecutive years, for example, if a significant amount of the Shares be deposited with the GDR Depositary, with the result that NLB is no longer in compliance with the minimum free float requirement in respect of the Shares, LJSE may decide to transfer its Shares to the Standard Market of the LJSE. A reduced free float in the Shares could also adversely affect the price of the Shares and could also lead to increased price volatility and it may be more difficult for investors to complete buy or sell orders for the Shares.

NLB can also give no assurances that an active trading market for the Securities will develop or, if developed, can be sustained following the closing of the Offering. The Managers are not obligated to make a market in the Securities and, to the extent that they do undertake any market-making activity, these activities may be terminated at any time without notice. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If an actual liquid trading market for the Shares or the GDRs does not develop, the price of the Shares or the GDRs may be more volatile and it may be more difficult for investors to complete buy or sell orders for the Shares or the GDRs.

The value of the Securities may fluctuate significantly

Following the Offering, the value of the Securities may fluctuate significantly as a result of a large number of factors, including, but not limited to, those referred to in these "*2. Risk Factors*", as well as market appraisal of the NLB Group's strategy or business, differences between the NLB Group's expected and actual financial performance, cyclical fluctuations in the performance of the NLB Group's business, period to period variation in the NLB Group's operating or financial results, and changes in targets established by the NLB Group for, or changes in estimates by the NLB Group for, industry participants or financial analysts of, income, expenses, assets, liabilities, profits/(losses), net interest margin or other margins, returns on equity or assets, dividends, regulatory capital, regulatory ratios, other key performance indicators, market growth or market shares. The market price of the Securities may decrease or increase abruptly, and such volatility may bear little or no relation to the NLB Group's performance. In addition, stock markets have, from time to time, experienced significant price and volume fluctuations that have affected the market price of securities, and may, in the future, experience similar fluctuations which may be unrelated to the NLB Group's operating performance and prospects but nevertheless affect the price of the Securities. The market price of the Securities could also be affected by developments unrelated to the NLB Group's operating performance, such as the operating and share price performance of other companies that investors may consider comparable to the NLB Group, speculation (whether or not well founded) about the NLB Group in the press or the investment community (including regarding the intentions of significant shareholders or significant sales of Securities by any such shareholders or short selling of the Securities), speculation (whether or not well founded) regarding significant issues of Securities by NLB, possible changes in the NLB Group's management team, strategic actions by the NLB Group or competitors (including mergers, acquisitions, divestitures, partnerships and joint ventures), adverse resolution of new or pending litigation or regulatory matters against any member of the NLB Group, unfavourable press, the publication of research reports by analysts, general economic, industry and stock market conditions, changes in market conditions and regulatory changes in the Republic of Slovenia or other countries, whether or not the NLB Group derives significant revenue therefrom. Any or all of these factors could result in material fluctuations in the price of Securities, which could lead to investors receiving less than they invested or a total loss of their investment. The market value of the GDRs may also vary considerably from their underlying net asset value.

GDR Holders may not be able to exercise their pre-emptive rights

In principle, existing holders of shares of Slovenian companies are entitled to statutory pre-emptive rights with respect to newly issued shares (*prednostna pravica do novih delnic*), pursuant to Slovenian law, as described in "*16. Description of NLB's Share Capital and Applicable Slovenian Legislation*". However, holders of the Shares or GDRs in certain jurisdictions may face restrictions under relevant local law on their ability to exercise statutory pre-emptive rights with respect to any new equity issuances by NLB. No assurance can be given that the exercise of pre-emptive rights by such holders of the Shares and GDRs will be permitted under applicable securities laws and/or that a future transaction will be structured to allow existing holders of the Shares and GDRs to exercise their pre-emptive rights. In particular, U.S. holders of the GDRs or Shares may not be able to exercise statutory pre-emptive rights, unless a registration statement under the Securities Act is effective in respect of those rights, or an exemption from the registration requirement thereunder is available. The NLB Group does not currently expect to file any such registration statement, and no assurance can be given that an exemption from the registration requirements of the Securities Act would be available to enable such U.S. holders to exercise such statutory pre-emptive rights and, if such exemption were available, the NLB Group may not take the steps necessary to enable the GDR Holders to rely on it.

Further issuances of Shares by NLB may reduce an investor's ownership percentage in NLB if that investor does not duly exercise its pre-emptive rights in respect of any new issues of Shares. In particular, such rights may not be made available to holders of Securities if NLB does not request the GDR Depositary to do so, or if it is not lawful or reasonably practicable for the GDR Depositary to do so. See "*17. Terms and Conditions of the Global Depositary Receipts*". In addition, even if pre-emptive rights are made available to GDR Holders, the process for exercising such pre-emptive rights through the GDR Depositary may take longer for such holders than for holders of NLB's Shares, and NLB cannot assure investors that they will be able to instruct the GDR Depositary to exercise pre-emptive rights in a timely manner.

The real or perceived possibility of sales or actual future sales of a significant number of the Securities in the public market could adversely affect the prevailing trading price of the Securities

Following the expiry of the applicable lock-up periods put in place in connection with the Offering, or earlier in the event of a waiver of the provisions of the lock-up, the Selling Shareholder who is otherwise subject to lock-up may sell Securities in the public or private market, and NLB may undertake a public or private offering of Securities. While NLB cannot predict the effect, if any, that future sales of Securities, or the availability of Securities for future sale, will have on the market price of the Securities, the availability of Securities that are eligible for public sale could adversely affect the trading price of the Securities.

The Selling Shareholder's shareholding in NLB must be reduced to not more than 50 per cent. minus one Share by 31 December 2018 and to 25 per cent. plus one Share by 31 December 2019. If the Selling Shareholder does not dispose of 75 per cent. less one share in the Offering, additional Shares may be sold in the future in order to comply with the New Commitments. See "*—Any failure of the Republic of Slovenia to reduce its shareholding in NLB in accordance with the New Commitments could have a negative effect on the NLB Group*". If the Selling Shareholder were to sell, or, to the extent appointed pursuant to the circumstances set out in "*—Any failure of the Republic of Slovenia to reduce its shareholding in NLB in accordance with the New Commitments could have a negative effect on the NLB Group*", a Divestiture Trustee acting on its behalf were to sell, or NLB were to issue and sell, a substantial number of Shares or GDRs in the public market, the market price of the Securities could be adversely affected. Sale of the Shares or GDRs by their holders could also make it more difficult for NLB to issue Securities in the future at a time and price that it deems appropriate. The sale of a significant amount of Securities in the public market, or the perception that such sales may occur, could materially affect the market price of the Securities.

There are restrictions on the ability of NLB to pay dividends

As a matter of Slovenian company law, NLB may only pay dividends if and to the extent that, amongst other requirements, it has distributable profit available. Any decision to declare and pay dividends in the future will be made at the discretion of the General Meeting of NLB's shareholders. This ability to pay dividends is further restricted by ZBan-2 (based on provisions of the European CRD IV Directive), pursuant to which a company is prohibited from paying dividends to an extent that it would decrease its CET1 capital to a level where the CBR is no longer met (for further details, see "*4. Dividend Policy*"). Furthermore, the New Commitments contain provisions regarding the profit/dividend payment, as defined in "*6. Business*", which prescribe that, based on the audited year end accounts, NLB will pay to its shareholders for each fiscal year in the form of a dividend disbursement at least the amount of the net income for such fiscal year (and may, for the avoidance of doubt, each time pay out to its shareholders in the form of a dividend disbursement all distributable profit including but not limited to retained profit for the previous fiscal years), subject to the limitations of applicable European and Slovenian regulations and provided that the applicable minimum capital requirement on consolidated level (increased by any applicable CBR and capital guidance) remains exceeded by a capital buffer of at least 100 basis points (for further details, see "*6. Business—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy*"). Although NLB's dividend policy contemplates payments of dividends going forward, as a result of the factors set out above, there can be no assurance that NLB will pay dividends in the future.

The Company paid a dividend on 22 October 2018 to the registered Shareholders of NLB as of 19 October 2018 in line with the decision of the General Meeting of NLB's Shareholders dated 12 October 2018 and in line with the New Commitments in the amount of EUR 270.6 million (which consists of 100 per cent. of net profit for the fiscal year 2017 in the amount of EUR 189.1 million and EUR 81.5 million of retained profit of NLB from previous years). Investors in the Offering will not receive this dividend. The distribution of this dividend was possible following the lifting by the ECB of its restriction on the distribution of dividends, originally imposed on the basis of the Council Regulation (EU) No 1024/2013. When granting its approval for the distribution of the dividend, the ECB also took into account the provisions of the ZVKNNLB (in accordance with ZVKNNLB and the agreement concluded on its basis, the Succession Fund of the Republic of Slovenia shall compensate NLB for the sums recovered from NLB by enforcement of final judgements delivered by Croatian courts with regard to foreign currency deposits). For further information on the ECB restriction, see "*4. Dividend Policy*".

As permitted by the ECB, the interim profit resulting from NLB's semi-annual financial statements as of 30 June 2018 was included in its CET1 capital on 30 September 2018, on both an individual and consolidated basis. It is expected that NLB will also partially include its profits for the financial year ending

31 December 2018 in its CET1 capital before the formal decision confirming the final profit for 2018 is taken by NLB, subject to obtaining permission from the ECB. In accordance with the regulatory requirements for the inclusion of the interim profit resulting from NLB's semi-annual financial statements as of 30 June 2018 in CET1 capital, the Management Board of NLB adopted a resolution to propose to the Supervisory Board of NLB and to the General Meeting of NLB's Shareholders the allocation of the interim profit resulting from NLB's semi-annual financial statements as of 30 June 2018 (EUR 103.3 million on the NLB level and EUR 108.8 million on the NLB Group level) into retained earnings, and consequently not to distribute this amount as dividend. In addition, NLB has agreed with the ECB that it will include a portion of its profit for the financial year ending 31 December 2018 that is sufficient to maintain the NLB Group's total capital ratio above 17 per cent. As a result, it is expected that the Management Board of NLB will propose to the Supervisory Board of NLB and to the General Meeting of NLB's Shareholders the allocation of that portion of the year-end profits into retained earnings, and consequently not to distribute such amount as dividend. The declaration of dividends for the financial year ending 31 December 2018 will be subject to all legal limitations and the General Meeting of NLB's Shareholders to adopt such dividend.

After the Offering, the Selling Shareholder will continue to be able to exercise significant influence over NLB, its management and its operations

Following the Offering, the Selling Shareholder will hold more than 25 per cent. of the share capital of NLB and, due to the restriction set out in the *Statut*, a shareholder who acquires Shares which, together with the Shares already held by such shareholder or by a third person on behalf of such shareholder, represent more than 25 per cent. of NLB's Share capital, may only exercise its voting rights under such Shares if the Supervisory Board approves such acquisition. The Supervisory Board can reject the approval for acquisition of Shares which is required to exercise the voting rights thereunder, if, together with such acquisition and the Shares already held by such person or by a third person on its behalf, the person acquiring Shares would hold more than 25 per cent. of NLB's issued share capital plus one Share. Due to the extent and nature of its shareholdings, the Selling Shareholder will remain in a position after the public offering to influence the NLB's management and operations unlike other shareholders. In particular, according to Slovenian law, the Selling Shareholder will be able to veto any resolution of the general assembly of the Shareholders which must be approved by ¾ of the votes, such as a change in the *Statut* or early removal of a member of the Supervisory Board. The Selling Shareholder may not be prepared to support specific aspects of, or the general policies surrounding, the NLB Group's business strategies and may, as a result of this, delay or prevent the passing of certain shareholder resolutions. Such delays or failures may, by preventing the efficient running of the NLB Group's business, have a material adverse impact on NLB's business, prospects, financial condition, results of operations or cash flows. In addition, the interests of the Selling Shareholder may conflict with the interests of other investors in NLB.

The exercise of voting rights attached to the Securities is subject to the ownership ceiling of 25 per cent. of the issued share capital and to the declaration of beneficial ownership

Pursuant to the ZSDH-1 the National Assembly adopted the Ordinance on State Assets Management Strategy (*Odlok o strategiji upravljanja kapitalskih naložb države (OdSUKND)*) (the "**State Assets Management Ordinance**") in July 2015, stipulating the definition of state assets and determining the developmental policies of the Republic of Slovenia in its role as shareholder and the strategic objectives with respect to each strategic asset. In accordance with the State Assets Management Ordinance, NLB is classified as an "*important asset*" of the Republic of Slovenia and SSH must provide for relevant restrictions regarding ownership concentration in the *Statut* and, consequently, means of ensuring that (1) the Republic of Slovenia shall retain a controlling interest of 25 per cent. plus one Share in the issued share capital of NLB and (2) no shareholder may hold an interest in the issued share capital of NLB that is greater than the interest of the Republic of Slovenia (the "**Ownership Ceiling**"). As a result, a shareholder who acquires Shares which, together with the Shares already held by such shareholder or by a third person on behalf of such shareholder, represent more than 25 per cent. of the NLB's Share capital, may only exercise its voting rights under such Shares if the Supervisory Board approves such acquisition. The Supervisory Board's approval may only be rejected if, following such acquisition, such person would hold Securities representing more than 25 per cent. of NLB's issued share capital plus one Share. The approval shall be considered given if not expressly rejected in 20 days. No such approval is necessary in respect of the Shares acquired by a person (a "**Nominee Holder**") for the account of third persons (the "**Beneficiaries**") provided that the Nominee Holder is (i) not entitled to exercise the voting rights arising out of such Shares at its own discretion and (ii) undertakes to NLB that it will not exercise the voting rights based on voting instructions from a single Beneficiary unless such voting instructions are accompanied with a confirmation that such Beneficiary is the beneficial owner of the Securities in respect of which votes are to be exercised and does not hold in the aggregate, directly or indirectly an interest in the voting share capital of NLB which exceeds 25 per cent. of the voting share capital of NLB. See also "*6. Business—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy*".

Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the deposit agreement between NLB and the GDR Depositary for the GDRs and relevant requirements of Slovenian law

GDR Holders will have no direct voting rights with respect to the Shares represented by the GDRs. They will be able to exercise voting rights with respect to the Shares represented by GDRs only in accordance with the provisions of the Deposit Agreement, the terms and conditions of the GDRs and relevant requirements of Slovenian law. For instance, pursuant to the Deposit Agreement and the terms and conditions of the GDRs, NLB may not instruct the GDR Depositary to extend voting with respect to Shares represented by GDRs to GDR Holders if it is advised, in a legal opinion of an independent law firm, that such an extension would breach applicable law or the *Statut*. In addition, there are practical limitations upon the ability of GDR Holders to exercise their voting rights due to the additional procedural steps involved in communicating with such holders. Holders of Shares whose ownership is directly recorded in NLB's shareholder registry will receive notice of a Shareholders' meeting directly from NLB and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDR Holders, by comparison, will not receive notice of a Shareholders' meeting directly from NLB, but NLB will provide notice to the GDR Depositary. The GDR Depositary has undertaken, in turn, as soon as practicable thereafter, if requested by NLB in writing in a timely manner and at NLB's expense, and provided there are no U.S., UK or Slovenian legal prohibitions (including, without limitation, the Listing Rules published by the United Kingdom FCA and the Prospectus Rules published by the United Kingdom FCA, the admission and disclosure standards of the LSE and the rules of the LJSE on which the Shares are expected to be listed) to distribute to GDR Holders notice of such meeting, copies of voting materials and a statement as to the manner in which voting instructions may be given by GDR Holders. To exercise their voting rights, GDR Holders must then instruct the GDR Depositary how to vote the Shares represented by the GDRs they hold. The GDR Depositary will not be allowed to act upon any voting instructions given by GDR Holders unless the completed voting instruction (i) includes the name, address and other details as may be from time to time specified by the Company of each person who is the ultimate beneficial owner of GDRs at the record date specified by the GDR Depositary and the total number of Shares in the form of GDRs or otherwise, whether held directly or indirectly, to which such ultimate beneficial owner is entitled and (ii) includes confirmation that the beneficial owner(s) of the GDRs in respect of which votes are to be exercised does not hold in the aggregate, directly, indirectly and/or as a concerted party an interest in the voting share capital of the Company (a) a "qualified holding" (under ZBan-2 or any other banking legislation or regulation applicable to the Company from time to time) for the holding of which such beneficial owner(s) has not received the approval of the ECB or other banking authority with jurisdiction over the Company or (b) which exceeds 25 per cent. (or any other limit imposed on investors from time to time by Slovenian law or the *Statut* and, in any such case, notified to the GDR Depositary by the Company in writing) of the total voting rights attributable to the voting share capital of the Company, or (c) a controlling shareholding within the meaning of applicable competition law for which the beneficial owner(s) has not received the approval of the competent national competition authority or the European Commission, as the case may be, and if required, or (d) which exceeds the takeover threshold pursuant to Slovenian law, (iii) includes certification from a third party intermediary that the beneficial owner of the GDRs has duly authorised it to give the instructions and statements contained in the voting instructions in the name and on behalf of such beneficial owner, and such third party intermediary undertakes, for the benefit of the GDR Depositary and the Company, to obtain and keep evidence of such authorisation and to provide it to NLB and/or the GDR Depositary upon their request, (iv) is completed and deemed duly signed by a third party intermediary and/or the respective ultimate beneficial owner and (v) returned to the GDR Depositary by such date as specified by the GDR Depositary.

The GDR Depositary may then appoint representatives to attend the relevant meeting and vote the Shares represented by the GDRs on behalf of the GDR Holders. Due to this additional procedural step involving the GDR Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the Shares and there can be no assurance that GDR Holders will receive voting materials in time to enable them to return voting instructions to the GDR Depositary in a timely manner. GDRs for which the GDR Depositary does not receive voting instructions in time will not be voted.

In addition, although Slovenian law permits the GDR Depositary to split the votes with respect to the Shares underlying the GDRs in accordance with instructions from GDR Holders, GDR Holders may have significant difficulty in exercising voting rights with respect to the Shares underlying the GDRs. There can be no assurance that holders and beneficial owners of GDRs will (1) receive notice of shareholder meetings to enable the timely return of voting instructions to the GDR Depositary, (2) receive notice to enable the timely cancellation of GDRs in respect of shareholder actions or (3) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. See "*17. Terms and Conditions of the Global Depositary Receipts—Voting Rights*" for a description of the voting rights of GDR Holders.

Following the Offering, holders of Shares may not be able to deposit the Shares in NLB's GDR facility in order to receive GDRs. Changes in Slovenian regulatory policy with respect to the placement and circulation of the Shares outside the Republic of Slovenia in the form of GDRs or otherwise may negatively affect the market for the Securities being offered including resulting in the cancellation of GDRs.

Whenever:

(i) the GDR Depositary or its agent(s) receives any notice from any governmental or regulatory authority that the existence or operation of a Facility (as defined in the Deposit Agreement) or the holding by the GDR Depositary (or the Custodian or any of their respective nominees) of the Deposited Property violates any applicable law or regulation, or that the GDR Depositary (or the Custodian or any of their respective nominees) is required to make any filing or obtain any consent, approval or licence, or perform any other act or execute any other documents to operate that Facility or to hold or exercise any rights with respect to the Deposited Shares or other Deposited Property (other than such filings, consents, approvals or licences, or acts or documents, which the GDR Depositary in its reasonable discretion considers to be of a routine administrative nature required in the ordinary course of business), or

(ii) the GDR Depositary or the Custodian receives advice from recognised local counsel that the GDR Depositary (or the Custodian or any of their respective nominees) is reasonably likely to be subject to criminal, civil or administrative liabilities as a result of the existence or operation of the Regulation S Facility or the Rule 144A Facility or the holding or exercise by the GDR Depositary (or the Custodian or any of their respective nominees) of any rights with respect to the Deposited Shares or other Deposited Property,

the GDR Depositary may, with (to the extent reasonably practicable) prior notice to the Company and the GDR Holders, cancel a number of the GDRs then outstanding, sell (either by public or private sale and otherwise in its discretion, subject to all applicable laws and regulations) the Deposited Property formerly represented by such GDRs and distribute the net proceeds of such sale as a *pro rata* cash distribution to the GDR Holders entitled thereto, and thereby reduce the GDR Depositary's holdings of any class of Deposited Property below an amount that the GDR Depositary determines to be necessary or advisable. The GDR Depositary shall have no liability for any such action taken in accordance with the Deposit Agreement.

Therefore, it may not be possible to deposit Shares into the GDR programme in order to receive GDRs and under certain circumstances GDR Holders may be required to withdraw Shares from the GDR programme, which may in either case affect the liquidity and the value of the investment.

Investors may be unable to enforce judgements obtained in U.S. courts against the Company

NLB has been incorporated under Slovenian law, none of the NLB's directors and executive officers are residents of the United States and NLB's assets, directors and officers are located outside the United States. As a result, investors in the Securities may be unable to effect service of process on NLB or on these non-U.S. resident directors and officers in the United States, and may be unable to enforce judgements against them obtained in the United States, including actions under the civil liability provisions of U.S. securities laws. In particular, there is no treaty between the United States and the Republic of Slovenia providing for reciprocal recognition and enforcement of foreign court judgements in civil and commercial matters. These limitations may deprive investors of effective legal recourse for claims related to their investment in the Shares and GDRs.

Approvals are required to increase the holding in NLB over certain percentages of its share capital

According to ZBan-2 a person who, or a group of persons acting in concert which has, taken a decision either to acquire, directly or indirectly, Shares (including GDRs issued in respect of Shares) representing at least 10 per cent. of NLB's issued share capital (the "**qualifying holding**"), or to further increase, directly or indirectly, such a qualifying holding as a result of which the proportion of the voting rights or of the capital held would reach or exceed 20 per cent., 1/3 or 50 per cent. or on the basis of which the future qualifying holder would become the parent entity of NLB, is required to apply with the Bank of Slovenia for an approval to acquire such Shares, which may be granted or denied by the ECB on the basis of Council Regulation (EU) No 1024/2013. Failure to obtain such approval will result in the loss of voting rights attributable to such Shares (including GDRs issued in respect of the Shares) for the acquisition of which the approval should been obtained and could result in the imposition of an obligation to dispose of such shares on the holder of such Shares or GDRs issued in respect of the Shares. Although the Shares or GDRs held by an intermediary on behalf of a third party are generally disregarded for the purposes of determining a qualifying holding, it is possible that the Bank of Slovenia will, in enforcing the consequences mentioned above, consider the Shares or GDRs, as applicable, held by such intermediary as Shares beneficially held by such intermediary unless the identity of such third party on behalf of which such Shares or GDRs, as applicable, are held is disclosed, and the voting rights arising out of such Shares or GDRs, as applicable, are exercised solely on the basis of instructions of such third party.

Acquisition of Shares or GDRs representing 1/3 of NLB's issued share capital will trigger the obligation to launch a takeover bid

The Slovenian Takeover Act provides that a person who, or a group of persons acting in concert which acquires, directly or indirectly, Shares, rights to receive Shares or options to purchase Shares which carry at least 1/3 of the voting rights of the Company's shares (the "**bidder**"), is required to launch an offer to purchase the remaining Shares (the "**offer**"). If, following a successful completion of an offer, the bidder acquires additional Shares which carry at least 10 per cent. of the voting rights of the Company's shares, another offer to purchase the remaining Shares must be launched, until the bidder holds Shares which carry at least 75 per cent. of the voting rights of the Company's shares. Similarly, owners of GDRs who hold at least 1/3 of the voting rights of the Company would be considered as indirect owners of Deposited Shares and may, therefore, be subject to the Slovenian Takeover Act.

The price at which the bidder offers to purchase the remaining Shares may not be lower than the highest price at which the bidder purchased the Shares during the 12 months prior to the publication of the offer and may be payable in money or in securities admitted to trading on a regulated market. If, within one year following the successful completion of an offer, the bidder acquires Shares at a price which is higher than the price at which such offer was launched, the bidder is required to pay to all persons who accepted such offer the difference between the price of the offer and such higher price.

Securities holders may be required to comply with requests for information

Securities holders or beneficial owners may, from time to time, be requested by NLB or the GDR Depositary on behalf of NLB to provide information as to the capacity in which they hold the Securities and the nature of their interest and the interest of any other affiliated person in such Securities. Failure to comply with such requests for information may result in breaches of applicable requirements of Slovenian law on the part of NLB and the relevant Securities holder or beneficial owner. Failure to comply with such request could also cause the GDR Depositary (with respect to the GDRs) to take a number of actions, including withholding the execution, delivery or registration of transfer or cancellation of any GDR holding, withholding the distribution of any dividend or distribution of rights or the net proceeds of the sale of deposited property, removing or limiting voting rights or selling or disposing, on behalf of a holder or beneficial owner, the Shares represented by the GDRs held by such holders or beneficial owners until such request is complied with, in each case to the GDR Depositary's reasonable satisfaction and subject to applicable law.

Payments on the Securities may be subject to U.S. withholding tax under FATCA

The United States has enacted rules, commonly referred to as "**FATCA**," that generally impose a reporting and withholding regime with respect to certain U.S. source payments (including dividends and interest), gross proceeds from the disposition of property that can produce U.S. source interest and dividends and certain payments made by, and financial accounts held with, entities that are classified as financial institutions under FATCA. The United States has entered into a Model 1 intergovernmental agreement regarding the implementation of FATCA with the Republic of Slovenia (the "**Model 1 IGA**"). Under the Model 1 IGA, as currently drafted, the Company does not expect payments made on or with respect to the Securities to be subject to withholding under FATCA. However, significant aspects of when and how FATCA will apply remain unclear, and no assurance can be given that withholding under FATCA will not become relevant with respect to payments made on or with respect to the Securities in the future. Prospective investors should consult their own tax advisers regarding the potential impact of FATCA.

3. USE OF PROCEEDS

The New Commitments provide for the reduction of the Selling Shareholder's shareholding in NLB by at least 50 per cent. plus one Share by 31 December 2018 and to 25 per cent. plus one Share by 31 December 2019. To achieve this, the Selling Shareholder is making the Offering.

In the event that the Selling Shareholder is unable to sell at least 10,000,001 Shares (excluding the Overallotment Option) in the Offering, the Offering will not proceed and Admission will not occur.

The Company will not receive any of the proceeds from the sale of Securities by the Selling Shareholder in the Offering.

The total commissions, fees and expenses payable by the Company in connection with the Offering are expected to be approximately EUR 1.6 million (without VAT).

The Selling Shareholder will receive all of the proceeds from the sale of Securities and will use the proceeds from the Offering in accordance with the Public Finance Act and the Budget Act.

The total commissions, fees and expenses payable by the Selling Shareholder in connection with the Offering are expected to be approximately EUR 6.7 million (without VAT), assuming no exercise of the Overallotment Option, or approximately EUR 7 million (without VAT), assuming that the Overallotment Option is exercised. For the avoidance of doubt, both amounts above include the total amount of commissions, fees and charges that the Selling Shareholder will pay to the Managers.

4. DIVIDEND POLICY

The Company is committed to deliver competitive shareholder returns including by paying an attractive dividend, subject always to maintaining a strong balance sheet that will enable the Company to finance its investment needs and to comply with capital requirements. The Management Board recognises the value to shareholders of a stable dividend. The Company paid a dividend on 22 October 2018 to the registered Shareholders of NLB as of 19 October 2018 in line with the decision of the General Meeting of NLB's Shareholders dated 12 October 2018 and in line with the New Commitments in the amount of EUR 270.6 million (which consists of 100 per cent. of net profit for the fiscal year 2017 in the amount of EUR 189.1 million and EUR 81.5 million of retained profit of NLB from previous years). Investors in the Offering will not receive this dividend. The capital management policy states that dividends are to be paid in line with legal and other requirements and providing long-term capital adequacy is of a sufficient level to cover the capital adequacy subject to legal requirements and risk appetite. Subject to the limitations and other factors described herein, in line with its medium-term financial plan, NLB targets to distribute dividends in excess of the NLB Group's target total capital ratio which approximates 70 per cent. of its consolidated group profit in the medium term. The declaration of any dividends in the future will be subject to the discretion of the Management Board and the Supervisory Board or any Shareholder to recommend, subject to all legal limitations and, in each case, the General Meeting of NLB's Shareholders to adopt such dividend. The payment of dividends, if any, by NLB and the amounts and payment date thereof will depend on a number of factors, including NLB's capital structure, risk appetite, profits, financial condition, general economic and business conditions, and future prospects; the ability of NLB's subsidiaries to pay dividends or otherwise transfer funds to NLB; and such other factors as the Management Board and Supervisory Board may deem relevant. There can be no assurance that a dividend will be declared in any given year. If a dividend is declared, there can be no assurance that the dividend payout ratio will be as described above. Moreover, any dividend paid in a given year will not be indicative of any dividends to be paid in any subsequent year. For a description of potential risks relating to the NLB Group's capital, see "*2. Risk Factors—Risks Relating to the Offer and the Securities—There are restrictions on the ability of NLB to pay dividends.*"

The Company has no binding dividend policy in place although the Company has in place an internal dividend policy with respect to capital adequacy and risk appetite, taking into account all legal and other requirements, including the New Commitments. The decision on the application of distributable profit, if any, for distribution as dividends or for any other purpose, is made by a Shareholders' resolution which may be proposed by the Management Board and the Supervisory Board or by any Shareholder. Under the Companies Act, if, according to the Shareholders' resolution no dividends shall be distributed or the amount of dividend per Share shall be less than 4 per cent. of corresponding value of the Share in the registered share capital, such resolution can be challenged by holders of Shares representing 5 per cent. of the Company's share capital or the corresponding value of which is at least EUR 400,000. In such a case the court may change such decision and increase the amount of dividend per Share to 4 per cent. of its corresponding value, unless the Company proves that the decision to distribute dividends in lower amount or not to distribute dividends at all was made diligently and was justified due to the circumstances in which the Company operates.

The provisions of the Companies Act are subject to ZBan-2, which prohibits payments of dividends by the Company to an extent that would decrease its CET1 capital to a level where the CBR is no longer met. If, however, the Company has yet to achieve the CBR, it may pay dividends but is required to (i) calculate the Maximum Distributable Amount (the "**MDA**") and (ii) limit the payment of dividends and other discretionary distributions in line with ZBan-2. The NLB Group fulfilled all of the requirements – with no limitations – related to the CBR and relevant to the NLB Group.

Furthermore, the New Commitments stipulate that based on the audited year end accounts, NLB will pay to its Shareholders for each fiscal year, in the form of dividend disbursement, at least the amount of net income of NLB for such fiscal year (and may, for the avoidance of doubt, each time pay out to its Shareholders in form of dividend disbursement all distributable profit including but not limited to retained profit for the previous fiscal years), subject to the limitations of applicable European and Slovenian regulations and provided that the applicable minimum capital requirement on the consolidated level (increased by any applicable CBR and capital guidance) remains exceeded by a capital buffer of at least 100 basis points. The New Commitments relating to the distribution of dividends remain applicable until the reduction of the Republic of Slovenia's shareholding in NLB to 25 per cent. plus one Share, provided that if the Divestiture Trustee is awarded a mandate to reduce the Republic of Slovenia's shareholding, they cease to apply from 31 December 2018 onward. The same applies if the Republic of Slovenia reduces its shareholding in NLB to 25 per cent. plus one Share by 31 December 2018.

Under the Companies Act and in accordance with the *Statut*, each Share gives its holder the right to receive dividends if and when they are declared by the Shareholders' Meeting. Dividends are distributed to the Shareholders in proportion to their participation in the registered share capital of the Company.

Payment of dividends is made only to Shareholders registered in the register of Shareholders' on the record date set by the Shareholders' resolution approving the dividend distribution.

Any dividends which the Company is unable to pay (due to the Shareholder having incorrect payment details registered with the KDD) which are not claimed within five years from the date on which their payment becomes due may be retained by the Company and may no longer be claimed. The KDD joined the Target 2S system in February 2017 and, as a result, all payments will be paid to the KDD's account and the KDD will be responsible for distributing the dividend to Shareholders.

Under the Companies Act and in accordance with the *Statut*, the Management Board may decide, in accordance with the law, that an interim dividend be paid to Shareholders based on the anticipated distributable profit at the end of the financial year (the Company's financial period begins on 1 January and ends on 31 December). The Management Board may declare an interim dividend provided that the preliminary accounts show a net profit for the previous financial year. In accordance with the law and the Statute, a maximum of one half of the amount remaining from the anticipated net profit after the creation of revenue reserves, which must be formed in accordance with the law or the Statute, may be paid as an interim dividend. Moreover, the amount of interim dividends shall not exceed one half of the distributable profit confirmed in the previous year. The payment of interim dividends shall be approved by the Supervisory Board. The payment of interim dividends does not require Shareholder approval.

The Company declared and paid dividends for the financial years ended 31 December 2015 and 2016. The dividend payment for 2015 was approved by the General Meeting of NLB's Shareholders on 4 August 2016 and payments took place on 8 August 2016, and the dividend payment for 2016 was approved by the General Meeting of NLB's Shareholders on 7 April 2017 and payments took place on 13 April 2017. Following ECB decision no. ECB-SSM-2018-SINLB-5 dated 9 October 2018 lifting the restriction on the distribution for the full amount of the dividend (as described below) and the resulting payment of the dividend (as described above), investors in the Offering will not receive the dividend from profit for the fiscal year 2017 and retained profit from previous years. Subject to the limitations and other factors described herein, in line with its medium-term financial plan, NLB targets to distribute dividends in excess of the NLB Group's target total capital ratio which approximates 70 per cent. of its consolidated group profit in the medium term.

The table below sets forth the actual dividend amounts declared by the Company and approved by the relevant General Meeting of NLB's Shareholders in respect of the years ended 31 December 2015, 2016 and 2017.

	For the year ended 31 December		
	2015	**2016**	**2017**
Dividends			
Dividends distributed to Shareholders (*EUR thousands*)	43,880	63,780	270,600[(1)]
Gross dividend per Share (*EUR/share*)	2.194	3.189	13.53
Dividends distribution rate – NLB on a stand-alone basis[(2)]	100%	100%	143%
Dividends distribution rate – on a consolidated basis[(2)]	47.7%	58.0%	120%
Number of fully paid shares	20,000,000	20,000,000	20,000,000

(1) Consists of EUR 189.1 million of profit for the fiscal year 2017 and EUR 81.5 million of retained profit from previous years.
(2) The dividend distribution rate to Shareholders was calculated on the basis of IFRS financial statements by dividing dividends distributed to Shareholders by net income attributable to the owners of the parent for the year.

To the extent that the Company declares and pays dividends, owners of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Shares underlying the GDRs subject to the terms of the Deposit Agreement.

With the decision no. ECB-SSM-2018-SINLB-1 issued by the ECB on 5 April 2018, distributions by Nova Ljubljanska banka d.d. to its Shareholders were restricted pursuant to Council Regulation (EU) No 1024/2013. This decision was due to the evaluation of the ECB that NLB is exposed to potential losses from pending lawsuits in Croatia initiated by Privredna banka Zagreb and Zagrebačka banka and related to repayment of the deposits of the clients of Ljubljanska banka Zagreb Branch in foreign currency (deposited before the dissolution of the former Socialist Federative Republic of Yugoslavia) and transferred to Privredna banka Zagreb and Zagrebačka Banka in accordance with the Croatian legislation. Subsequent to the decision of the ECB, on 19 July 2018, the National Assembly passed the ZVKNNLB. In accordance with the ZVKNNLB, the Fund shall compensate NLB for the sums recovered from NLB by enforcement of final judgements delivered by Croatian courts with regard to the transferred foreign currency deposits, (i.e. the following sums recovered from NLB by such enforcement: the principle amount, accrued interest, court expenses of the plaintiff, costs of legal representation of the plaintiff and other expenses of the plaintiff and expenses related to enforcement and interest accrued from the enumerated). As a result, the risk for potential losses from pending lawsuits in Croatia has reduced significantly.

Based on such changed circumstances and according to the above-mentioned decision of the ECB, NLB applied for the approval of the ECB to make the proposal to the General Meeting of NLB's Shareholders for distributing dividends in the total amount of net income for the fiscal year 2017 and retained profit from previous years. With the decision no. ECB-SSM-2018-SINLB-5 dated 9 October 2018, the ECB permitted the distribution of the dividends in the amount of net income for the fiscal year 2017 and retained profit from previous years and lifted the general restriction on dividends distributions. In accordance with the decision of the ECB, NLB proposed this dividend distribution to the General Meeting of NLB's Shareholders, following which the Shareholders approved the distribution of the dividends in the amount of net income for the fiscal year 2017 and retained profit from previous years.

As permitted by the ECB, the interim profit resulting from NLB's semi-annual financial statements as of 30 June 2018 was included in its CET1 capital on 30 September 2018, on both an individual and consolidated basis. It is expected that NLB will also partially include its profits for the financial year ending 31 December 2018 in its CET1 capital before the formal decision confirming the final profit for 2018 is taken by NLB, subject to obtaining permission from the ECB. In accordance with the regulatory requirements for the inclusion of the interim profit resulting from NLB's semi-annual financial statements as of 30 June 2018 in CET1 capital, the Management Board of NLB adopted a resolution to propose to the Supervisory Board of NLB and to the General Meeting of NLB's Shareholders the allocation of the interim profit resulting from NLB's semi-annual financial statements as of 30 June 2018 (EUR 103.3 million on the NLB level and EUR 108.8 million on the NLB Group level) into retained earnings, and consequently not to distribute this amount as dividend. In addition, NLB has agreed with the ECB that it will include a portion of its profit for the financial year ending 31 December 2018 that is sufficient to maintain the NLB Group's total capital ratio above 17 per cent. As a result, it is expected that the Management Board of NLB will propose to the Supervisory Board of NLB and to the General Meeting of NLB's Shareholders the allocation of that portion of the year-end profits into retained earnings, and consequently not to distribute such amount as dividend. The declaration of dividends for the financial year ending 31 December 2018 will be subject to all legal limitations and the General Meeting of NLB's Shareholders to adopt such dividend. Additionally, the New Commitments are expected to provide greater flexibility for the distribution of dividends for 2018 by requiring NLB to issue a Tier 2 instrument by the end of 2019, given that this will increase NLB's Total Capital Ratio. Pursuant to regulatory capital requirements, a Tier 2 instrument can be included in a bank's Total Capital Ratio within the Pillar 1 requirement in an amount up to 2 per cent. (see "*15. Regulation of the banking sector in the Republic of Slovenia—Capital requirements and risk management requirements*").

5. CAPITALISATION AND INDEBTEDNESS

The following table sets forth the capitalisation and indebtedness of the NLB Group as at 30 September 2018. The balances as at 30 September are unaudited and unreviewed. The following tables should be read in conjunction with "*7. Selected Financial and Other Information*", "*3. Use of Proceeds*", "*8. Operating and Financial Review*", "*6. Business*" and the Financial Statements and the related notes thereto.

	As at 30 September 2018
	(EUR millions)
Long-term debt:	
Senior secured debt	12.2
Senior unsecured debt	317.4
Subordinated long-term debt	15.3
Total long-term debt	**344.9**
Equity attributable to equity holders of the parent:	
Share capital	200.0
Share premium	871.4
Profit reserves[1]	13.5
Property, plant and equipment revaluation reserve	0.0
Financial assets measured at fair value through other comprehensive income	34.2
Actuarial defined benefit pension plans	(4.4)
Foreign currency translation	(18.3)
Hedge on net investment in foreign operations	0.8
Retained earnings	747.3
Total equity attributable to equity holders of the parent	**1,844.5**
Non-controlling interest	40.1
Total capitalisation	**1,884.6**

(1) Profit reserves relate entirely to legal reserves in accordance with the Companies Act.

In September 2018, NLB applied for formal approval from the ECB to pay-out the dividends in the total amount of EUR 270.6 million (which consists of EUR 189.1 million of profit for the fiscal year 2017 and EUR 81.5 million of retained profit of NLB from previous years). Pursuant to decision no. ECB-SSM-2018-SINLB-5 dated 9 October 2018, the ECB permitted the distribution of the dividends for the fiscal year 2017 and retained profit from previous years and lifted the general restriction on dividends distributions. In accordance with the decision of the ECB, NLB proposed this dividend distribution to the General Assembly of NLB's Shareholders, following which the Shareholders approved the distribution of the dividends for the fiscal year 2017 and retained profit from previous years. The Company paid a dividend on 22 October 2018 to the registered Shareholders of NLB as of 19 October 2018 in line with the decision of the General Meeting of NLB's Shareholders dated 12 October 2018 and in line with the New Commitments in the amount of EUR 270.6 million (which consists of 100 per cent. of net profit for the fiscal year 2017 in the amount of EUR 189.1 million and EUR 81.5 million of retained profit of NLB from previous years). For further information, see "*4. Dividend Policy*".

6. BUSINESS

6.1 OVERVIEW

NLB, along with its consolidated subsidiaries, associates and joint ventures (the "**NLB Group**" or the "Group") is a Slovenian banking and financial group. After having consolidated its leading market positions in its home market of the Republic of Slovenia in the late 1990s and early 2000s, NLB focused on expanding its business in Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia (together with the Republic of Slovenia, "**Southeastern Europe**") between 2000 and 2008. From the onset of the global financial crisis in 2008, NLB began reducing the number of companies in the NLB Group and made changes to its corporate governance and organisational structure, including reductions in the number of companies through mergers of subsidiaries operating on the same markets (i.e. mergers of Slovenian banking subsidiaries, leasing companies in the Republic of Slovenia, banks in Serbia, Montenegro etc.) for synergistic and cost rationalisation reasons. Since 2010, the NLB Group has seen a divestment of non core subsidiaries based on the new strategy and restructuring plan, with the aim to re-establish sustainable operations. This restructuring was accelerated after the year 2011, when the NLB Group implemented a strategy of focusing on its core activities while gradually withdrawing from other (non-core) activities with a view to improving its competitive position and financial performance).

As at 30 June 2018, the NLB Group's core and non-core activities consisted of seven banks and several companies located in the Republic of Slovenia and elsewhere. The core activities of the NLB Group principally comprise banking, asset management (investment funds) and life insurance. The key core market of the NLB Group is NLB's home market, the Republic of Slovenia, where 51.5 per cent. of the NLB Group's income was generated in the first half of 2018. Other core markets include those markets where the NLB Group carries out banking activities, namely: Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia and Serbia.

The NLB Group provides services to corporate and retail clients and had 5,956 employees as at 30 June 2018. The NLB Group had a total of 349 branches as at 30 June 2018, of which 108 branches operate in the Republic of Slovenia and 241 operate in the markets of the remainder of Southeastern Europe. Core markets and activities of the NLB Group include banking services (corporate and retail activities in the Republic of Slovenia), asset management and bancassurance products, financial markets in the Republic of Slovenia and core foreign markets (which includes six banks and two SPVs), while non-core markets and activities of the NLB Group consist of non-core NLB Group members (legacy leasing, factoring/trade finance and real estate activities in the Republic of Slovenia and abroad, mostly in Southeastern Europe), the non-core part of NLB's portfolio (which includes, among others, operations with foreign clients), as well as some non-core equity investments to be divested.

For the six months ended 30 June 2018 and for the year 2017 the NLB Group recorded a net profit attributable to Shareholders equal to EUR 104.8 million and EUR 225.1 million, respectively.

As at 30 June 2018 and 31 December 2017, the NLB Group had total assets of EUR 12,516 million and EUR 12,238 million, respectively, of which core markets and activities represent 97 per cent. and 97 per cent., respectively, of the NLB Group total assets and non-core markets and activities represent the remaining 3 per cent. and 3 per cent., respectively. The NLB Group had EUR 7,059 million (in accordance with IFRS 9) and EUR 6,994 million of loans and advances to customers (net) (in accordance with IFRS 8), EUR 10,018 million and EUR 9,879 million in customer deposits and EUR 1,797 million and EUR 1,654 million in Shareholders' equity (without non-controlling interest) as at 30 June 2018 and 31 December 2017, respectively.

NLB is the NLB Group's largest operating entity with total assets representing 66 per cent. of the total assets of the NLB Group as at 30 June 2018 and is the leading bank in the Slovenian market with a market share of 23.2 per cent. by total assets (based on data from the Bank of Slovenia as of 30 June 2018), with the largest client base in the Republic of Slovenia, consisting of more than 46 thousand corporate and nearly 740 thousand retail clients as at 30 June 2018. NLB maintains a diversified funding structure underpinned by non-banking sector deposits (77.2 per cent. of total liabilities and equity), with only 3.5 per cent. of total liabilities and equity attributable to wholesale borrowings as at 30 June 2018. NLB had 2,746 employees as of 30 June 2018. NLB is the parent company of the subsidiaries of the NLB Group and as such is responsible for determining the NLB Group's strategic direction in addition to defining the objectives of individual subsidiaries, providing operational support and monitoring risks.

6.2 COMPETITIVE STRENGTHS

The largest banking and financial group in the Republic of Slovenia, with a track record of innovation

NLB is the largest banking and financial group in the Republic of Slovenia with a 20.8 per cent. market share in loans to the non-banking sector and 24.6 per cent. in deposits from the non-banking sector as at 30 June 2018. Slovenian operations of the NLB Group had EUR 4,901 million and EUR 4,738 million of gross loans and advances to the non-banking sector (accounting for 64.1 per cent. and 62.2 per cent. of total gross loans) and EUR 6,801 million and EUR 6,872 million of deposits from the non-banking sector (accounting for 68.8 per cent. and 68.6 per cent. of total deposits from the non-banking sector) as at 31 December 2017 and 30 June 2018, respectively.

As at 30 June 2018, NLB in the Republic of Slovenia had 108 branches, five business centres for small business clients, five regional centres for mid-sized companies and two centres for large and institutional clients. As such, NLB served over 688 thousand active client (defined as a client which holds for a period not shorter than one month any investment-saving product, a positive balance or loan/deposit/guarantee product or insurance business or who made at least one debit bank account or credit card transaction in the previous three months) across its retail and corporate banking operations. NLB's management believes that NLB's extensive footprint and strong customer relationships in the Slovenian market allow it to compete more effectively for lending and other revenue opportunities. NLB's comprehensive and well-distributed branch network allows it to fully cover all regions of the Republic of Slovenia while benefitting from economies of scale.

NLB is the market leader in Slovenian retail banking, with a 23.3 per cent. market share in net loans, and 30.4 per cent. market share in deposits, and corporate banking, with a 19.4 per cent. market share in net loans, as at 30 June 2018 (source: Bank of Slovenia and NLB's internal calculations). NLB is the largest player in asset management and private banking in the Republic of Slovenia, with growing life and non-life insurance offerings, with gross premiums written of EUR 74 million (including EUR 6.3 million of non-life insurance premiums) in 2017 or EUR 40.7 million (EUR 3.6 million), respectively, in the six months ended 30 June 2018. NLB is increasingly serving Slovenian retail clients via online and mobile banking apps with ongoing enhancements. NLB's mobile banking apps are the top ranked financial apps in Slovenia (based on user ratings in the Apple App Store and Google Play, each as of 22 August 2018), offering clients new functionalities as the first and only in the market (e.g. chat and video call functionality, Express loan). In addition, NLB has been the first bank to introduce new capabilities in the Slovenian market (e.g. contactless ATMs, 24/7 support via phone through its contact centre and via chat or video call through its online and mobile banking apps).

NLB's management believes that, as the largest bank in the Republic of Slovenia, NLB has the highest capacity to lend to and comprehensively serve corporate clients. NLB's fee-generating corporate products, including merchant acquiring, investment banking and custody solutions, are market-leading in the Republic of Slovenia and result in growing non-interest income from corporate clients.

The overview below shows a comparison of NLB with its major competitors in the Republic of Slovenia:

	NLB	**ABANKA**	**Nova KBM**	**SKB**	**Intesa Sanpaolo**
Total Net loans to customers from non-banking sector[(1)] (*EUR millions*)	4,547[(3)]	1,930	2,382	2,174	1,662
Customer Deposits from non-banking sector[(1)] (*EUR millions*)	6,879[(4)]	2,908	3,651	2,370	1,993
Number of branches in network[(2)]	108	57	60	55	52

(1) Net loans and deposits from non-banking sector for NLB as at 30 June 2018, other banks as at 31 March 2018 (latest available).
(2) Branches: NLB as at 30 June 2018; other banks as at 31 December 2017.
(3) 20.8 per cent. market share as at 30 June 2018.
(4) 24.6 per cent. market share as at 30 June 2018.

Leading position in selected Southeastern European markets with increasing contribution to group profit

The NLB Group is the largest banking and financial group in Southeastern Europe with an exclusive focus on and headquarters in this region. The NLB Group's core international markets include Macedonia, Bosnia and Herzegovina, Montenegro, Kosovo and Serbia, where the NLB Group operates through its banking subsidiaries (together with the Republic of Slovenia, the "**Core NLB Group Members**"). NLB's management believes that Southeastern European markets outside of the Republic of Slovenia present attractive opportunities to capture superior growth and take advantage of the experience that it has accumulated in the region. In particular, growth is likely to be driven by (i) favourable economic trends in the Southeastern Europe markets outside the Republic of Slovenia that are strategic to NLB, with 3.5 per cent. weighted average real GDP growth expected by the IMF between 2018 and 2020, as compared to 2.0 per cent. in the Eurozone, (ii) favourable demographic trends and decreasing unemployment rate in core countries (according to IMF World Economic Outlook Database, except Kosovo and Montenegro which data is derived from national statistical offices), with a 17.9 per cent. weighted average rate in 2017 as compared to 23.5 per cent. in 2014, and (iii) a low simple average household indebtedness of approximately 22.4 per cent. of GDP, as of 31 December 2017 as compared to 58.0 per cent. in the Eurozone as of 31 December 2017 (source: the last publicly available data from national statistical offices and central banks are used for the NLB Group's core international markets, while data from the Bank for International Settlements (BIS) is used for the Eurozone; for the NLB Group's core international markets and for the Eurozone the latest available data is available as of December 2017).

The following table sets forth macroeconomic indicators of the Southeastern European countries in which the NLB Group's subsidiaries are present as at 31 December 2017 (unless otherwise noted):

2017	Macedonia	Bosnia and Herzegovina(1)	Montenegro	Kosovo	Serbia	Total / Average
Population (*millions*)	2.1	3.5	0.6	1.8	7.0	15.0
GDP(3) (*EUR billions*)	10.1	16.3	4.2	6.4	36.8	73.8
GDP/Capita (*EUR thousands*)	4.8	4.6	6.8	3.6	5.2	5.0
Real GDP growth	0.0%	3.1%	4.3%	4.2%	1.9%	2.7%
Average inflation	1.4%	1.2%	2.4%	1.5%	3.0%	1.9%
Government debt to GDP ratio	39.3%	33.4(5)	62.5%	16.6%	61.5%	42.7%
Household debt to GDP ratio(4)	22.8%	27.5%	27.1%	14.3%	20.3%	22.4%
Currency	MKD	EUR(2)	EUR	EUR	RSD	n/a
Credit rating (Moody's / S&P)	n/a / BB-	B3 / B	B1 / B+	n/a / n/a	Ba3 / BB	n/a

Sources: IMF, World Bank, respective statistical offices and central banks, Trading economics data, CEIC data, Focus Economics.

(1) Bosnia and Herzegovina is comprised of two entities, The Federation of Bosnia and Herzegovina and Republika Srpska.

(2) Official currency is BAM – Bosnia-Herzegovina Convertible Mark, pegged to EUR.

(3) Converted at average foreign exchange rate for 2017.

(4) Own calculation.

(5) Data for 2016.

As at 30 June 2018, the NLB Group operated 241 branches in the region (in addition to 108 branches in the Republic of Slovenia), covering a population of approximately 15 million. NLB's subsidiaries serve retail, SME and corporate clients offering a full range of banking products services. NLB's subsidiary banks in Macedonia, Republika Srpska (one of the two constituent entities of Bosnia and Herzegovina, along with the Federation of Bosnia and Herzegovina) and Kosovo are ranked third or above in their respective markets by total assets and benefit from strong brand recognition.

NLB's subsidiaries in strategic foreign markets have EUR 4.0 billion and EUR 3.9 billion of total assets and account for 36.8 per cent. and 34.8 per cent. of total gross loans and advances to customers and 48.8 per cent. and 43.0 per cent. of the NLB Group's profit-before-tax for the six months ended 30 June 2018 and the year ending 31 December 2017, respectively. In 2016 and 2017, all banking subsidiaries were profitable.

The following table sets forth the market position of the NLB Group's subsidiaries in Southeastern Europe as at 30 June 2018:

	Macedonia	Bosnia and Herzegovina		Montenegro	Kosovo	Serbia
	NLB Banka, Skopje	NLB Banka, Banja Luka	NLB Banka, Sarajevo	NLB Banka, Podgorica	NLB Banka, Prishtina	NLB Banka, Belgrade
NLB ownership	87%	100%	97%	99%	81%	100%
Number of branches	52	58	38	18	44	31
Active clients	384,513	221,709	137,206	59,900	199,420	134,556
Market share(1)	15.9%	18.8%	5.2%	10.9%	16.3%	1.4%
Net interest margin	3.9%	2.6%	3.2%	3.9%	4.3%	5.1%
Cost-to-income ratio	30.5%	46.2%	54.8%	53.2%	39.2%	77.2%
Loans-to-deposit ratio (net)	83.2%	66.1%	80.5%	78.9%	83.6%	99.1%

	Macedonia	Bosnia and Herzegovina		Montenegro	Kosovo	Serbia
	NLB Banka, Skopje	NLB Banka, Banja Luka	NLB Banka, Sarajevo	NLB Banka, Podgorica	NLB Banka, Prishtina	NLB Banka, Belgrade
Capital adequacy[(2)]	16.7%	16.7%	17.3%	16.7%	13.9%	18.4%
ROE a.t.	25.3%	22.1%	14.9%	16.3%	21.6%	7.8%
Total assets (*EUR millions*)	1,231	693	548	469	616	417

(1) Market share by total assets as at 30 June 2018, except for Serbia, Republika Srpska (NLB Banka Banja Luka) and the Federation of Bosnia and Herzegovina (NLB Banka Sarajevo) which is as at 31 March 2018.

(2) As at 30 June 2018: a minimum required level of capital adequacy is, in general, higher than 8 per cent., with most countries setting the minimum above it (12 per cent. in Bosnia and Hercegovina, Kosovo and 10 per cent. in Montenegro). In line with newly adopted regulation, which align to CRR rules more closely, minimum capital adequacy requirements in Macedonia and Serbia were set at 8 per cent. However, these requirements are not directly or fully comparable to the EU requirement for a minimum required level of capital adequacy, as the definitions of RWA and capital may differ.

Return to sustainable profitability following a successful business transformation

The NLB Group's management believes its restructuring efforts since the Bail-In and Recapitalisation (see "*—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy* ") have been reflected in its profitability, as the NLB Group has recorded 18 consecutive profitable quarters since the fourth quarter of 2013, with total assets having increased by EUR 695 million between 31 December 2015 and 30 June 2018, and a decrease in the NPL ratio from 19.3 to 8.3 per cent. Furthermore, restructuring efforts in international businesses resulted in all core bank subsidiaries being profitable in 2015, 2016 and 2017, mostly with significant year-on-year increases.

Since 2012, the NLB Group has been undertaking various initiatives as part of a comprehensive transformation programme (the "**Transformation Programme**") to ensure the NLB Group is focused on core operations and a sustainably profitable business as well as to ensure compliance with Commitments under the Restructuring Plan (as defined below). In particular, the NLB Group has restructured its business, focusing on its core banking business in core markets while winding down non-core operations. The NLB Group has also downsized its branch network and headcount in the Republic of Slovenia (as discussed above), increased operating efficiency, comprehensively restructured its risk management function and implemented measures to enhance corporate governance and corporate culture.

Self-funded, and well-capitalised business with growth potential, supporting attractive future dividend payout

The NLB Group is a strongly capitalised business with a CET1 ratio of 18.7 per cent. (including unallocated profit for the year 2017 in the amount of EUR 189.1 million) and 15.9 per cent. (envisaging a dividend payment in 100% profit after tax of NLB, or EUR 189.1 million) as at 30 June 2018 and 31 December 2017, respectively, providing a significant safety buffer above the minimum regulatory capital requirements set by the ECB and comprising a 12.75 per cent. OCR as at 31 December 2017. From 1 January 2018, the OCR (including the Pillar I requirement, the Pillar II requirement and the CBR) has been set at 13.375 per cent. and allows for inclusion of up to 2 per cent. of Tier 2 instruments and 1.5 per cent. of Additional Tier 1 instruments. NLB's capital base consisted of only CET1 capital at a NLB Group level standing at EUR 1,623.1 million and EUR 1,362.1 million as at 30 June 2018 and 31 December 2017, respectively. As NLB does not have any outstanding subordinated securities, it is not currently taking advantage of regulatory allowances for the inclusion of subordinated instruments in its regulatory capital but intends to issue Tier 2 instruments in future in line with the New Commitments. Rebalancing the capital structure towards Tier 2 could result in both capital distributions to Shareholders and an improvement in ROE (provided that ROE is above debt costs). For a description of potential risks relating to the NLB Group's capital, see "*2. Risk Factors—Risks Relating to NLB and the Group—NLB may be required to increase its capital in the future for a range of different reasons, including as a result of changing regulatory requirements, and may experience material difficulty in raising any such additional capital and other Group banks are subject to capital requirements in their own jurisdictions of operation and any failure by one or more of these banks to maintain appropriate levels of capital could have a material adverse effect on the NLB Group.*"

The NLB Group's strong retail franchise provides a stable and price-insensitive deposits base, corresponding to 73 per cent. and 71 per cent. of total funding as at 30 June 2018 and 31 December 2017, respectively.

Liquidity risk profile of the NLB Group remains conservative due to low LTD and a strong liquidity buffer that can provide funding for future core growth.

The NLB Group banking members are self-funded with a LTD below 100 per cent., as their funding structure is primarily deposit driven and non-banking sector deposits have proved to be stable in recent years. In 2017, EUR 9,879 million of the NLB Group's total liabilities of EUR 10,550 million was derived from non-banking sector deposits, as compared to EUR 9,439 million in non-banking sector deposits out of total liabilities of EUR 10,513 million in 2016. Furthermore, none of the NLB Group's funding was derived from the ECB in 2017. Intra-group borrowings are an immaterial funding source for the NLB Group banking members and is provided mostly from NLB. The share of intra group borrowings in total liabilities in Group banking members is on average only 2.0 per cent. The NLB Group banking members maintain relatively high liquidity reserves to fulfil liquidity regulatory requirements and have a solid capital base.

48 per cent. of the NLB Group's net profit attributable to owners of the parent for 2015 were paid out in August 2016 and 58 per cent. of the NLB Group's net profit attributable to owners of the parent for 2016 were paid out in April 2017. At the end of 2016, retained earnings of NLB amounted to EUR 145.3 million, exceeding the dividend for 2016 by EUR 81.5 million (payout of the retained earnings was restricted under the EC decision of December 2013 Commitments, however in the Final EC Decision this restriction was lifted and the New Commitments do not contain such a restriction and according to the New Commitments, NLB's retained earnings (retained profit) can be distributed to its Shareholders in the form of dividends – see "*6. Business – EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy*").

Diversified credit portfolio with important progress in asset quality

Although the NLB Group is concentrated in Southeastern Europe, the NLB Group's credit portfolio of EUR 9,090 million as at 30 June 2018 is well diversified without any large concentration in any specific industry or client segment. For example, the portfolio consists of 19.4 per cent. large corporate, 23.2 per cent. SMEs and 39.5 per cent. retail, with the remainder of the portfolio made up of other liquid assets. Geographically, loans in the Republic of Slovenia account for 53.6 per cent. of the total portfolio and 82.2 per cent. is denominated in euro as at 30 June 2018.

The NLB Group applies a conservative, disciplined and sustainable credit policy and regularly monitors effectiveness of its risk management processes to identify, monitor and control or mitigate material risks, including loan approval processes, proactive handling of problematic customers, changes in credit processes and early warning system for detecting increased credit risk. A prudent credit approach and the improved economic environment in the NLB Group's core countries of operation have resulted in moderate formation of NPLs and a sustainable cost of risk.

The NLB Group has taken an active approach to the management of its NPL stock with dedicated internal units focused on NPL restructurings, collections and workout. NLB places a strong emphasis on restructuring with 61 per cent. of NPLs were restructured (as at 30 June 2018) and active NPL reduction, demonstrated in 2016 through the successful sale to international investors of a portfolio comprised of Slovenian retail and corporate NPLs, with gross book values of EUR 112 million and EUR 396 million, respectively, which resulted in a reduction in NPLs of EUR 233.3 million (the "**2016 NPL Sale**"). Due to an active approach to the management of its NPL stock and in part as a result of the success of the 2016 NPL Sale, the NLB Group's NPL ratio as at 30 June 2018 decreased to 8.3 per cent. (5.8 per cent. in terms of NPE ratio by EBA methodology) from a peak of 28.2 per cent. as at 31 December 2012, while the coverage ratio (impairments on the entire loan portfolio divided by gross non-performing loan portfolio) increased from 59.3 per cent. to 73.7 per cent. over the same period.

In addition, the NLB Group is currently undertaking certain portfolio sales and the largest ongoing portfolio sale is a sale of a corporate NPE in the gross amount of EUR 75 million of claims in Serbia, held by NLB Banka a.d., Beograd. The binding offers are expected in the last quarter of 2018. In June 2018, the NLB Group also initiated a disposal process of non-performing assets in Croatia. As of the date of this Prospectus, the process is in the preliminary phase and the final portfolio perimeters are not yet defined, and as a result it is not expected that this disposal will close in 2018.

An important strength of the NLB Group is its coverage ratio (impairments on the entire loan portfolio divided by gross non-performing loan portfolio), which remains at 73.7 per cent. as at 30 June 2018. Furthermore, the NLB Group's NPL coverage ratio (impairments on the NPL loan portfolio divided by gross non-performing loan portfolio) grew to 64.0 per cent. as at 30 June 2018, which is above the EU average published by EBA (46.3 per cent. for the first quarter of 2018), and which should enable further reduction of NPLs without significant influence on cost of risk in the coming years.

6.3 STRATEGY

The NLB Group has successfully undertaken restructuring measures over the last three years, thereby stabilising its business and returning to profit in all of its core markets. Furthermore, after years of turmoil, the NLB Group is facing more benign macroeconomic conditions across Southeastern European markets and improving banking sector performance. Nevertheless, the NLB Group is fully conscious of future challenges to sustain its profitability and achieve growth.

Trends

The NLB Group's management believes that the following key trends and challenges, amongst others, may affect the NLB Group's strategy and business model going forward:

- ***Regulatory interventions and further complexity through new directives.***

Changes to and developments in the existing local and supranational regulatory regimes under which the NLB Group operates regularly, including SREP, BRRD and Basel IV, present demands on the operations of the NLB Group. The large number of regulatory and supervisory requirements represents a significant burden on bank operations, IT platforms, and management time and focus. Such regulatory conditions and developments are described in detail in "*15. Regulation of the Banking Sector in the Republic of Slovenia*".

- ***Market consolidation.***

Since the beginning of 2014, the Slovenian banking sector has gradually undergone a process of consolidation, including the liquidations of Factor banka and Probanka and the merger of Abanka and Banka Celje. In 2015, the private equity fund, Apollo, acquired Nova KBM d.d., the third largest bank in the Republic of Slovenia, and, in 2016, Apollo acquired the Slovenian subsidiary of Raiffeisen. The Slovenian government is expected to soon divest its second largest banking group in the country, Abanka, which will further consolidate the Slovenian banking market (particularly, if the potential buyer is one of the existing competitors in the market) for further information see "*2. Risk Factors—The NLB Group may be negatively affected by increased competition*".

- ***Political and geopolitical risks.***

Challenging economic developments in the EU and Eurozone, ongoing socio-political crises in the Middle East and the resulting European refugee crisis, danger of trade war and other developments have increased political and geopolitical risks.

- ***Challenging economic conditions with low interest rates.***

Low interest rates (as the function of ECB monetary policy), subdued credit demand and high competition will continue to exert pressure on net interest margins and consequently profitability in the banking sector.

- ***More demanding and knowledgeable clients with a preference for digital channels.***

The development of new technologies brings new methods of operations and new business models wherein customers can afford to forgo traditional banks and switch to alternative channels and providers of banking services. Customers are increasingly seeking more personalised products and services and expect a wide range of digital solutions. Changing customer expectations require transparent operations and information on demand, as well as completing transactions in real time and through mobile platforms. However, certain of NLB's core markets represent relatively slow-adjusting legal environments and cash driven societies. Consequently, bank branches in these markets are still registering a high degree of customer visits.

- ***Product competition from new, lower cost entrants.***

Emerging business models using new technology to re-invent key elements of financial services, including payment specialists and peer-to-peer lenders, bring together borrowers and investors in a highly cost-efficient manner. These alternative financial service providers may innovate around the universal banking model and undermine the traditional, integrated bank business model. However, modest sizes, a moderate level of technological savvy and fragmented markets in Southeastern Europe should also be considered, as this has discouraged larger banking groups and alternative financial services providers from entering these markets due to difficulties in achieving sufficient volume of operations.

- ***Enhanced customer insights through "Big-Data" and social media.***

"Big-Data" allows for banks and financial institutions to take advantage of vast and nuanced information on client behaviours and preferences in order to innovate and develop new client solutions. With "Big-Data" analytics and the impact of social media, organisations can gather user insights in order to improve their offerings as well as their business and relationships.

To address these trends and challenges, the NLB Group has reconfirmed its mission and values and developed a renewed strategy.

Strategy of the NLB Group through 2020

The NLB Group's strategy, which was approved by Supervisory Board of NLB on 26 August 2016, includes a collection of strategic initiatives with short- and medium-term impact that aims to modernise and improve the NLB Group's operations, enhance revenues, reduce costs and improve its growth prospects. Key priorities of the NLB Group's strategy are as follows:

Innovation for customers

- An omni-channel product distribution initiative aims to focus on customer activities enabled across multiple digital and traditional channels in order to enhance customer experience and reduce costs by encouraging migration to lower cost and remote channels available 24/7. The NLB Group has set the following KPI targets for 2020 as part of its omni-channel initiative:
    - 100% of eligible products with omni-channel availability;
    - 70% of services online for Retail clients;
    - 40% of Retail clients using online or mobile channels; and
    - 60% of transactions made by Retail clients via online or mobile channel.
- Partnership programmes are intended to be implemented in order to establish impactful and long-standing partnerships that aim to strengthen customer relationships by creating additional products and services for customers.
- End-to-end customer solutions aim to differentiate NLB from competition by increasing cross selling potential and transforming NLB from a stand-alone product provider to a partner offering comprehensive solution within an ecosystem of services.

Optimise product offering

- A pricing optimisation initiative aims to align list price levels with product value and competition, differentiate pricing levels in line with market position and demand and improve price realisation.
- Improvements to the NLB Group's customer value proposition and approach to sales, aim to develop, bundle and combine products and services to increase sales across all segments.
- Enhance support to large corporate clients requiring financial services across Southeastern Europe.
- Increased focus on fee-based products through the exploitation of investment and insurance product sales potential within the NLB Group.

Simplicity champion

- Redesigning of end-to-end processes and reductions in manual workload through the automation of back-office activities aim to simplify and appropriately scale the NLB Group's operations and reductions of the NLB Group's workforce.

- Stricter procurement strategy, efficiency improvements in facility management and other cost measures aim to optimise the operations of the NLB Group.

- Transformation and modernisation of the NLB Group's IT operations to more effectively support business initiatives of the NLB Group's overall strategy.

Smart banking

- Pricing incentives, improvements to the client's digital experience and a focus on advisory rather than transaction services by branches aim to promote the migration of standardized routine transactions to digital channels.

- Effective steering of sales tasks, revisions to incentives and profitability targets for sales staff and staff-wide trainings and knowledge sharing programs aim to improve sales processes of the NLB Group.

- Extracting value-creating insights from customer data to enable more targeted and client relevant cross-selling, up-selling and customer acquisition.

Measured risk taking

- Improvements to risk governance, risk modelling, collection efficiency and credit processes to accelerate and enhance decision-making in risk taking thereby improving customer experience.

Engaged employees

- Fostering a cooperative and engaging working environment to better motivate our staff and increase their participation in the NLB Group's evolution.

- Promotion of initiatives to improve skills and capabilities of our staff.

- Promotion of a culture of cooperation and performance across the NLB Group.

The above selected strategic initiatives are allocated to three categories depending on time and complexity of implementation:

1. Revenue or cost initiatives that impact results in a short time horizon and allow the funding of larger projects, including implementation of risk transformation program, pricing excellence for retail and small business, sales force excellence for retail and small business and non-personnel cost reduction program.

2. Initiatives that take longer to execute and realise their full benefits but are essential elements of a better competitive position, including development and implementation of products/offerings for retail, small business, mid-corporate and key-accounts, implementation of operational excellence through rightsizing front-and back-offices, and streamlining support functions, implementation of omni-channel user experiences, based on improved customer insight.

3. Initiatives that focus on building new capabilities and establish models of cooperation to accelerate the implementation of change processes, including improvement of the NLB Group's deployment of end-to-end lean process improvements and lean governance as well as enhancing employee engagement and corporate culture.

IT development strategy

The NLB Group's management considers technology to be an important factor for the NLB Group's future success in achieving its key strategic priorities. As a result, the NLB Group has prepared an IT development strategy which aims to complement business initiatives of the NLB Group strategy, taking into account the requirements to provide high quality and secure services, while controlling costs and supporting innovation. The IT strategy aims to define the future NLB IT landscape needed to support business goals, including target IT architecture, implementation scenarios, roadmap and resources requirements and financial dynamics.

The strategic change in operations described above is based on selected business initiatives that are supported by IT changes in seven key areas, including data management, digital front-ends (for customers and employees), sales (customer relations management ("**CRM**") and business processes), integration platform (group banks, third-parties), financial markets, payments and core banking.

The aim of the IT strategy implementation activities is also to assess the existing foundations already available at the NLB Group which require greater focus as well as identifying the areas where NLB can add to or change information systems. The IT strategy foresees significant changes in the IT architecture either through upgrades or by introducing new systems that support those capabilities expected from a modern bank.

The focus of the transformation is for NLB to better understand and know its customers, driven by improved data (quality and availability), a modern CRM support and enhanced customer experience. Through these initiatives NLB aims to achieve a more agile, flexible and cost optimised IT landscape and operations.

6.4 MEDIUM-TERM STRATEGIC AND FINANCIAL TARGETS

The NLB Group's management has set the following medium-term financial targets as part of its five-year plan for the years 2019 to 2023, which was approved by the Supervisory Board in September 2018 and updated certain of the NLB Group's "Strategy 2020" targets approved by the Supervisory Board in August 2016:

- net interest margin above 2.7 per cent.;
- loans to deposits ratio below 95 per cent.;
- total capital ratio at approximately 17 per cent.;
- cost-income ratio at approximately 50 per cent.;
- cost of risk less than 90 bps;
- NPE ratio (as calculated in line with guidance published by the EBA) between 3 and 4 per cent.;
- ROE at approximately 12 per cent.; and
- dividend payout (as a percentage of Group profits) above 70 per cent.

(together, the "**Targets**").

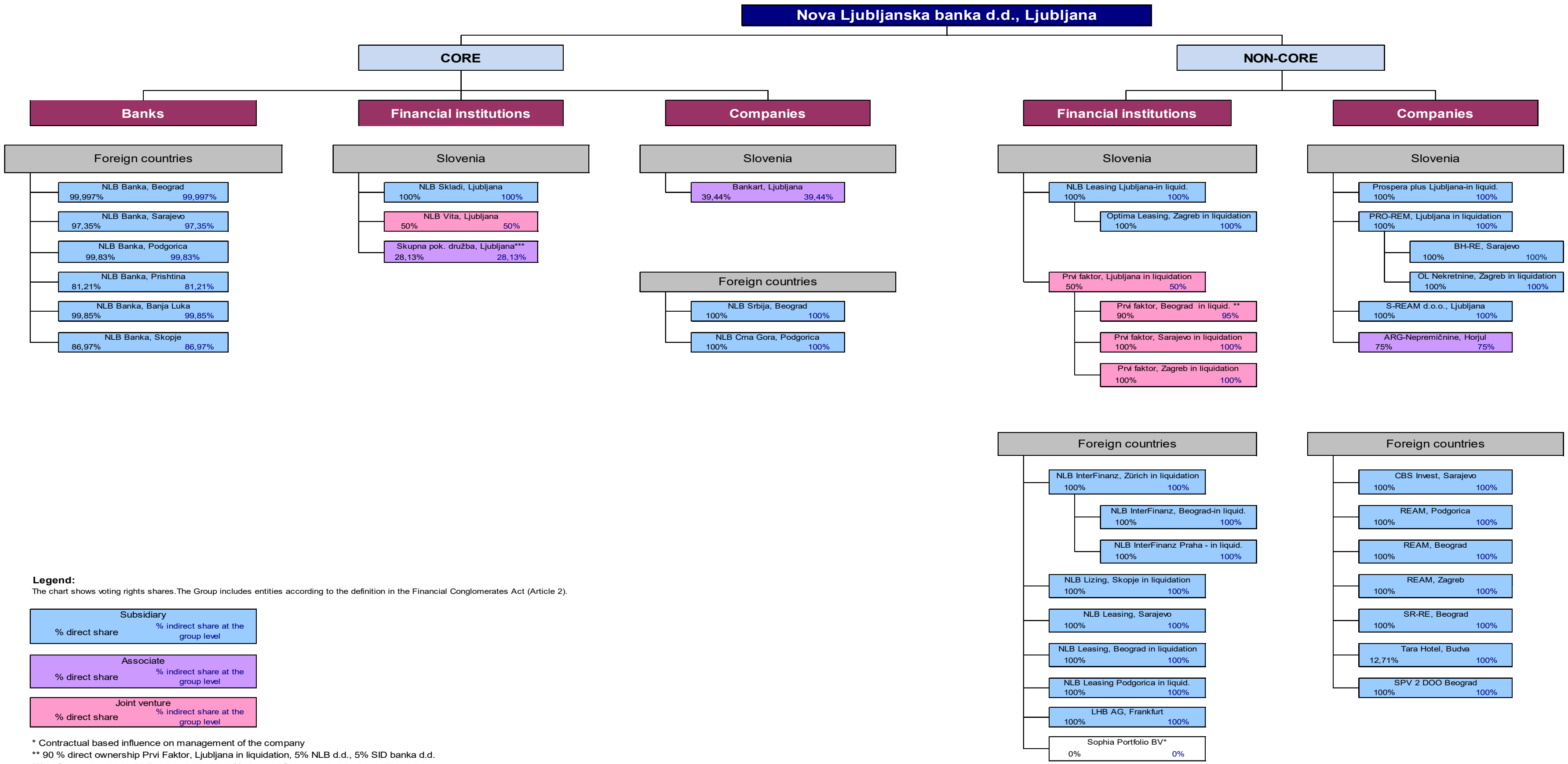
The Targets are only targets and not a profit forecast. None of the NLB independent auditor, nor any other independent accountants, have applied, examined or performed any procedures with respect to the Targets, nor have they expressed any opinion or any other form of assurance on the Targets or their achievability. The Targets constitute forward looking-statements and are not guarantees of future financial performance. NLB's result of operations or financial conditions could differ materially from those expressed or implied by these forward-looking statements as a result of many factors. The existence of the Targets should not be interpreted as an assurance or guarantee that Targets can or will be met by NLB. While presented with numerical specificity, these financial targets are based upon a number of assumptions (including the success of NLB's business strategy), estimates, regulatory, financial conditions, and projections regarding the NLB's future business and the environment in which NLB expects to operate, which are inherently subject to significant business, operational, economic and other risks, many of which are outside NLB's control. The Targets reflect NLB's subjective judgements in many respects and thus are susceptible to multiple interpretations and periodic revisions based on actual experience and business, economic, regulatory, financial and other developments. Accordingly, such assumptions may change or may not materialise at all. In addition, unanticipated events may materially or adversely affect NLB's actual results or operations and financial performance in future periods, whether or not NLB's assumptions relating to future periods prove to be correct. As a result, the actual results may vary from the Targets as currently targeted and the variations may be material. Accordingly, the Targets must not be considered as either a commitment by NLB or a forecast of the future results or returns from investing in NLB's Securities.

None of NLB, the NLB Supervisory or Management Board members, senior management or any of their respective affiliates, advisers, officers, directors or representatives can give any assurance that the Targets will be realised or that actual results will not vary significantly from the Targets. Investors should independently assess whether or not they believe the Targets to be reasonable or achievable and should carefully evaluate whether investing in NLB's securities is appropriate, bearing in mind personal circumstances and the information included in this Prospectus, particularly taking into account the information described in the "*2. Risk Factors*", specifically "*Risk Relating to NLB and the NLB Group—The NLB Group adopted a new strategy in August 2016, the implementation of which may be compromised by several factors*". See also "*Cautionary Note Regarding Forward-looking statements*".

6.5 ORGANISATIONAL STRUCTURE

The diagram on the following page presents an overview of the organisational structure of the NLB Group:

NLB Group 30 June 2018



Legend:
The chart shows voting rights shares.The Group includes entities according to the definition in the Financial Conglomerates Act (Article 2).

Subsidiary: % direct share; % indirect share at the group level

Associate: % direct share; % indirect share at the group level

Joint venture: % direct share; % indirect share at the group level

* Contractual based influence on management of the company
** 90 % direct ownership Prvi Faktor, Ljubljana in liquidation, 5% NLB d.d., 5% SID banka d.d.
*** In September 2018, NLB d.d. sold its 28.13% share in Skupna pokojninska družba d.d.

Nova Ljubljanska banka d.d., Ljubljana
Trg republike 2
1520 Ljubljana

6.6 HISTORY AND DEVELOPMENTS OF THE NLB GROUP

Today, NLB is a company organised in accordance with the Companies Act in the form of *delniška družba*, and is registered in the Slovenian business register (*Poslovni register Slovenije*) under identification number (*matična številka*) 5860571000. NLB's corporate seat is in Ljubljana, its registered office is Trg Republike 2, 1000 Ljubljana, Republic of Slovenia, and its telephone number is +386 1 476 39 00.

NLB was established under its current name by the Constitutional Act on 27 July 1994.

Pursuant to the Constitutional Act, NLB took over part of the assets, liabilities and operations of Ljubljanska banka (see "*14. Macroeconomic Conditions and the Banking Sector in the Republic of Slovenia and Other Core Markets—History and Development of the Slovenian Banking Sector*").

Since 1994, a number of events have contributed to the creation of the NLB Group in its current form. After having consolidated its leading market position in its home market of the Republic of Slovenia in the late 1990s and early 2000s, NLB focused on expanding its business in the rest of Southeastern Europe between 2000 and 2008.

In 2001, the government of the Republic of Slovenia adopted a privatisation programme for NLB. The first phase of privatisation concluded in 2002 with a 34 per cent. stake being purchased by the Belgian banking and insurance group, KBC, and a 5 per cent. stake by the European Bank for Reconstruction and Development ("**EBRD**"). EBRD withdrew from NLB's ownership structure in 2008 by way of a sale of its 4.5 per cent. stake to the private equity arm of the financial group Poteza.

From the onset of the global financial crisis in 2008, NLB began reducing the number of companies in the NLB Group and made changes to its corporate governance and organisational structure in order to strengthen its internal control mechanisms. The number of NLB Group members was also reduced through a series of mergers of subsidiaries operating for the purposes of synergy benefits and cost rationalisation. From 2010 onwards, the NLB Group has been in the process of divesting non-core subsidiaries based on the new strategy and restructuring plan, which aims to re-establish the sustainability of NLB operations.

In March 2011, NLB completed a EUR 250 million capital increase, with the Republic of Slovenia subscribing for 97.35 per cent. of the newly issued shares due to a lack of interest from private investors and paying in a total amount of EUR 243.4 million, with other investors subscribing for 2.65 per cent. of the capital increase. In line with relevant EU legislation, the Slovenian authorities notified the measure to the EC and, with a decision dated 7 March 2011, the EC authorised such recapitalisation as emergency aid on the basis of Article 107(3)(b) TFEU upon a submission of a restructuring plan.

In 2012, NLB's Tier I capital was further increased by more than EUR 500 million through the granting of a hybrid loan by the Republic of Slovenia in the amount of EUR 320 million, the issue of new shares to Pension Fund Management (KAD) and the Slovenian Restitution Fund (SOD) in the amount of EUR 61 million and through EUR 153 million in net profit recorded during 2012 as a result of the repurchase of certain of NLB's existing subordinated instruments at a discount. In a decision dated 2 July 2012, the EC concluded that this recapitalisation constituted state aid pursuant to Article 107(1) TFEU and found it temporarily compatible with the internal market as rescue aid for reasons of financial stability until a final decision was issued on the restructuring plan. At the same time, the EC initiated the procedure set out in Article 108(2) TFEU relating to the formal investigation of the restructuring plan of NLB. In order to comply with the EC's decision, the Republic of Slovenia additionally increased NLB's capital in an amount of EUR 1.9 million at a discounted share price, which brought the total amount of state aid received by NLB in 2012 to EUR 382.9 million. In December 2012, its share in NLB capital further increased after KBC sold its existing 22.04 per cent. stake to the Republic of Slovenia, resulting in KBC's complete withdrawal from the ownership structure of NLB.

In 2013, the principal and interest of the EUR 320 million hybrid loan was converted into NLB's common equity as a result of the fulfilment of conditions for conversion.

In January 2013, the Republic of Slovenia submitted a draft of the Restructuring Plan to the EC. On the basis of the Restructuring Plan and commitments provided by the Republic of Slovenia to the EC on 13 December 2013 and as amended on 11 May 2017 (the "**Commitments**") on 18 December 2013 the EC issued a final decision approving the state aid received by NLB up to that point (EUR 243.4 million in 2011 and EUR 382.9 million in 2012) and the state aid which was received by NLB in December 2013 (EUR

1,558 million and the transfer of impaired assets to the BAMC with an aid element of EUR 130 million as discussed below) and as amended on 11 May 2017 (the "**EC Decision**"). For further details see "*—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy*".

Pursuant to the Bank of Slovenia's Decision on extraordinary measures of 17 December 2013 ("**Bank of Slovenia Decision**"), which was issued in relation to the EC Decision, all qualified liabilities of NLB were terminated, including NLB's share capital and the subordinated liabilities, and the Republic of Slovenia paid in EUR 1,551 million into the capital of NLB (NLB's share capital was simultaneously reduced to zero via the termination of liabilities therefrom and the rescinding and deletion of NLB's shares and then increased to EUR 200 million). On 20 December 2013, impaired assets with a gross worth of EUR 2.2 billion were transferred from NLB to the BAMC, a "bad bank" established by the Republic of Slovenia, for which NLB received bonds issued by the BAMC (and guaranteed by the Republic of Slovenia) in compensation. For further details see "*—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy*".

From 2014 onwards there has been a significant increase in NLB's market penetration and improvements to its organisational structure.

The main milestones of the Transformation Programme first established in 2012 have been achieved or exceeded, and in 2015 and 2016, all Core NLB Group Members as well as all core business segments, recorded profits. In addition, the action plan to reduce NPLs and wind down the NLB Group's non-core activities has seen substantial progress. Parallel to this, NLB is complying with the Commitments (other than as described below). These developments enable more focused management attention which, combined with continual enhancements of both new proactive sales activities as well as the risk management practices, have been the primary preconditions for continuing profitable operations.

In its core business, NLB has continued to pursue three main sets of activities: a focus on SMEs: an improvement in the effectiveness of the sales force; and an intensified development of distribution channels and new solutions for clients (see "*—Principal Business Activities—Core Segments*" below). NLB has sought to reposition itself in the Slovenian market as a pioneer of retail solutions, while reinforcing its status as a reliable and responsible partner for Slovenian corporates.

NLB believes that its engagement in the restructuring of the Slovenian corporate sector has aided in the recovery of systemically important business groups, which has in turn helped to revitalise the economy, return these clients to performing status and reduce NPLs and improve future relationships with these clients. Simultaneously, the collection, workout and divestment efforts as part of its NPL Strategy have led to a significant reduction of NPLs, non-core loans and the real-estate portfolio. NLB aims to further intensify these activities.

The NLB Group finished 2017 with a record profit attributable to the owners of the parent company of EUR 225.1 million and a 14.4 per cent. ROE, reached as a result of the successful implementation of an extensive transformation process that focused on customers, the development of competitive services and a reduction of both non-core activities and the remaining NPLs.

Core NLB Group Members outside the Republic of Slovenia were all operating profitably in 2017 and their contribution to the NLB Group's results before tax was 43 per cent. in 2017. Amongst other measures undertaken to improve operations across the various NLB Group members, from May 2016 on all subsidiary banks now operate under the uniform brand "NLB Banka", with the goal of improving brand recognition and enabling NLB to achieve targeted synergies, including enabling multiple banks to participate in joint campaigns across several markets with a lower marketing and branding cost. Through the newly established International Desk in NLB (the "**International Desk**"), which connected all banking members of the NLB Group, NLB aims to approach and service clients in a more structured and uniform way throughout the region. In the near term, the NLB Group aims for the International Desk to focus on coordination and promotion of cross-sell activities at the NLB Group level to utilise synergies as well as on using a targeted sales approach to large international enterprises headquartered outside the region in which the NLB Group operates. This aims to allow the NLB Group to further strengthen its position as the largest banking and financial group headquartered in Southeastern Europe and with an exclusive strategic interest in this region.

6.7 EC DECISION ON STATE AID, FINAL EC DECISION AND BANK OF SLOVENIA DECISION ON EXTRAORDINARY MEASURES RELATING TO CAPITAL ADEQUACY

In relation to the government of the Republic of Slovenia's participation in the capital increases carried out by NLB in 2011 and 2012, the EC initiated a procedure to determine the compatibility of this participation with the EU state aid rules. For each capital increase, the EC issued a temporary decision which, in accordance with EU rules regarding state aid, required the submission of a restructuring plan for NLB. At that time the Slovenian authorities made a commitment to various limitations on certain NLB activities (which also apply to the NLB Group for the purposes of the EC's determination), in particular with regard to the payment of dividends and returns on capital instruments, commercial strategies and the expansion of its business activities.

In connection with this process, NLB first submitted the Restructuring Plan to the EC in January 2013. The Restructuring Plan included measures aimed at ensuring a long-term profitable business model that no longer requires state aid for normal operations. In accordance with the EU state aid rules, the Restructuring Plan also included measures NLB had to take to ensure that the burden of the costs of restructuring was properly allocated, as well as measures by NLB to limit the distortion of competition due to the receipt of state aid.

In accordance with the recommendations of the European Council published in June 2013, NLB (along with the majority of other Slovenian banks) underwent an AQR and "bottom-up" stress tests.

In December 2013 the results of the AQR and stress test exercise were published and revealed a capital shortfall for NLB of EUR 1,668 million under an adverse scenario (including the effect of new deferred tax assets). As a result, several measures were taken aimed at ensuring the capital adequacy of NLB and the NLB Group, including:

- termination of all Qualified Liabilities by way of a bail-in ("**Bail-In**");
- the Recapitalisation (the reduction of NLB's share capital to zero in accordance with the Bail-In and a simultaneous increase of NLB's share capital to EUR 200 million in relation to which the Republic of Slovenia paid EUR 1,551 million into the capital of NLB); and
- the transfer of certain of NLB's assets and/or exposures to the BAMC to help strengthen the banks' stability as contemplated by the ZUKSB.

The measures listed under the first two bullet points above were implemented on the basis of the Bank of Slovenia Decision. Given the participation of the Republic of Slovenia in the Recapitalisation and the state aid element of the transfer of assets to the BAMC, EC consent was also required. This consent was obtained in the EC Decision.

The European Commission's decision on state aid and Final EC Decision

As referred to above, in December 2013, the EC issued the EC Decision allowing NLB to benefit from state aid, approving the submitted Restructuring Plan and requiring the Republic of Slovenia and NLB to implement all measures indicated in the EC Decision and the applicable Commitments towards the EC, as subsequently amended on 11 May 2017. These Commitments mainly related to (i) improving corporate governance, (ii) improving risk management, (iii) divestment and NLB's gradual withdrawal from non-core activities, markets and investments, (iv) reduction of operating costs of the NLB Group, and (v) other behavioural commitments. The Commitments also foresaw the reduction of the shareholding in NLB by at least 50 per cent. by 31 December 2017 and to 25 per cent. plus one Share by 31 December 2018. The Republic of Slovenia failed to comply with this requirement and proposed an amendment of the Commitments to the EC. On 26 January 2018, the EC issued a document titled "SA.33229 (2018/C) (ex 2017/N-3) – Slovenia – Amendment of the restructuring commitments of Nova Ljubljanska banka d.d." (the "**Opening Decision**"), by which it began the procedure set in Article 108(2) of the TFEU. Following the alignment with the EC, the Republic of Slovenia proposed an amendment to the Commitments to the EC on 13 July 2018, and the EC approved this by the decision SA.33229 (2018/N-4) (ex 2017/C-3) – Slovenia – Amendment of the restructuring commitments of Nova Ljubljanska banka d.d. of 10 August 2018 (the "**Final EC Decision**" and such newly approved commitments "**New Commitments**"). The New Commitments establish that the Commitments ceased to apply on 31 December 2017. Different time limits are set for the fulfillment of different obligations under the New Commitments, and the last possible deadline for the fulfillment of or compliance with a particular obligation expires on 31 December 2019 (except if the shareholding of the Republic of Slovenia in NLB is not reduced to 25 per cent. plus one Share by that date in which case the last such deadline expires when the shareholding of the Republic of Slovenia in NLB is reduced to 25 per cent. plus one Share). In accordance with the New Commitments, if it were to fail to reduce its shareholding in NLB by at least 50 per cent. plus one Share by 31 December 2018 or if it were to fail to reduce its shareholding in NLB to 25 per cent. plus one Share by 31 December 2019, the Republic of Slovenia would become obligated to grant to a Divestiture Trustee approved by the EC an exclusive mandate to reduce the Republic of Slovenia's shareholding in NLB to 25 per cent. plus one Share for the then prevailing market price. In addition, the New Commitments also include the following in relation to NLB, among others:

- If the Republic of Slovenia were to fail to reduce its shareholding in NLB to 25 per cent. plus one Share by the end of 2018, NLB will have to divest NLB Vita, življenjska zavarovalnica d.d., Ljubljana ("**NLB Vita**");
- A reduction in operating costs at Group level (excluding one-off costs) with the maximum operating costs levels set at EUR 298 million;
- An undertaking that NLB will not re-enter activities that had to be divested as part of the restructuring plan;
- A requirement that pricing for new loans achieve specified minimum levels of ROE;
- A prohibition on advertising related to the state support to NLB and to the state ownership in NLB (or to any competitive advantages arising in any way from the aid to NLB or the state ownership in NLB) and on any aggressive commercial strategies which would not be pursued without state support (advertisement ban);
- A provision prescribing that, based on the audited year end accounts the Company will pay to its Shareholders for each fiscal year in the form of a dividend disbursement at least the amount of the net income for such fiscal year (and may, for the avoidance of doubt, each time pay out to its Shareholders in the form of a dividend disbursement all distributable profit including but not limited to retained profit for the previous fiscal years), subject to the limitations of applicable European and Slovenian regulations and provided that the applicable minimum capital requirement on the consolidated level (increased by any applicable CBR and capital guidance) remains exceeded by a capital buffer of at least 100 basis points;
- A prohibition on acquiring any stake in any undertaking, subject to certain exemptions;
- NLB will further strengthen the structure of its liabilities by issuing a Tier 2 instrument by the end of 2019, except in case of severe disruptions on the market (in this case it needs to obtain consent of the EC for non-issue of such an instrument), to investors that are totally independent from Slovenia; and
- NLB will close 15 outlets in Slovenia by 30 June 2019; and
- The appointment of a suitably qualified Monitoring Trustee (the "**MT**") to continuously and thoroughly monitor the complete and correct implementation of the New Commitments.

In accordance with the New Commitments, the Republic of Slovenia needs to reduce its shareholding in NLB in a transparent, open and competitive process based on the Ordinance on state-owned assets management strategy, and the shareholding must be sold to an investor or investors, which are independent from and unconnected to the Republic of Slovenia. These rules also apply to the Divesture Trustee.

NLB and the Republic of Slovenia are required to implement all measures indicated in the Final EC Decision and the New Commitments, on which the Final EC Decision is based in part. In this context, KPMG was appointed MT to supervise the implementation of all measures and report to the EC.

Termination of Qualified Liabilities and Bail-In

Pursuant to the Bank of Slovenia Decision, all of the Qualified Liabilities arising from the following NLB's instruments were terminated on 18 December 2013:

- NLB's share capital in the amount of EUR 184.1 million (22,056,378 shares) which was reduced to zero under the Bank of Slovenia Decision; and

- hybrid and subordinated financial liabilities totalling EUR 250 million and respective accrued interests.

The Bail-In qualified as a reorganisation measure under the European Parliament and Council Directive 2001/24/EC and, as such, in accordance with the legislation of the Republic of Slovenia and throughout the European Community, it became fully effective on 18 December 2013, without any further formalities, and such effects are to be recognised, including as against third-parties in other EU member states, even where the rules of the host EU member state applicable to them do not provide for such measures or make their implementation subject to conditions which are not fulfilled. Pursuant to the Bail-In, NLB's liabilities arising from the above-mentioned instruments were fully terminated in terms of payment of both the principal and the accrued interest (see "*—Legal and Administrative Proceedings—Proceedings relating to the Bank of Slovenia Decision*"). This had a positive effect for NLB as one-off income (before tax) in the amount of EUR 257.6 million in 2013. See "*2. Risk Factors—Unfavourable outcomes in pending litigation may adversely affect NLB and the Group*".

Increase in NLB's capital and relationship with the Republic of Slovenia as Sole Shareholder

In order to address NLB's capital adequacy, the Bank of Slovenia Decision in 2013 also provided for an increase of NLB's share capital to EUR 200 million through the issue of 20,000,000 new, ordinary, no-par value Shares with a corresponding amount of EUR 10.0 per Share.

The Republic of Slovenia subscribed for the new Shares at a price of EUR 77.55 per Share, for a total aggregate amount of EUR 1,551 million. The new Shares were paid up in full by the Republic of Slovenia through a cash contribution in the amount of EUR 1,141 million and a contribution in kind in the form of the Republic of Slovenia's bonds, which were valued at EUR 410.0 million as at 9 December 2013.

The capital increase was completed on 18 December 2013. Following this capital increase, the Republic of Slovenia directly owns 100 per cent. of NLB's Shares.

The transfer of assets to the BAMC

In parallel with the implementation of the aforementioned measures, NLB signed an asset transfer agreement with the BAMC in December 2013.

The assets transferred to the BAMC pursuant to this agreement consisted of 1,427 credit receivables, as well as investments in equity shares received as the result of repossessions of certain collateral. The credit receivables transferred, which met the conditions set out in ZUKSB related to 283 debtors, with an aggregate gross book value of EUR 2,169 million (and an aggregate net book value of EUR 1,155.3 million).

The transfer value of the credit receivables calculated according to EC methodology and approved by the EC in line with ZUKSB was EUR 609.6 million, which resulted in a loss from the transfer of assets amounting to EUR 542.9 million with an aid element of EUR 130 million. This aid element was an asset relief measure calculated upon the difference between the transfer price of the assets and the market price.

In addition to these credit receivables, four equity stakes were transferred in 2013. The loss upon the transfer of these equity stakes amounted to EUR 2.16 million.

NLB received payment for the transferred assets in December 2013 in the form of bonds issued by the BAMC (and guaranteed by the Republic of Slovenia). The bonds constitute ECB-eligible collateral in open market operations and were intended to serve as refinancing instruments for NLB.

6.8 REORGANISATION AND NLB TRANSFORMATION PROGRAMME

NLB has been implementing a comprehensive transformation process since 2012 with an objective to ensure that NLB is a profitable, trustworthy and competitive bank. In order to be compliant with all requirements and restrictions coming from the Restructuring Plan, the bank has strategically adapted its size and structure, focused on core banking business in strategic markets, changed business processes, increased efficiency, improved risk management and changed corporate governance and corporate culture. These activities were incorporated in the reorganisation process (the "**Reorganisation**") and Transformation Programme.

The Reorganisation set the foundation for change and improved the efficiency of the bank's organisation, while the Transformation Programme has enabled the organisation's current and prospective capabilities. Both the Reorganisations and the Transformation Programme processes were running in parallel and mutually supported and complemented each other.

Reorganisation

The key goals of the organisational changes at NLB were to adapt its organisational structure to the NLB Group strategy and enhance efficiency.

Organisational changes were gradually introduced in several phases since mid-2013. In addition to reducing the number of organisational units, levels and the number of employees in accordance with the plan, the key objective of the reorganisation process was to improve the efficiency of the organisational units, particularly with regards to:

- more direct and high-quality communications, to allow for faster business decision-making and to identify and meet changing customer needs;
- improved customer segmentation;
- risk management; and
- the optimisation of resources and provision of the necessary business skills supporting the achievement of objectives.

In its Slovenian operations, in 2013 and 2014, NLB carried out four programmes to reduce the number of employees. From July 2013 to the end of 2014 measures were introduced to target a 20 per cent. downsizing, for which two-thirds of the departures were accompanied by social programmes to mitigate negative effects for downsized employees. In addition, NLB lowered the number of organisational units by 13 per cent. and reduced the organisational complexity by eliminating one hierarchical level. In 2015, 2016, and 2017 the NLB continued with the reduction of the number of employees by approximately 3 per cent. annually in terms of full-time equivalent ("**FTE**"). The reduction in the number of employees will continue until 2023 with the planned reduction by 20 per cent. of employees in the remaining period.

Transformation Programme

The Transformation Programme, launched by NLB in October 2013 and completed in 2016, comprised 23 projects and three business initiatives, which were divided into seven streams: (1) governance, (2) communication, (3) human resources, (4) business model review, (5) process redesign, (6) ensuring capital adequacy, (7) risk policy and process review.

The objectives of the Transformation Programme were to analyse numerous aspects of the existing business model, define and plan the implementation of revised target business models for each transformation stream, with the primary objective being to pave the way for NLB to become a modern, competitive, efficient and effective bank.

Within the Transformation Programme, NLB was able to improve client focus with clear segmentation for better targeting and proper adjustments of service levels. It introduced tools for effective sales management at the branch level, such as professional treatment and transparent presentation of a full range of services. Major improvements were made to distribution channels by updating strategies for managing branches, ATM operations, call centres and the introduction of mobile bank Klikin. As a result of the Transformation Programme, banking activities of NLB are supported by improved risk management tools, as well as a system for implementing integrity assurance and fraud prevention. The Transformation Programme also resulted in a clear definition of core and non-core markets and activities, with NLB having established a targeted process for its exit from non-core activities and a refocus on core markets and activities.

The Strategy 2020 introduced renewed Reorganisation and Transformation efforts aiming to further streamline NLB's size and structure, improve business processes, increase efficiency, improve risk management and change corporate governance and corporate culture, see "*6. Business—Strategy*".

6.9 PRINCIPAL BUSINESS ACTIVITIES

The NLB Group is the largest banking and financial group in the Republic of Slovenia with an exclusive strategic focus on selected markets in Southeastern Europe. It offers a comprehensive range of services for corporate clients and a competitive product and service offering for its retail customers.

The NLB Group provides universal banking services to retail and corporate clients, and in addition offers asset management, bancassurance and pension products. NLB's segments are defined in accordance with NLB's long-term strategy and divided into two major categories: core and non-core.

A summary of the core and non-core segments is as follows:

Core segments

(i) ***Retail banking in the Republic of Slovenia*** which includes banking services and products for individuals and asset management products via NLB Skladi as well as bancassurance products through the jointly-controlled company NLB Vita. For the six months ended 30 June 2018 and the year ended 31 December 2017, the retail banking segment in the Republic of Slovenia generated total net income of EUR 67.5 million and EUR 140.7 million (29 per cent. and 31 per cent. of NLB Group's core total net income), respectively, profit-before-tax of 16.7 million and EUR 41.7 million (15 per cent. and 20 per cent. of the NLB Group's core profit-before-tax), respectively, and segment assets were EUR 2.3 billion and EUR 2.2 billion, respectively.

(ii) ***Corporate banking in the Republic of Slovenia*** consists of (a) key, mid and small corporate business, (b) restructuring, and (c) workout and includes a range of banking services, such as various forms of financing, transaction services, trade finance products, online banking solutions and other tailored products for large, SMEs and micro companies. For the six months ended 30 June 2018 and the year ended 31 December 2017, the corporate banking segment in the Republic of Slovenia generated total net income of EUR 36.0 million and EUR 73.9 million (15 per cent. and 16 per cent. of the NLB Group's core total net income), respectively, profit-before-tax of EUR 24.5 million and EUR 52.8 million (22 per cent. and 26 per cent. of the NLB Group's core profit-before-tax), respectively, and segment assets were EUR 2.0 billion and EUR 2.1 billion, respectively.

(iii) ***Financial markets in the Republic of Slovenia*** which include treasury activities, asset and liability management, trading in financial instruments, brokerage and custody of securities as well as financial advisory services. For the six months ended 30 June 2018 and the year ended 31 December 2017, the financial markets segment in the Republic of Slovenia generated total net income of EUR 21.6 million and EUR 39.6 million (9 per cent. and 9 per cent. of the NLB Group's core total net income), respectively, profit-before-tax of EUR 15.3 million and EUR 27.3 million (14 per cent. and 13 per cent. of the NLB Group's core profit-before-tax), respectively, and segment assets were EUR 3.7 billion and EUR 3.5 billion, respectively.

(iv) ***Core foreign markets*** which include the operations of the core NLB Group members in core markets (Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia and Serbia), including six banks (NLB Macedonia, NLB Sarajevo, NLB Banja Luka, NLB Kosovo, NLB Serbia, and NLB Montenegro). For the six months ended 30 June 2018 and the year ended 31 December 2017, the core foreign markets segment generated total net income of EUR 109.2 million and EUR 191.7 million (47 per cent. and 43 per cent. of the NLB Group's core total net income), respectively, profit-before-tax of EUR 58.6 million and EUR 102.0 million (52 per cent. and 49 per cent. of the NLB Group's core profit-before-tax), respectively, and segment assets were EUR 4.0 billion and EUR 3.9 billion, respectively.

Non-core segments include the operations of non-core NLB Group members and the non-core part of NLB's portfolio, which are subject to divestment:

(i) ***Non-strategic activities and subsidiaries***, which mainly include leasing, factoring/trade finance and real estate operations, in the Republic of Slovenia and abroad, including Southeastern Europe, Germany, Switzerland and Czech Republic.

(ii) ***Non-core part of NLB's portfolio***, which includes, among others, operations with foreign clients and funding to NLB non-core entities.

(iii) ***Non-core equity participations***, including EUR 0.97 million remaining participations as at 30 June 2018, mainly in the Republic of Slovenia.

The following table shows the contribution to the NLB Group's net income (net interest income and net fee and commission income) and total assets by region and core and non-core segments for the six months ended 30 June 2018 and the years ended 31 December 2017, 2016 and 2015.

Contribution to the NLB Group's net income by region

	Core					Non-Core				
	2018-6	**2017-6**	**2017**	**2016**	**2015**	**2018-6**	**2017-6**	**2017**	**2016**	**2015**
Republic of Slovenia............	125.3	124.4	258.6	274.2	311.5	8.4	23.7	36.4	30.2	20.3
Southeastern Europe	109.2	93.2	191.7	179.4	165.9	1.3	1.4	2.3	(5.4)	0.5
Macedonia............................	44.0	31.4	65.1	60.7	54.8	0.2	0.1	0.4	0.4	(0.1)
Serbia	12.1	11.0	22.9	18.6	18.3	0.1	0.9	1.2	0.4	0.4
Montenegro..........................	11.0	10.3	21.3	21.2	19.6	0.2	(0.1)	(0.2)	(5.6)	0.6
Bosnia and Hercegovina......	26.9	26.4	53.3	51.0	46.8	0.0	0.1	0.9	0.2	0.0
Kosovo	15.2	14.2	29.1	27.8	26.3	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.9	0.4	(0.1)	(0.7)	(0.4)
Western Europe [(1)]................	0.0	0.0	0.0	0.0	0.0	(0.1)	(0.3)	(0.7)	1.5	(10.8)
Czech Republic....................	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.9	0.0	(0.2)
Total	**234.4**	**217.7**	**450.3**	**453.5**	**477.5**	**9.6**	**24.8**	**40.9**	**26.2**	**9.8**

Contribution to the NLB Group's total assets by region

	Core					Non-Core				
	2018-6	**2017-6**	**2017**	**2016**	**2015**	**2018-6**	**2017-6**	**2017**	**2016**	**2015**
Republic of Slovenia............	8,193.1	7,982.4	7,995.2	7,995.9	7,679.5	258.5	372.9	298.9	397.7	610.3
Southeastern Europe	3,978.1	3,608.4	3,851.2	3,540.5	3,389.9	59.4	64.1	61.0	62.0	79.3
Macedonia............................	1,220.2	1,122.3	1,234.9	1,146.3	1,115.6	0.1	0.6	0.2	1.0	2.1
Serbia	443.8	359.2	400.8	308.2	270.7	5.1	5.3	5.2	7.8	9.6
Montenegro..........................	473.2	455.4	445.5	456.3	464.5	20.6	22.1	20.7	22.3	30.6
Bosnia and Hercegovina......	1,223.6	1,147.4	1,185.0	1,112.6	1,073.6	4.1	3.0	5.5	3.6	3.7
Kosovo	617.3	524.1	585.0	516.9	465.6	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	29.5	33.0	29.5	27.3	33.4
Western Europe [(1)]................	0.0	0.0	0.0	0.0	0.0	26.8	38.9	31.1	39.7	59.0
Czech Republic....................	0.0	0.0	0.0	0.0	0.0	0.2	3.0	0.2	3.2	3.6
Total	**12,171.2**	**11,590.8**	**11,846.4**	**11,536.4**	**11,069.5**	**345.0**	**478.8**	**391.3**	**502.6**	**752.1**

(1) Germany and Switzerland.

Of the NLB Group's EUR 7,612 million and EUR 7,641 million of gross loans to customers as at 30 June 2018 and as at 31 December 2017, respectively, 47.6 per cent. and 48.5 per cent., respectively, were to corporate customers and 47.1 per cent. and 45.4 per cent. were to retail customers, respectively, with the remaining 5.3 and 6.1 per cent., respectively being towards government departments, municipalities and agencies. Of the EUR 4,412 million and EUR 4,532 million of gross loans to customers in core Slovenian operations as at 30 June 2018 and as at 31 December 2017, EUR 1,945 million and EUR 2,060 million were to corporate customers and EUR 2,167 million and EUR 2,121 million were to retail customers, respectively, with the remaining EUR 300 million and EUR 350 million, respectively, being towards government departments, municipalities and agencies. Of the EUR 2,805 million and EUR 2,661 million of gross loans to customers in core foreign markets as at 30 June 2018 and as at 31 December 2017, EUR 1,350 million and EUR 1,278 million were to corporate customers and EUR 1,361 million and EUR 1,276 million were to retail customers, respectively, with the remaining EUR 94 million and EUR 107 million, respectively, being towards government departments, municipalities and agencies. Corporate lending slowly picking up in core foreign markets, with total volume having increased in the first half of 2018 by 5.6 per cent. as compared to the end of the year 2017, while retail lending has grown 6.6 per cent. from the end of the year 2017 to the first half of 2018.

As at 30 June 2018 and as at 31 December 2017, retail loans in the NLB Group's (total volume: EUR 3,588 million and EUR 3,470 million, respectively were composed of 51 per cent. and 51 per cent. mortgage collateralized housing loans, respectively, and 49 per cent. and 49 per cent. consumer loans, respectively.)

The following table shows the split of loans (total volume: EUR 4,171 million) to corporate customers, government departments, municipalities and agencies in the NLB Group as at 30 June 2018.

Industry	Percentage
Services	16%
Trade industry	20%
Heavy industry	20%
Transport and communications	20%
Public sector	8%
Construction industry	6%
Other	10%
Total	**100%**

As at 30 June 2018 and 31 December 2017, the NLB Group's deposits from customers accounted for 93.8 per cent. and 93.6 per cent., respectively, of total liabilities and the NLB Group's total assets were EUR 12,516 million and EUR 12,238 million, respectively, 64.0 per cent. and 63.8 per cent. of which were related to core segments and located in the Republic of Slovenia.

Retail banking in the Republic of Slovenia

The retail banking segment in the Republic of Slovenia remains the key pillar of the NLB Group's operations. NLB has a strong and established position in the Slovenian retail banking market, with approximately 23.3 per cent. and 30.4 per cent. market share in retail loans and deposits as at 30 June 2018, respectively. NLB offers its products and services via multi-channel distribution, including through its physical network of 108 branches as at 30 June 2018 as well as through its digital channels and the only 24/7 Contact center with chat and video chat functionality via online and mobile channels in the country. For the first half of 2018 and the year ended 31 December 2017, profit-before-tax generated in this segment reached EUR 16.7 million and EUR 41.7 million, respectively, and segment assets were EUR 2.3 billion and EUR 2.2 billion, respectively.

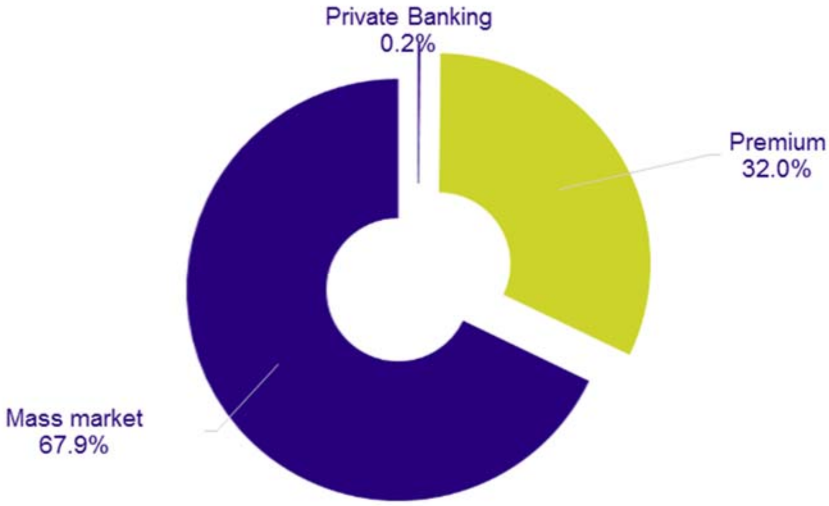
Retail Clients

In the Republic of Slovenia, as at 30 June 2018, NLB catered to more than 739 thousand retail clients as, holding more than a third of the nation's private individuals' sight deposits.

NLB's retail clients are classified into segments based on the criteria of income, assets and age. The clients in the Privilege segments (comprised of Private and Premium) are classified in terms of the client's financial strength: clients with monthly income above EUR 1,000 are eligible for the Premium offer; and clients with assets above EUR 300,000 or monthly income above EUR 6,000 are eligible for the Private banking offer. As at 30 June 2018 the number of Premium clients increased by 8.9 per cent. to 235,193 clients as compared to 216,057 as at 30 June 2017, mainly as a result of client migration from the Mass market segment. In the same period the loans and deposits in the Premium segment increased to EUR 1,625 million and EUR 3,851 million, respectively, as compared to loans and deposits of EUR 1,465 million and EUR 3,556 million, respectively, as at 30 June 2017, primarily as a result of improving economic conditions and client migration from the Mass market segment. Total assets under management for the Premium segment (including deposits, life insurance and mutual funds) increased by 9 per cent. from EUR 4,124 million to EUR 4,495 million from 30 June 2017 to 30 June 2018.

Mass market banking clients with income up to EUR 1,000 are classified based on age, primarily divided into adults (Basic – seniors (retirees and age 65+), Basic – active individuals, Basic – adults up to 27y) and youth segments (Basic up to age 8, Basic up to age 14 and Basic up to age 18). As at 30 June 2018 the number of Mass market clients decreased by 5.3 per cent. to 499,484 clients as compared to 527,607 as at 30 June 2017 also partially as a result of client migration to the Premium segment. As at 30 June 2018, the loans in the Mass market banking segment decreased to EUR 532 million as compared to EUR 573 million as at 30 June 2017, and deposits also decreased to EUR 1,277 as compared to EUR 1,314 million as at 30 June 2017, also as a result of client migration to the Premium segment. Total assets under management for the Mass market segment (including deposits, life insurance and mutual funds) decreased by 2.2 per cent. from EUR 1,429 million to EUR 1,397 million from 30 June 2017 to 30 June 2018.

The breakdown of the NLB's clients by segments as at 30 June 2018 are as follows:



Private banking

In 2002, NLB was the first bank in the Republic of Slovenia to introduce specialised private banking and wealth management services to high net worth individuals. NLB has since been a market leader by offering its private banking services to clients who wish to manage their assets in a consolidated and analytically supported manner. NLB has the largest team of private banking advisors in the Republic of Slovenia, who provide consultation advice for clients on various assets and investment strategies. Specially trained financial advisors adapt to the clients' needs and utilise extensive knowledge and expertise within the NLB Group. NLB's private banking services have been ranked number one with the highest customer satisfaction level in the country according to the GfK Client Satisfaction Survey for four consecutive years (2014-2017).

In 2017, the number of Private banking clients rose by 8.4 per cent. to 1,168 clients as compared to 1,077 in 2016, or by 7.1 per cent. to 1,206 as at 30 June 2018 as compared to 1,126 as at 30 June 2017. The volume of assets under management in Private banking grew by 34.8 per cent. to EUR 747 million at the end of 2017 as compared to EUR 554 million at the end of 2016 or by 19.9 per cent. to EUR 757 million as at 30 June 2018 as compared to EUR 631 million as at 30 June 2017, primarily as a result of the addition of new clients and the introduction of new products for new and existing clients. Assets under management were as at 30 June 2018 split amongst deposits at 32 per cent., mutual funds at 17 per cent., securities (including managed portfolios) at 44 per cent. and life insurance at 7 per cent. As at 30 June 2018, the loans in the Private banking segments decreased to EUR 11.2 million, as compared to EUR 11.4 million as at 30 June 2017. As at 30 June 2018 deposits increased to EUR 244 million from EUR 189 million as at 30 June 2017.

Bancassurance

Bancassurance has shown itself to be a profitable and growing business segment, with NLB Vita holding a market share as at 30 June 2018 of 14.8 per cent. in classical life insurance by gross premiums written, according to the Slovenian Insurance Association and 13.5 per cent. respectively in 2017, and the potential for further expansion with almost a 14 per cent. penetration rate in the NLB customer base. In the last quarter of 2013, NLB commenced the distribution of motor and home insurance products by Generali in the entire branch network. Pursuant to the New Commitments, if the Republic of Slovenia were to fail to reduce its shareholding in NLB to 25 per cent. plus one Share by the end of 2018, the NLB Group would be required to divest NLB Vita. The possibility of this sale would not directly affect the existing distribution agreement. However, should such a sale occur, the distribution agreement would become subject to further agreement with NLB Vita. Nevertheless, NLB seeks to remain the bancassurance market player in Slovenia with the Generali products and as well as also other providers of bancassurance products.

Products

The following table sets forth a breakdown of NLB's retail products as at 30 June 2018:

Products	Number of clients (thousands)	Number of contracts (thousands)	Volume (EUR millions)
Loans			
Housing Loans & Mortgages	38	42	1,352
Consumer loans[1]	245	260	762
Credit cards	177	203	55
Saving products			
Deposits & Savings	600	796	5,659
Mutual funds	35	54	652
Life insurance	86	111	381
Transaction products			
Personal current accounts	702	708	4,496
Business current accounts	26	26	272
Other			
Non-life insurance	11	13	1.8

(1) Includes overdrafts and purchased receivables (Mercator Pika and Telemach)

The following table sets forth a breakdown of the evolution of NLB's loan portfolio for its retail banking segment for the periods indicated:

Products	Average loans[1]					Asset yield					Interest income[2]				
	30 June		31 December			30 June		31 December			30 June		31 December		
	2018	2017	2017	2016	2015	2018	2017	2017	2016	2015	2018	2017	2017	2016	2015
	(EUR millions, except percentage)														
Housing Loans & Mortgages	1,343	1,264	1,290	1,208	1,197	2.5%	2.4%	2.5%	2.4%	2.7%	16.6	15.3	31.7	29.5	32.2
Consumer loans	556	500	511	498	498	5.7%	5.5%	5.6%	5.4%	5.8%	15.9	13.8	28.6	26.8	28.8
Credit cards[3]	55	55	55	55	55	1.7%	2.0%	1.9%	2.2%	2.4%	0.5	0.5	1.1	1.2	1.3
Other[4]	206	210	209	198	212	8.4%	9.4%	9.3%	9.8%	10.0%	8.7	9.9	19.6	19.4	21.3
Total	**2,160**	**2,030**	**2,066**	**1,959[5]**	**1,963**	**3.9%**	**3.9%**	**3.9%**	**3.9%[5]**	**4.3%**	**41.6**	**39.6**	**81.0**	**76.9[5]**	**83.5**

(1) Represents average daily balance.
(2) Excludes Fund Transfer Pricing (FTP). The total net effect of FTP on retail net interest income amounts to EUR (2.4) million in June 2018, EUR (0.3) million in June 2017, EUR (0.7) million in 2017, EUR 7 million in 2016, EUR 19 million in 2015.
(3) The average loan balances include receivables for all payment cards. Receivables are interest-bearing only for NLB Mastercard and NLB Karanta revolving cards, at interest rate of 6.13%.
(4) Includes overdrafts and purchased receivables (Mercator Pika and Telemach).
(5) Average loans, asset yield and interest income in 2016 for the retail banking segment would have been EUR 1,986 million, 4.0 per cent. and EUR 78.9 million, respectively, when adjusted for the impact of the 2016 NPL Sale as a result of an increase of EUR 2.0 million in additional impairments and provisions.

NLB had a 23.3 per cent. market share of the EUR 9,190 million net retail loans in the Republic of Slovenia as at 30 June 2018.

The following table sets forth a breakdown of the evolution of NLB's deposits for its retail banking segment for the periods indicated:

Products	Average deposits[1]					Deposit yield					Interest income[2]				
	30 June		31 December			30 June		31 December			30 June		31 December		
	2018	2017	2017	2016	2015	2018	2017	2017	2016	2015	2018	2017	2017	2016	2015
	(EUR millions, except percentage)														
Term	984	1,281	1,207	1,541	1,858	0.5%	0.6%	0.6%	0.8%	1.3%	2.4	3.8	6.9	12.4	23.4
Sight	4,591	3,986	4,127	3,501	2,899	0.01%	0.01%	0.01%	0.02%	0.03%	0.2	0.3	0.5	0.6	0.8
Total	**5,575**	**5,267**	**5,334**	**5,042**	**4,758**	**0.1%**	**0.2%**	**0.1%**	**0.3%**	**0.5%**	**2.6**	**4.1**	**7.4**	**13.0**	**24.2**

(1) Represents average daily balance.
(2) Excludes Fund Transfer Pricing (FTP). The total net effect of FTP on retail net interest income amounts to EUR (2.4) million in June 2018, EUR (0.3) million in June 2017, EUR (0.7) million in 2017, EUR 7 million in 2016, EUR 19 million in 2015.

NLB had a 30.4 per cent. market share of the EUR 17,374 million retail deposits in the Republic of Slovenia as at 30 June 2018.

Banking products

In the Republic of Slovenia, NLB processes more than a third of the nation's private individuals' sight deposits and serves over 702 thousand clients, consisting of private individuals who hold a personal account or a package in NLB as at 30 June 2018. Apart from the various types of deposits, clients are offered a wide array of other typical banking products, such as personal accounts, cards, payments, housing and personal loans, as well as the comprehensive range of asset management and bancassurance services.

NLB aims to systematically deepen its understanding of the characteristics and needs of various population segments and to develop a product and service range to meet their needs. In the beginning of 2018, NLB has bundled the most frequently used banking products in four attractive packages, designed to cater to different client segments. To increase ease of use for clients as well as product coverage, NLB aims to migrate most of the clients from current bank accounts to banking packages. For new clients banking packages are already a standard offer. This way NLB aims to increase CSI (Cross Selling Index), which serves as additional information on relevant sales activities within and across client segments. NLB's current CSIs for each of its client segments as at 30 June 2018 was as follow:

Segment	CSI
Corporate	**3.06**
Key	3.38
Mid-size	3.66
Small	3.03
Retail	**3.07**
Private banking	5.55
Premium	4.38
Mass market	2.43

To simplify banking for clients as much as possible, a housing loan without collateral with a maximum maturity of 120 months, and up to a maximum amount of EUR 50,000 was introduced in November 2017. Thus, the process of obtaining a housing loan for NLB clients for smaller amounts was simplified and enabled them to achieve their goals more easily. Furthermore, to move from providing solely banking products towards being a client solution provider and enhance the banking experience of the clients, the NLB Group has established a complete housing solution, complementing financing with advisory in the pre-sales stage and support in the after-sale stage of the housing loan. The portal "Ustvarjam dom" (Creating home) was upgraded, giving the clients access to special offers for the purchase of furnishings via the NLB Group's partners.

NLB strives to be at the forefront of digital and banking developments and aims to introduce the latest technologies to improve and simplify customer experience. In 2014, the NLB Group was the first to introduce MasterCard contactless cards to the Slovenian market, and in 2015 it also introduced contactless Maestro cards; other banks in the domestic market followed. In October 2015, the NLB Group introduced the NLB prepaid MasterCard, with a special sticker for near-field communication ("**NFC**") and in 2017 contactless Visa credit card. The implementation of contactless services continued in 2018 with the implementation of contactless ATMs and above all NLB's own NLB Pay mobile wallet for mobile proximity payments with digitized Maestro and MasterCard cards. The respective wallet was developed as a "white label" solution and is expected to be adopted through the entire NLB Group banks within the next 12 months. The NLB Group also upgraded the range of purchases in instalments via credit cards, at introduction being the sole bank in the Republic of Slovenia to offer 24 instalments. The possibility of making simple purchases in instalments provides NLB's clients with additional payment options. In 2017, NLB recorded approximately EUR 1.892 billion of transactions with NLB bank cards (EUR 990.8 million as at 30 June 2018), an 8.1 per cent. increase over 2016 (a 9.4 per cent. increase over the same period in 2017).

To implement its digital agenda, NLB Group developed the mobile banking application Klikin. Klikin was launched in June 2014 first as a software-based onetime password generator for access to NLB Klik online bank, and in 2015 evolved into a fully functional mobile bank. Klikin provides users insight into their balances (accounts, loans, deposits, savings and credit cards), supports a range of payment options (PhotoPay, peer-to-peer payments via phone contacts branded as in-payments, payments from templates, use again and manual entry of universal payment orders. Functionalities include access to a payments archive, "snap and send" to send payment confirmations via email and subscription for selected NLB Vita insurance products. One unique feature in comparison to other mobile banks in Slovenia is the possibility of concluding an express loan of up to EUR 15,000 24/7 through Klikin, without any personal interaction with the clerk in the bank and without any paper signed physically. A positive user experience is supported by features such as fingerprint and TouchID/FaceID login options and also market exclusive integrated video call and chat for 24/7 customer support. Klikin is available in Slovenian and English and was ranked the best mobile bank on Slovenian market in an independent market evaluation in 2018 (mBančništvo v Sloveniji 2018, performed by E-laborat in 2018). This is further supported by an average user review rating of 4.8 in the Apple App Store and 4.4 in Google Play each as of 22 August 2018.

Asset and fund management

NLB Skladi is the asset and fund management company of the NLB Group, with its products exclusively distributed by NLB. The Slovenian mutual fund market is slowly gaining pace as investors' confidence in mutual funds returns. The net inflows into mutual funds of Slovenian amounted to EUR 33.5 million in 2017. The total volume of managed assets managed by NLB Skladi as at 30 June 2018 increased to EUR 1.25 billion, of which EUR 827.3 million were invested in mutual funds and EUR 422.5 million were invested in discretionary portfolios. As at 30 June 2018, NLB Skladi held a 30.8 per cent. market share (29.9 per cent. at 2017 YE), 2.1 percentage points more than as at 30 June 2017. Net inflows into funds managed by NLB Skladi and acquired by the retail network of the bank have well exceeded 50 per cent. of the entire registered origination in Slovenian investment funds. NLB Skladi earned a net profit of EUR 3.7 million in 2017, as compared to EUR 3.0 million in 2016 and EUR 2.5 million in 2015.

Life insurance

NLB Vita, a joint venture with the international KBC Group, is a life-insurance company distributing its products exclusively via NLB for 15 years, since 2003. With a 14.84 per cent. market share in the Slovenian classic life-insurance market, NLB Vita ranked third amongst classic life-insurance companies in first half of 2018 for the first time, with its gross written premium recorded slightly below EUR 39 million (EUR 34.86 million as at 30 June 2017 and with market share 13.1 per cent.). An important factor is meeting customer demands through an expansion and adaptation of the insurance products portfolio, offering investment insurance with a partial guarantee for principal, classic life insurance, unit-linked insurance products, accident insurance and insurance with medical assistance for travelling abroad. With the sales distribution of the aforementioned product portfolio of NLB Vita, NLB earned EUR 2 million commission fees in the first half of 2018. As at 30 June 2018, NLB Vita recorded a net income of EUR 3.98 million, as compared to EUR 3.55 million as at 30 June 2017, while its total assets increased to EUR 458 million, as compared to EUR 431 million in 1 H 2017. If the Republic of Slovenia were to fail to reduce its shareholding in NLB to 25 per cent. plus one Share by the end of 2018, NLB would be required to divest NLB Vita. In the case of a sale of NLB Vita, the NLB Group estimates that the volume of future bancassurance fees earned by it from NLB Vita would remain at similar levels as before. See "*—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy*".

Pension funds

Skupna pokojninska družba d.d. Ljubljana ("**Skupna**") is a pension company (specialized insurance company) owned by NLB (28.13 per cent.) and Triglav d.d. (71.87 per cent.), which offers collective and individual voluntary retirement schemes. In accordance with Skupna's life cycle investment policy, Skupna offers pension funds with or without (from 1 July 2016) guaranteed return. The net value of Skupna's pension funds as at 30 June 2018 amounted EUR 264 million to EUR 297 million and had 19.5 per cent. market share in 2017. In the half of 2018, Skupna earned a net profit of approximately EUR 454 thousand, as compared to EUR 434 thousand in the half of 2017 and EUR 909 thousand in year 2017.

In September 2018, NLB sold the shares representing 28.13 per cent. of Skupna share capital to Zavarovalnica Triglav d.d., as a result of which NLB is no longer a shareholder in Skupna. The sale generated a profit in the amount of EUR 2.5 million on NLB and a loss of EUR 0.5 million at the NLB Group level.

Distribution Channels

NLB's retail banking segment in the Republic of Slovenia is served through the largest banking branch network in the Republic of Slovenia, consisting of 108 branch offices that are organised in seven area branches. As at 30 June 2018, client managers in the branch network held over 172 thousand personal contacts with clients, and over 126 thousand clients from the Privilege segment had access to their own personal banker. In addition, the branch network serves more than 28 thousand small business clients.

The mission of branch offices has been changing in parallel with technological development and no longer involves only transactions and orders in most cases, but rather focuses on proactive advice, sales and the establishment of a long-term relationship with the client. NLB has also continuously upgraded its services through enhanced employee training sessions.

In 2015, NLB introduced a more open, inviting aesthetic in its branch office space. By the end of the first half of 2018, 47 branches were renovated with plans to refurbish the entire distribution network by 2020. The branch network is supplemented by the largest ATM network in the Republic of Slovenia, consisting of 555 ATMs located throughout the country. In December 2017, NLB initiated an upgrade to its network of ATMs with contactless functionalities, by installing the first contactless ATM in Slovenia. By the end of the first half of 2018, NLB's ATM network was upgraded to 114 contactless ATM, with an estimated 50 per cent. contactless coverage expected to be achieved by the end of 2018.

Both branch and ATM networks are assessed and managed in terms of profitability in order to achieve proper scaling. From 2013 onward NLB decreased its ATM network by 82 ATMs and successfully closed 35 branches with a minimum effect on the number of clients and business. In line with the EC commitments, NLB will close 15 branches by 30 June 2019, which is expected to increase the profitability of its branch network.

In addition to the traditional banking activities at branches, clients are served by a team of mobile bankers, enabling the clients to access services remotely. For transactional banking services, clients have access to online (NLB Klik), mobile (Klikin), telephone (Teledom) and video call and chat solutions. NLB Klik is used by approximately 212 thousand clients for daily work with the bank and more than 32 per cent. of all eligible retail clients use NLB Klik as at 30 June 2018. In addition, after less than four years of availability in mobile application stores, Klikin is already used by over 142 thousand registered users.

The NLB Group carefully monitors the digitalisation trends in order to increase overall efficiency and reduce complexity as well as enhance experience for internal and external users of new technology. A number of innovations were launched in the last couple of years, namely in 2016 NLB for example introduced the ePen application, i.e. electronic signatures in NLB branches across the Republic of Slovenia, a new personal account combined with the business activity needs of sole proprietors and as the first mobile ATM. 24/7 video call and chat functionalities were introduced to enable clients to perform more and more banking transactions remotely, when the most convenient for them. To link the digital and environmental agenda, the NLB Group enabled clients the option of receiving bank statements via e-mail. In 2017 NLB introduced a fully automated process of express loan granting in Klikin in amount up to EUR 15,000 (depending on the client's creditworthiness) and for duration up to 60 months without any visit to the branch or paperwork. An analogue solution for Klikpro, the mobile bank catering predominantly to small business clients, was launched in 2018 as well, offering a fully automated process of express loan and express overdrafts granting in the amount up to EUR 15,000 (depending on the client's creditworthiness) and with maturity of up to 36 months. As with other NLB mobile applications. Klikpro is well accepted among users, who awarded it with a rating of 4.6 in the Apple App Store and 4.7 in Google Play, each as of 22 August 2018. In 2018, the mobile wallet NLB Pay for mobile NFC (Near Field Communication – contact-less transactions) payments with digitised Maestro and MasterCard cards was introduced, and Visa cards are expected to follow by the end of 2018. Furthermore, NLB was the first one in the market to introduce contactless ATMs, speeding up ATM transactions and improving client experience.

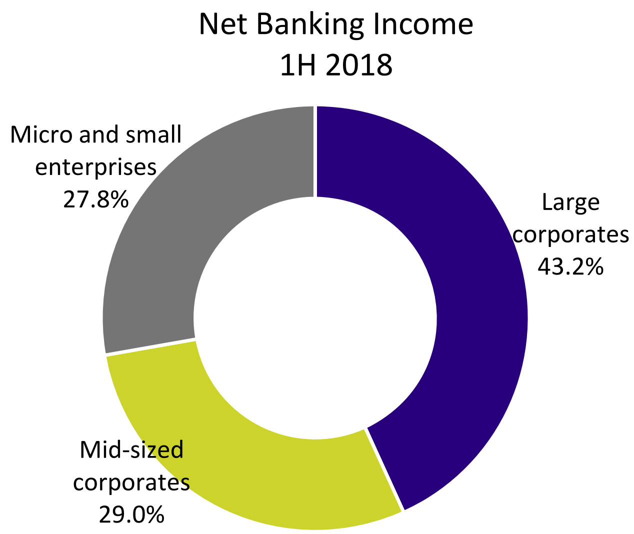
In general, NLB is planning to shift the focus in its development activities from a product-oriented approach towards integrated user-friendly solutions embedded in the life-cycle of retail and corporate customers. In the future, NLB aims to also encompass new ways of interacting with its client base in an evolving 'omni-channel' environment, allowing it to explore new ways of originating and servicing new business opportunities beyond established channels.

NLB's clients are also supported by the only 24/7 bank Contact Centre in the Republic of Slovenia (the "**Contact Centre**"). Operating out of two locations, Ljubljana and Murska Sobota, the Contact Centre can be accessed by retail and corporate clients by phone, e-mail, Internet, chat, video call, mobile and electronic banks or other digital channels, allowing NLB to respond to questions, carry out clients' orders, provide assistance regarding the use of digital banks and card operations, prevent card and digital banks abuse and resolve complaints through digital channels. As at 30 June 2018, the Contact Centre was serviced by 96 specialised agents who fielded over 800 thousand calls annually. In 2018 NLB also intends to offer submission of loan applications via video call, which will enable customers to save time and make first steps even easier and user friendly.

In 2016, NLB updated its web portal in line with modern technology and design guidelines. The web portal, which is one of the key communication tools for NLB with a monthly average of 1.5 million visits, provides information on NLB and its operations as well as a detailed description of a wide range of banking products through numerous articles, financial advice and e-publications. Visitors can use a wide range of tools, including informative calculations, calculators, foreign exchange office, direct access to online banks, and many more. For these reasons, NLB believes its web portal serves a hub of key information and knowledge on management of personal and business finance. Furthermore, NLB believes that quality of its contents is reflected and demonstrated by the high volume of visits, which ranks it among top 20 most visited websites in Slovenia. In addition, it has been awarded the best website in Slovenian banking sector for the fourth consecutive year.

Corporate banking in the Republic of Slovenia

The corporate banking segment in the Republic of Slovenia (excluding non-core clients such as clients in workout) includes small enterprises (excluding those served by the retail network), medium-sized companies and key accounts segments, in total as at 30 June 2018 representing more than 17 thousand business clients (including 741 key clients, 2,740 mid-sized corporate clients, and 13,684 small enterprise clients). With a 19.4 per cent. and 15.5 per cent. market share in total corporate loans and deposits, respectively, as at 30 June 2018, NLB holds a leading position in the Slovenian corporate banking market. NLB offers its products and services by focusing on relationship-based banking via both business centres across the country as well as through its digital channels. As at 30 June 2018 and the year-end 2017, the corporate banking segment in the Republic of Slovenia generated a profit-before-tax of EUR 24.5 million and EUR 52.8 million, respectively, and segment assets were EUR 2.0 billion and EUR 2.1 billion, respectively. The breakdown of revenues from NLB Slovenia's corporate clients (excluding non-core sale clients such as restructuring and clients in workout) segmented by distribution channels as at 30 June 2018 is as follows:



Clients

NLB actively monitors and analyses the business models, financial results and growth of Slovenian companies. By doing this, it aims to provide its clients with creative, targeted and relevant solutions. This approach aims to extend NLB's understanding of clients' needs and to help it to secure primary relationships with existing clients, as well to enable it to identify, address and attract new clients.

One of the NLB Group's key objectives is to personally engage with its clients so that sales staff may become even better acquainted with clients' business models, crucial opportunities and risks, and thereby offer a professional and appropriate range of services. In the first half of 2018, more than six thousand meetings with clients, which equalled 52 per cent. of all meetings with clients were held outside NLB's premises, and NLB aims to maintain this practice of proactive client interaction.

With NLB's transformation and reorganisation of the sales units in 2014, the NLB Group introduced a new segmentation approach in 2014 and a redefined optimised sales approach in 2015 and in 2018 (in March 2018, restructuring clients were transferred to corporate banking segment for operational support under the umbrella supervision of the restructuring unit). Through targeted activities, it achieved progress in client satisfaction. The key indicators improved in most relevant categories of client satisfaction, including attitude toward clients, trust, products and user-experience.

To achieve its business objectives, NLB has to rely on a team of well-trained and certified client managers. In the period 2015 to 2018, account managers had intense trainings, not only in order to learn about the NLB Group's products, but also to obtain the soft skills that are required for effective relationships and communication.

Apart from ongoing training programs, in 2015, 2016 and 2017, NLB published professional publications to enhance the knowledge of both its client managers as well as its clients. White papers on trade finance and payment services, video case studies and NLB's own professional magazine "Poslovno" are a few examples of the NLB Group's support of knowledge enhancement and transfer.

Together with the Slovenian Chamber of Commerce and the regional Chambers of Commerce, NLB organized 10 events in 2016 and in 2017. The most notable was the pan-Slovenian NLB Business Forum in May 2018 entitled "New times, new business approaches", which was attended by 348 entrepreneurs and managers from Slovenia and 4 other CEE markets. With the average score of all events by attendees exceeding 4.8 out of 5, these events are perceived highly positively by clients, positioning NLB as a regional provider of up to date solutions and professional advice.

Key accounts

Business with key accounts includes large corporations (private companies and state-owned enterprises and state institutions), insurance companies and other institutional investors that generate more than EUR 50 million of annual revenues or have an exposure of over EUR 10 million. Thus, as at 30 June 2018, NLB caters to more than 740 Slovenian key accounts and state-owned enterprises. Cooperation with large companies and organisations requires an ongoing review and upgrade of professional relationships and care for moderate portfolio growth. The NLB Group seeks to act as a reliable and long term stable partner for its clients, while at the same time maintaining its market position in the region.

Mid-sized corporates

NLB's account managers serve 2,740 clients in the mid-sized corporate segment as at 30 June 2018, which includes clients with an annual revenue between EUR 2.5 million and EUR 50 million EUR or lending exposure between EUR 1 million and EUR 10 million. This client segment has the highest share of active clients in the corporate segment and has a revenue stream balanced between interest and non-interest income. In order to provide an appropriate and efficient level of service, the mid-sized corporates are further subsegmented into: Upper mid-market and Lower mid-market.

Small enterprises

In order to provide an appropriate and efficient level of service, the small enterprises segment is further sub segmented into: Basic – Society (non-profit), Basic – Young companies, Basic – Micro, Basic – Micro Plus, Premium and Premium Plus. The Premium and Premium Plus subsegments consist of small enterprises interested in expansion and more advanced banking services. These two subsegments encompass more than 13,600 clients as at 30 June 2018.

Products

In 2018, NLB continued its long tradition and commitment to sustainable, long-term business relations and proved to be an important partner for large companies and SMEs in the Republic of Slovenia. The strategic focus of NLB, in addition to the traditional role of a full-service provider to the Slovenian corporate sector, is to increase support and services for small and micro enterprises. For its SMEs and large enterprises, the NLB Group is maintaining its status as a reliable long-term partner with a full range of banking services.

NLB particularly focuses on the support of Slovenian exporters and importers' business activities in the international markets. The NLB Group provides the required support to facilitate export companies acquiring business in its key markets and, if required, it also insures or undertakes the risks of such business, while it offers a comprehensive range of trade products, such as international trade financing, guarantees and letters of credit and purchase of trade related claims.

The following table sets forth a breakdown of NLB's corporate banking products as at 30 June 2018:

Key product	Description	Volume (EUR millions)	Average maturity (years)
Short term loans	Maintaining liquidity Financing current assets Overdraft business accounts	218	<1
Long term			
Investment loans	Fixed assets related to investment PP&E, land, intangibles and current assets	909	7.3
Syndicated loans	Syndicated loans for large Slovenian corporates	498	8.8
Current assets	Current assets >1 years CRE	215	3.4
Other	Receivables financing	47	5.9
Total		**1,886**	**4.0**

The following table sets forth a breakdown of the evolution of NLB's loan portfolio for its corporate banking segment for the periods indicated:

Products	Average loans[1]					Asset yield					Interest income[2]				
	30 June		31 December			30 June		31 December			30 June		31 December		
	2018	2017	2017	2016	2015	2018	2017	2017	2016	2015	2018	2017	2017	2016	2015
	(EUR millions, except percentage)														
Large corporates	1,339	1,670	1,599	1,524	1,383	1.5%	1.6%	1.6%	1.7%	2.3%	10.3	13.1	25.6	26.1	31.4
Mid-sized corporates	466	443	456	413	377	2.3%	2.4%	2.4%	2.8%	3.6%	5.4	5.4	10.9	11.4	13.4
Micro and small enterprises	122	103	108	96	102	4.9%	5.3%	5.0%	4.9%	5.4%	3.0	2.7	5.4	4.7	5.5
Restructuring	237	264	250	315[3]	345	3.1%	2.1%	2.8%	2.8%[3]	3.6%	3.6	2.7	6.9	8.7[3]	12.5
Workout	49	54	49	123[4]	227	2.3%	5.2%	6.3%	3.1%[4]	3.1%	0.6	1.4	3.1	3.8[4]	6.9
Total	**2,213**	**2,533**	**2,462**	**2,472[5]**	**2,435**	**2.1%**	**2.0%**	**2.1%**	**2.2%[5]**	**2.9%**	**22.9**	**25.3**	**51.9**	**54.7[5]**	**69.7**

(1) Represents average daily balance.
(2) Excludes Fund Transfer Pricing (FTP). Total net effect of FTP on corporate net interest income amounts to EUR (2.1) million in June 2018, EUR (2.5) million in June 2017, EUR (4.4) million in 2017, EUR (8.2) million in 2016, EUR (10.6) million in 2015.
(3) Average loans, asset yield and interest income in 2016 for restructuring would have been EUR 342 million, 2.7 per cent. and EUR 9.2 million, respectively, when adjusted for the impact of the 2016 NPL Sale as a result of an increase of EUR 0.5 million in additional impairments and provisions.
(4) Average loans, asset yield and interest income in 2016 for workout would have been EUR 203 million, 3.2 per cent. and EUR 6.4 million, respectively, when adjusted for the impact of the 2016 NPL Sale as a result of an increase of EUR 1.6 million in additional impairments and provisions.
(5) Average loans, asset yield and interest income in 2016 for the corporate segment would have been EUR 2,579 million, 2.2 per cent. and EUR 57.9 million, respectively, when adjusted for the impact of the 2016 NPL Sale as a result of an increase of EUR 2.1 million in additional impairments and provisions.

As at 30 June 2018, NLB held a 15.5 per cent. market share in deposits in the Republic of Slovenia. Corporate deposits (excluding non-core sale clients such as restructuring and clients in workout) have decreased since 2015, from EUR 1,133 million in 2015 to EUR 1,054 million in 2017 and EUR 1,039 as at 30 June 2018. NLB introduced a 3 bps monthly fee on corporate deposit volumes to address excessive liquidity inflow and mitigate negative central bank interest rates. This fee was originally applied on deposits exceeding EUR 3 million, which was lowered to EUR 1 million in November 2016, to EUR 500 thousand in March 2017 and finally to EUR 300 thousand in February 2018. NLB's portfolio structure has transformed from 81 per cent. sight deposits against 19 per cent. term deposits in 2017, to 82 per cent. sight deposits against 18 per cent. term deposits as at 30 June 2018, with all deposit rates converging to 0 per cent.

The following table sets forth a breakdown of the evolution of NLB's deposits for its corporate banking segment for the periods indicated:

Products	Average deposits[1]					Deposit yield					Interest income[2]				
	30 June		31 December			30 June		31 December			30 June		31 December		
	2018	2017	2017	2016	2015	2018	2017	2017	2016	2015	2018	2017	2017	2016	2015
	(EUR millions, except percentage)														
Term	192	248	230	281	322	0.3%	0.4%	0.4%	0.5%	0.9%	0.3	0.5	0.8	1.4	3
Sight	870	823	843	855	714	0.0%	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.1	0.2	0.3
Restrucuring and workout	32	56	59	60	42	0.1%	0.2%	0.2%	0.2%	0.2%	0.0	0.1	0.1	0.1	0.1
Total	**1,095**	**1,126**	**1,131**	**1,196**	**1,079**	**0.1%**	**0.1%**	**0.1%**	**0.1%**	**0.3%**	**0.4**	**0.6**	**1.0**	**1.7**	**3.4**

(1) Represents average daily balance.
(2) Excludes Fund Transfer Pricing (FTP). Total net effect of FTP on corporate net interest income amounts to EUR (2.0) million in June 2018, EUR (2.5) million in June 2017, EUR (4.4) million in 2017, EUR (8.2) million in 2016, EUR (10.6) million in 2015.

NLB is also a market leader at payment services, debit and credit cards and merchant-acquiring products driving corporate fee income. NLB's corporate cards are linked to NLB business accounts and NLB maintains a leadership position despite functioning in a challenging business environment with regulatory restrictions of interchange fees and competition. Key initiatives include promoting sales of unregulated business (commercial) cards, introducing pay-later payment cards with instalment functionality and introducing mobile wallet NLB Pay for mobile NFC payments with digitised Business Maestro and Business MasterCard card. NLB is also a segment leader in merchant acquiring, accepting Visa, MasterCard, Maestro and other brands, providing the optionality to rent point of sale terminals individually agreeing fees based on a merchant's transaction volume and existing relationship with NLB and offering tailor-made point of sale solutions in cooperation with selected merchants. In 2017, the transaction volumes of NLB corporate cards and point of sale terminals (including only core sale clients) reached EUR 109 million and EUR 1,670 million or EUR 59 million and EUR 942 million respectively as at 30 June 2018.

Key accounts

The key accounts segment offers a wide range of transaction banking services, supported by an online banking solution, NLB Proklik, and financing, such as investment loans, working capital loans, revolving loans and guarantee lines. Certain tailored product offerings are also available for this segment, including international cash management and trade finance deals.

Loan volume with large corporate clients in the Republic of Slovenia due to pricing restrictions in the EC Commitments fell by over 18 per cent. in 2017 and stood at EUR 1,421 million at the year's end. The decline of the credit portfolio in 2017 was due to repayments of loans from certain major clients, selective financing on highly liquid markets with a focus to keep net interest margins at targeted levels as well as the exit strategy on BAMC. The NLB Group expects that cross-border lending to large corporate clients and leasing activities will increase in the future in light of the lifting of associated EC Commitments, as well as increases in client demand stemming from consumer confidence as a result of positive macroeconomic indicators.

Mid-sized corporates

Through its mid-size corporate segment, the NLB Group offers an array of standard corporate products (including trade finance) and supports digital transactional banking of its clients in this segment through NLB Proklik and mobile bank Klikpro. Account managers focus on gaining an in-depth understanding of their clients' environment and business models through personal visits to business premises, with the aim of providing the right products for the clients' needs at the right time. A central professional event for clients is held annually, followed by regional events, which seek to improve customer satisfaction and the overall customer experience. These events and onsite visits enable the mid-size corporate segment to increase the visibility of NLB amongst its clients and improve its market share. Management believes that these activities and together with its experienced sales people, has allowed NLB to be aware of and able to participate in a number of attractive investments in the Republic of Slovenia. Loan volume with mid-sized corporate clients in the Republic of Slovenia grew by over 7.9 per cent. in 2017 and stood at EUR 477 million at the year's end.

Small enterprises

In the segment of small enterprises as well as sole proprietors, the NLB Group pays special attention to the operations of its clients and ways to assist them in their business. The product offerings for this segment are standardised and streamlined to ensure fast and simple solutions. Most common products are grouped in product packages, which have been complemented in 2016 with a new mobile banking solution, Klikpro. In 2018, NLB continued upgrading the package offer, which included payment transactions. In addition, the NLB Group introduced a fully automated process of granting pre-approved loans (Express loan and Express overdraft) for the amounts of up to EUR 15,000 (depending on the client's creditworthiness) and for duration up to 36 months, which are marketed via mobile bank Klikpro, in business centers and are being rolled out in the branch network as well.

In 2015, NLB introduced the Innovative Entrepreneurship Centre ("**IEC**") which, in cooperation with partner organisations, creates a supportive entrepreneurial environment for our customers.

In this flagship central location in the Republic of Slovenia, NLB offers a full range of banking services for entrepreneurs, including banking and financial consulting, and other relevant non-banking professional advisory consultations and support. Newly established businesses, start-ups and other companies can obtain entrepreneurial and financial professional know-how, and in 2016, the NLB Group added access to a wide network of advisers including, for example, accounting and legal support within a wide net of strategic partnerships. NLB also plans to offer easier access to start-up investments as well as assist in finding alternative funding sources in the Republic of Slovenia and abroad. It expects to build a physical and virtual community to connect suppliers with off-takers and entrepreneurs with investors and to foster the exchange of ideas and leverage synergies within and beyond the community.

In 2017, the IEC organised 243 external entrepreneurial educational and corporate events attended by approximately 7,700 visitors, thus evolving into an important lead channel for the segment of micro and small enterprises. In the IEC Entrepreneurial Gallery (show room), 54 different entrepreneurs with their products were hosted. In the first half of 2018, already 115 entrepreneurial and corporate events were organized with more than 4,400 participants attending and 23 different entrepreneurs were hosted at IEC Entrepreneurial Gallery.

Amongst other services, through the VEM (*vse na enem mestu*) partner site (a one-stop-shop point where companies register free of charge, prepare all the necessary documentation and receive advisory services on overcoming initial obstacles in starting a business) of the Chamber of Crafts and Small Business of Slovenia, the IEC also offers the ability to establish on-the-spot a limited liability company or register as a sole proprietor, while clients can open a business account and take advantage of numerous benefits of the "NLB Business Start" package at the same time. In addition, individual banking and financial consulting for companies is available, meaning they can connect with partners and use NLB's co-working premises and training programmes.

In the context of stimulating entrepreneurship and social responsibility in the Republic of Slovenia, the NLB Group also offers enterprises and organisations rent-free use of those business premises that are not currently occupied.

Distribution Channels

Key accounts

The large corporate segment in the Republic of Slovenia is served centrally from the head office in Ljubljana. As with all its activities, NLB seeks synergies to bring additional benefits of doing business in the region to its clients. The NLB Group is strengthening the cooperation amongst its banking members with the pending set-up of an International Desk aiming at providing more support to its clients for their business in Southeastern Europe where it is present and through correspondent relationships globally. NLB's relationship managers in 2017 performed 471 on-site visits (227 in the first half of 2018) to clients. The NLB Group supports its clients in accessing high-quality and customised region-wide services and fosters communication with dedicated bank employees who know the local markets.

Mid-sized corporates

With the aim to remain at the forefront of the mid-size corporate segment in the Republic of Slovenia, NLB's account managers are organised in five regional centres, covering the entire country, and 62 front-office bankers and 12 risk managers are dedicated to this segment. The majority of client meetings by NLB's relationship manager are held at clients' business premises. By applying such an approach, the NLB Group is able to more fully understand and satisfy its clients' specific and individual requirements.

Small enterprises

To serve the clients of the small enterprises segment, account managers are organised into four business centres, strategically positioned to cover the entire country, serviced by 49 front-office bankers and supplemented by 10 dedicated risk managers. One centre is organised as a mobile team of 13 mobile bankers to enhance the sales efforts and assure full availability to clients. In addition, an important step in 2015 was the establishment of a single sales support unit, which provides assistance to micro and small business centres all around the Republic of Slovenia. By taking over non-commercial, administrative and operational tasks, the unit significantly eases the workload of relationship managers, meaning that they can focus more intensively and thus more appropriately on meeting customer needs with the right solutions at the right time.

Financial markets in the Republic of Slovenia

The financial markets in the Slovenian segment include treasury activities, asset and liability management, trading in financial instruments, brokerage and custody of securities services, as well as financial advisory services.

For the six months ended 30 June 2018 and the year ended 31 December 2017, the financial markets segment in the Republic of Slovenia generated a profit-before-tax of EUR 15.3 million and EUR 27.3 million, respectively, and segment assets were EUR 3.7 billion and EUR 3.5 billion, respectively.

Investment banking and custody services

NLB has a long operating history which has enabled it to develop know-how in providing access to domestic and international capital markets for the largest Slovenian companies, thereby fulfilling an important role in the Slovenian national economy. NLB takes advantage of a strong corporate base and operational synergies for the cross-selling of capital market products to corporations and institutional investors. NLB is also the market leader in arranging syndicated loans, acting as the lead arranger in more transactions than any other financial adviser in the Republic of Slovenia.

NLB provides clients with a complete set of services: raising equity, issuing debt, a syndicated loan desk, interest and foreign exchange hedging with derivatives, managing market risk exposures as well as providing a trading infrastructure for domestic and international capital and currency markets. A strong advisory team assists clients in structuring and placing a range of debt and equity instruments and a network of international partners provides clients with full access to international capital markets. In addition, NLB advises on mergers and acquisitions and provides agency services for creditors in corporate restructuring processes.

During the last three years, NLB maintained its leading position as the principal organiser of corporate securities issues in the Republic of Slovenia. Many leading companies in the country rely on advice and solutions from NLB to manage market risk and support their trading operations. NLB helped corporate clients to raise EUR 476 million in debt securities between 2015 and 2017, having 62 % market share in the Slovenian capital market in that period. NLB arranged syndicated loans in the total amount of EUR 1,746 million between 2015 and 2017 and was the leading financial institution on the Slovenian market in the syndicated loan arranging segment in that period.

NLB is a market leader in providing investment services and trading with financial instruments. Brokerage services are offered to both retail and institutional clients, enabling them to execute orders through a wide execution network in domestic and international markets. Treasury products are provided to corporate and institutional clients in order to perform hedging against currency and interest rate exposures.

In addition, the financial markets offering includes custody services. Assets under custody are approximately EUR 16.131 billion as at 30 June 2018, an increase of EUR 1.452 billion compared to 31 December 2017. Growth in assets is complemented by custody services, a pro-active approach to clients and tailored solutions. NLB has a significant role in integrating the Slovenian capital market to global market infrastructures, and was the first domestic provider of custody services with links to International Central Securities Depository ("**ICSD**") and a foreign national Central Securities Depository ("**CSD**"). NLB Custody played a significant role in the establishment of the MTS Slovenia trading platform for Slovenian government bonds (for post-trade activities part) and as the first Slovenian custody bank set up a direct link to Clearstream Banking Luxembourg in 2007. In 2011, NLB Custody was the first in the Republic of Slovenia to establish a direct link to a European CSD (in Poland), thus enabling Slovenian companies to offer dual listings on the Warsaw Stock Exchange and the LJSE. Upon the Republic of Slovenia's entry into the T2S system, NLB Custody also had a significant role in harmonisation activities on the market, amongst the National User Group and Market Implementation Group and directly with the Bank of Slovenia and Slovenian CSD.

ALM and Treasury activities

NLB engages in ALM and treasury activities in the following areas:

- Management of liquidity reserves for NLB only, of which the majority presents investment grade fixed income securities portfolio in the banking book.
- Operational liquidity management for NLB only, including transactions on the interbank market, such as placements and deposits, currency swaps, buying and selling of securities and repo transactions. NLB's liquidity position can also be managed through the ECB's open market operations if required, as a result of a substantial portfolio of ECB eligible assets in the banking book.

- Wholesale funding activities for NLB Group, with the aim of achieving diversification, improvement of structural liquidity and fulfilment of regulatory requirements.

- Foreign exchange and interest rate risk management for NLB only, through transactions on the interbank market, including currency spot / forward transactions, interest rate swaps and cross currency interest rate swaps.

- NLB trading activities include proprietary trading, acting as primary dealer for Slovenian bonds and treasury bills, market making for Slovenian eurobonds, co-lead at ESM/EFSF bond issues, managing banknotes.

- NLB provides market access for corporate clients, financial institutions and the NLB Group (money market instruments, debt securities, foreign exchange and interest rate derivatives).

- Funding of the NLB Group banking subsidiaries includes short and long-term funding.

The following table summarises the maturity profile of NLB's banking book securities (including DARS bond) as at 30 June 2018:

	2018	**2019-2021**	**2022-2026**	**2027+**
		(EUR millions)		
Domestic securities	26	340	348	162
International securities	248	512	815	116
Loans	0	0	0	0
Total	**274**	**852**	**1.163**	**279**

The average maturity of banking book securities is approximately 4.5 years.

The following table summarises the geographical profile of NLB's banking book securities (including DARS bond) as at 30 June 2018:

	Percentage
Republic of Slovenia	34%
France	10%
Germany	9%
Netherlands	6%
United Kingdom	5%
Luxembourg	4%
Austria	4%
Belgium	4%
Finland	3%
Italy	3%
Other[(1)]	19%
Total	**100%**

(1) Other includes: Ireland, Sweden, Slovakia, Spain, Poland, Denmark, Portugal, USA, Romania, Hungary, Czech Republic, Norway, Lithuania, Bulgaria, Latvia, Iceland, Russian federation, Canada and Cyprus.

The following table sets forth a breakdown of income from NLB's liquid assets in financial markets for the periods indicated:

Products	Average balance[(1)]					Asset yield					Interest income[(2)]				
	30 June		31 December			30 June		31 December			30 June		31 December		
	2018	2017	2017	2016	2015	2018	2017	2017	2016	2015	2018	2017	2017	2016	2015
	(EUR millions, except percentage)														
Cash, balances with CB, nostro accounts and loans to banks.................	902	917	841	869	633	0.1%	0,0%	0.1%	0.2%	0.4%	0.3	0.2	0.8	1.5	2.5
Financial assets (securities & derivatives)...........	2,533	2,163	2,219	2,024	1,802	1.2%	1.5%	1.4%	1.9%	2.4%	15.5	15.9	30.3	38.4	43.7
Loans to NBS (state, BAMC & DARS loans, LCH collateral)..............	120	226	219	548	899	2.2%	2.8%	2.8%	3.8%	3.8%	1.3	3.1	6.0	20.9	34.5
Total..........................	**3,556**	**3,307**	**3,279**	**3,442**	**3,334**	**1.0%**	**1.2%**	**1.1%**	**1.8%**	**2.4%**	**17.1**	**19.2**	**37.2**	**60.8**	**80.8**

(1) Represents average daily balance of interest bearing assets.

(2) Excludes Fund Transfer Pricing (FTP). Total net effect of FTP on financial net interest income amounts to EUR 5.1 million in June 2018, EUR 4.3 million in June 2017, EUR 7.5 million in 2017, EUR 4.5 million in 2016, EUR 0.8 million in 2015.

The following table sets forth a breakdown of NLB's funding costs booked in financial markets for the periods indicated:

Products	Average balance[(1)]					Liabilities yield					Interest income[(2)]				
	30 June		31 December			30 June		31 December			30 June		31 December		
	2018	2017	2017	2016	2015	2018	2017	2017	2016	2015	2018	2017	2017	2016	2015
	(EUR millions, except percentage)														
Borrowings................	246	287	274	421	581	0.5%	0.7%	0.6%	0.6%	1.0%	0.6	0.9	1.7	2.7	5.6
Deposits from NBS ...	165	240	226	186	352	0.1%	0.2%	0.2%	0.3%	0.5%	0.1	0.2	0.5	0.5	1.7
Debt securities...........	0	274	137	293	322	0.0%	3.2%	3.2%	3.2%	3.2%	0.1	4.3	4.4	9.4	10.5
Total[(3)]	**412**	**801**	**637**	**900**	**1,256**	**0.4%**	**1.4%**	**1.0%**	**1.4%**	**1.4%**	**4.4**	**7.6**	**12.1**	**16.6**	**21.3**

(1) Represents average daily balance.

(2) Excludes Fund Transfer Pricing (FTP). Total net effect of FTP on financial net interest income amounts to EUR 5.1 million in June 2018, EUR 4.3 million in June 2017, EUR 7.5 million in 2017, EUR 4.5 million in 2016, EUR 0.8 million in 2015.

(3) Totals for interest expense also include net interest rate swaps of EUR 3.7 million, EUR 2.1 million, EUR 5.6 million, EUR 4.0 million and EUR 3.5 million for the years ended 30 June 2018, 30 June 2017, 31 December 2017, 31 December 2016 and 2015, respectively.

In 2016 and 2017, NLB optimised its liability structure through early repayment of certain more expensive funding sources.

Core foreign markets

The core part of the NLB Group in foreign markets consists of six banks and two SPVs (which manage NPLs and real estate held or leased by core NLB Group members). The respective banks distinguished by their strong reputation and recognised for their modern products, services and distribution channels, while all of them operate under the same distinctive title "NLB Banka". In four out of six markets, Macedonia, Republika Srpska, Kosovo and Montenegro, the NLB Group bank subsidiaries currently have market shares exceeding 10 per cent. (according to estimates by the NLB Group).

NLB's core subsidiaries in Southeastern European markets (Macedonia, Bosnia and Herzegovina, Kosovo, Serbia and Montenegro) completed the six months ended 30 June 2018 and the year ended 31 December 2017 with an aggregate profit-before-tax of EUR 58.6 million and EUR 102.0 million, respectively, including the result of minority owners and with segment assets of EUR 4.0 billion and EUR 3.9 billion, respectively.

Banking members of the NLB Group in Southeastern Europe primarily focus on the retail and small and micro enterprises' segments. In 2017, they responded to market needs in highly competitive local markets by cost aware conducting of their business, streamlining and modernisation of the distribution network, and improving their digital offering.

NLB started its geographical banking expansion in 2000 with the acquisition of Tutunska banka in Macedonia (later renamed to NLB Banka Skopje) and Commercebank in Bosnia and Herzegovina. The NLB Group then expanded into additional Southeastern European markets through the acquisition of shareholdings in Montenegrobanka, Prva Preduzetnička banka (later renamed LHB Bank Belgrade) and the West East Bank in Bulgaria.

In 2005, NLB also acquired majority stakes in Euromarket banka, Podgorica, Continental banka, Novi Sad, Razvojna banka Jugoistočne Evrope, Banja Luka and Tuzlanska banka, Tuzla.

In 2006, the NLB Group initiated a bank consolidation process by merging companies in Montenegro (Euromarket banka and NLB Montenegrobanka), in the Republika Srpska (Razvojna banka Jugoistočne Evrope and LHB Banka) and in the Federation of Bosnia and Herzegovina (CBS Bank and Tuzlanska banka).

In 2007 NLB entered into the banking market of Kosovo with the acquisition of Kasabank sh.a. Prishtina and New Bank of Kosova sh.a., Prishtina. Both banks were merged in 2008.

In 2008, NLB LHB banka Belgrade merged with NLB Continental banka to create NLB Banka Belgrade.

Macedonia

NLB Banka, Skopje, ("**NLB Macedonia**") is the third largest bank in Macedonia in terms of market share by total assets (15.9 per cent. as at 30 June 2018) and has operated there for more than 30 years and became a member of the NLB Group in 2001 (Source: National Bank of the Republic of Macedonia). As at 30 June 2018 NLB Macedonia had total assets of EUR 1.2 billion, a ROE (annualised) of 25.3 per cent. and a cost-to-income ratio of 30.5 per cent. Results for the six months ended 30 June 2018 were strong, with a net profit of EUR 22.6 million, a 9.2 per cent. increase compared to the previous year, making NLB Macedonia the most successful subsidiary of the NLB Group in terms of the six months ended 30 June 2018 net profit. NLB Macedonia is 87 per cent. owned by NLB, with the remaining stake owned by Frontier Funds, with 2 per cent. of total shares, and other private companies and individuals which each own individually less than 1 per cent. of total shares.

NLB Nov penziski fond, Skopje ("**NLB Macedonia Pension Insurance**"). NLB Macedonia Pension Insurance which was 51 per cent. owned by NLB and 49 per cent. owned by NLB Macedonia, and which offered mandatory and voluntary pension insurance in Macedonia, was sold to Sava RE in 2018, while the transaction was formally completed on 14 March 2018.

Clients

As at 30 June 2018, NLB Macedonia had over 384 thousand active clients, of which 368 thousand were retail and 17 thousand corporate clients.

The following table provides a breakdown of the key metrics of NLB Macedonia as at or for the periods indicated:

	30 June		**31 December**		
	2018	**2017**	**2017**	**2016**	**2015**
			(EUR million)		
Net interest income	23.7	23.9	49.7	46.3	41.3
Net non-interest income	16.1	6.2	12.8	12.3	11.7
Total costs	12.2	11.3	23.4	22.3	22.4
Provisions and impairments	2.9	(4.2)	(5.5)	8.7	16.0
Result after tax	22.6	20.7	40.0	25.0	13.1
Total assets	1,230.6	1,125.5	1,235.9	1,153.1	1,119.7
Loans and advances to non-banking sector (net)	817.0	742.1	796.7	743.3	704.7
Deposits from non-banking sector	981.7	911.7	1,005.3	938.5	918.9
Branches	52	52	52	51	50
Employees	855	848	865	855	835
NPL ratio (per cent.)	4.8	5.9	5.2	5.7	8.4
NPL coverage ratio (per cent.)	116.3	149.9	152.1	158.5	138.4

Products

NLB Macedonia offers banking products and services designed for retail and corporate customers. The main products for NLB Macedonia for private individuals offered in 2017 were loans, deposits, credit and debit cards, overdraft and current accounts. The main products for business and other legal entities are loans, guarantees, deposits, credit and debit cards and overdraft and current accounts. NLB Macedonia's net loan book split as at 30 June 2018 consisted of 60 per cent. retail loans (EUR 490 million) and 40 per cent. corporate loans (EUR 327 million). In addition, NLB Macedonia as at 31 December 2017, maintains a 30.3 per cent. market share in debit cards and manages over 50 per cent. of cash volume in Macedonia. Additional products that NLB Macedonia offered to clients in 2017 were non-life and life insurance and agency services for voluntary pension plans (NLB NPF pension funds) for private individuals and legal entities.

Distribution Channels

The products and services of NLB Macedonia are distributed to customers through the following channels:

- Branches (52 branches as at 30 June 2018)
- ATMs
- POS
- Contact Centre
- E banking, including online applications through web and mklik (Klik, mKlik, ProKlik)
- MobiPay
- SMS notifications
- Third-parties (including two credit intermediaries that perform significant disbursement of consumer loans through an automated process performed in the store of the intermediary)

Faced with strong competition, NLB Macedonia improved its competitive edge with excellent technical support for digital services. NLB Macedonia focuses on the differentiation of its product offerings in the market, with a focus on developing new innovative products and on improving existing products and services. NLB Macedonia continuously invests in new technologies, paying special attention to the market leading digitalisation of its banking services.

Bosnia and Herzegovina

In Bosnia and Herzegovina, the NLB Group has two bank subsidiaries, one in the Federation of Bosnia and Herzegovina (NLB Banka Sarajevo) and one in the Republika Srpska (NLB Banka Banja Luka). Banks in Bosnia and Herzegovina are regulated by the Central Bank of the Federation of Bosnia and Herzegovina and the Entity Banking Agency. The Central Bank of the Federation of Bosnia and Herzegovina is mainly responsible for monetary policy, payments and settlements system, but also oversees the coordination of the two banking agencies. The Entity Banking Agency has authority over bank licensing and supervision. Combined, the two banks account for an approximately 10 per cent. market share in Bosnia and Herzegovina.

(a) ***Bosnia and Herzegovina (Federation of Bosnia and Herzegovina)***

NLB Banka, Sarajevo (previously Tuzla) ("**NLB Sarajevo**") is a bank operating in Bosnia and Herzegovina for more than 100 years and became a member of the NLB Group in 2006. It is the sixth largest bank in the Federation of Bosnia and Herzegovina by total assets (5.2 per cent. market share as at 31 March 2018) (source: Banking Agency for the Federation of Bosnia and Herzegovina). In the six months ended 30 June 2018 the NLB Sarajevo recorded net profit of EUR 5.5 million EUR. As at 30 June 2018, NLB Sarajevo had total assets of EUR 548.5 million, a ROE (annualised) of 14.9 per cent. and a cost-to-income ratio of 54.8 per cent. In 2015, NLB Sarajevo moved its headquarters from Tuzla to Sarajevo, the capital of Bosnia and Herzegovina, with the aim to strengthen its presence in other cantons of the Federation of Bosnia and Herzegovina. NLB Sarajevo has upgraded its offering of products and channels and aims to continue modernising the branch offices and services. NLB Sarajevo is 97.3 per cent. owned by NLB, with the remaining stake of 2.7 per cent. owned by small shareholders as of 30 June 2018.

Clients

As at 30 June 2018, NLB Sarajevo had over 137 thousand active clients, of which 129 thousand were retail and 8 thousand corporate clients.

The following table provides a breakdown of the key metrics of NLB Sarajevo as at or for the periods indicated:

	30 June		31 December		
	2018	**2017**	**2017**	**2016**	**2015**
			(EUR million)		
Net interest income	8.7	9.0	18.1	16.9	15.7
Net non-interest income	4.1	3.6	7.5	7.0	6.6
Total costs	7.0	6.8	14.0	13.7	13.6
Provisions and impairments	(0.2)	1.2	2.0	4.3	4.0
Result after tax	5.5	4.0	8.3	5.4	4.2
Total assets	548.5	519.5	531.0	497.9	476.1
Loans and advances to non-banking sector (net)	350.7	329.2	332.6	312.0	300.7
Deposits from non-banking sector	435.7	422.1	427.9	406.9	390.5
Branches	38	39	39	37	38
Employees	467	458	459	444	424
NPL ratio (per cent.)	6.6	9.1	6.9	9.9	9.4
NPL coverage ratio (per cent.)	101.1	91.5	105.6	85.7	89.5

NLB Sarajevo's product portfolio consists of a significant list of products and services for individuals (loans, deposits, credit and debit cards, overdraft and current accounts) and for business and other legal entities (loans, guarantees, deposits, credit and debit cards, overdraft and current accounts). NLB Sarajevo's net loan book split as at 30 June 2018 consisted of 56 per cent. retail loans (EUR 195 million) and 44 per cent. corporate loans (EUR 156 million).

Distribution Channels

The products and services of NLB Sarajevo are distributed to customers through the following channels:

- Branches (38 branches as at 30 June 2018)
- ATMs
- POS
- Contact Centre
- E-banking and mobile banking

(b) ***Bosnia and Herzegovina (Republika Srpska)***

NLB Banka, Banja Luka ("**NLB Banja Luka**"), which became a member of the NLB Group in 2005, has the largest banking distribution network in the Republika Srpska with a market share of 18.8 per cent. by total assets as at 31 March 2018 (source: Banking Agency of Republic Srpska). NLB Banka Banja Luka ended the first half of 2018 with a net profit of EUR 9.8 million, representing a decrease of 38 per cent. compared the first half of 2017 due to higher released impairments in 2017 (EUR 9.3 million compared to EUR 3.2 million in first half of 2018). As at 30 June 2018, NLB Banja Luka had total assets of EUR 693.2 million, a ROE (annualised) of 22.1 per cent. and a cost-to-income ratio of 46.2 per cent. NLB Banja Luka is in the process of investing in the digitalisation of services and development of internal processes. NLB Banja Luka is 99.9 per cent. owned by NLB.

Clients

NLB Banja Luka offers products and services designed for individuals, SMEs and large corporations. As at 30 June 2018, NLB Banja Luka had over 222 thousand active clients, of which 206 thousand were retail and 15 thousand corporate clients.

The following table provides a breakdown of the key metrics of NLB Banja Luka as at or for the periods indicated:

	30 June		31 December		
	2018	2017	2017	2016	2015
			(EUR million)		
Net interest income	8.8	9.2	18.1	18.3	16.7
Net non-interest income	5.3	4.6	9.6	8.8	8.2
Total costs	6.5	6.2	12.8	12.8	12.7
Provisions and impairments	(3.2)	(9.3)	(10.6)	(2.0)	1.5
Result after tax	9.8	15.7	23.7	14.1	9.9
Total assets	693.2	644.7	669.9	634.5	611.7
Loans and advances to non-banking sector (net)	368.4	330.9	349.1	327.4	303.0
Deposits from non-banking sector	557.3	497.3	532.5	495.4	474.3
Branches	58	60	58	60	65
Employees	486	487	475	491	498
NPL ratio (per cent.)	3.5	4.8	3.7	5.1	5.7
NPL coverage ratio (per cent.)	119.1	145.6	149.4	169.4	157.9

Products

Loans and payment services represent the main products offered by NLB Banja Luka in terms of volume and income. NLB Banja Luka's net loan book split as at 30 June 2018 consisted of 45 per cent. retail loans (EUR 165 million) and 55 per cent. corporate loans (EUR 204 million). A stable deposit base provides a foundation for competitive terms in the retail and corporate credit businesses. NLB Banja Luka is in the licencing process for bancassurance products.

Distribution Channels

In addition to traditional banking channels run through its 58 branches as at 30 June 2018, a rising number of transactions are streamed to digital banking channels, including m-banking, e-banking and SMS. NLB Banja Luka is an issuer and acquirer of Visa and MasterCard cards, including credit, debit and prepaid, and maintains a large network of ATMs. A well-equipped IT department and developed core information system aims to be a cornerstone of the bank's competitive advantage and provides support for custom solutions and improvements to existing services to fit market needs.

Kosovo

NLB Banka, Prishtina ("**NLB Kosovo**"), became a member of the NLB Group in 2007 and it is the third largest bank in Kosovo in terms of market share (16.3 per cent.) of total assets as at 30 June 2018 (Source: CBK). In 2017, NLB Kosovo recorded a profit of EUR 14.2 million, the highest in the last ten years. Continuing this trend, NLB Kosovo's profit in the half of 2018 was EUR 7.4 million as compared to EUR 7.9 million in the half of 2017. As at 30 June 2018, NLB Kosovo had total assets of EUR 616 million, a ROE a.t. (annualised) of 21.6 per cent. and a cost-to-income ratio of 39.2 per cent. In 2017 and the half of 2018, NLB Kosovo managed to retain key clients while facing strong competition from other banks and reduce the share of NPLs to 2.6 per cent. NLB Kosovo is owned 81.21 per cent. by NLB with the remaining 18.79 per cent. owned by a number of local shareholders.

Clients

As at 30 June 2018, NLB Kosovo had over 199 thousand active clients, of which 192 thousand were retail and 7 thousand corporate clients. NLB Kosovo aims to remain innovative and keep pace with its clients' demands and expectations through regular assessments of local market conditions, demands and client suitability.

The following table provides a breakdown of the key metrics of NLB Kosovo as at or for the periods indicated:

	30 June		31 December		
	2018	2017	2017	2016	2015
			(EUR million)		
Net interest income	12.9	12.0	24.5	23.5	22.7
Net non-interest income	2.3	2.1	4.6	4.2	3.6
Total costs	6.0	5.5	11.2	11.1	10.8
Provisions and impairments	1.1	0.1	2.2	4.1	6.3
Result after tax	7.4	7.9	14.2	11.3	8.2
Total assets	616.2	525.5	584.1	516.1	464.7
Loans and advances to non-banking sector (net)	443.6	371.9	386.8	329.6	289.3
Deposits from non-banking sector	530.6	454.2	506.7	442.1	400.2
Branches	44	45	44	45	46
Employees	478	483	481	489	492
NPL ratio (per cent.)	2.6	3.1	2.9	3.6	3.9
NPL coverage ratio (per cent.)	181.9	193.1	186.5	176.6	157.3

Products

NLB Kosovo's product portfolio consists of a wide range of products and services for retail (loans, deposits, credit and debit cards, overdraft and current accounts) and corporate customers (loans, guarantees, deposits, credit and debit cards, overdraft and current accounts). NLB Kosovo's net loan book split as at 30 June 2018 consisted of 37 per cent. retail loans (EUR 164 million) and 63 per cent. corporate loans (EUR 279 million).

Distribution Channels

As at 30 June 2018, NLB Kosovo is present throughout the territory of Kosovo, across nine major regions with total of 44 branches and 68 ATM's. NLB Kosovo aims to optimise its network capacity by enriching distribution channels with innovative products, including digital distribution channels, in order to provide clients with a platform to access banking products. In addition, NLB Kosovo aims to strengthen the skills and competencies of its staff through training in order to provide more complex financial advice and solutions to clients. Modern distribution channels aim to develop new services and consolidate existing ones.

2016 saw the development and successful implementation of a POS merchant acquiring service and mobile banking.

Serbia

NLB Banka, Belgrade ("**NLB Serbia**") was established in 1991 as Jugobanka Novi Sad and was subsequently acquired by NLB and changed name to NLB Continental banka a.d. Novi Sad in 2005. With the acquisition of NLB LHB banka Beograd a.d. by NLB Continental banka a.d., Novi Sad at the end of 2008, the bank started operating under the name of NLB Banka a.d., Beograd. NLB Serbia had a market share of 1.4 per cent. of total assets as at 31 March 2018. As at 30 June 2018, NLB Serbia had total assets of EUR 417,3 million, a ROE (annualised) of 7.8 per cent. and a cost-to-income ratio of 77.2 per cent. In 2014 and 2015, NLB Serbia went through a comprehensive restructuring plan under a new leadership aimed at increased efficiency, centralising the head office in Belgrade, reducing NPLs and thus establishing a sound platform for future growth. As a result, the operation of NLB Serbia has been profitable from 2016 onwards. A significant contribution to the result is represented by collection of previously written off exposures. However, the portion of result from core banking activities is steadily growing. NLB Serbia is 99.99 per cent. owned by NLB.

Clients

NLB Serbia's business network was in the past years optimised to ensure services for over 134 thousand active clients, of which 117 thousand were retail and 17 thousand corporate clients as at 30 June 2018.

In June 2018 NLB Serbia went live with CRM in the region of Belgrade. The goal is to build a base of customer relationship history, improve customer experience and customer satisfaction, improve management of sales activities and improve campaign management processes in the bank.

The following table provides a breakdown of the key metrics of NLB Serbia as at or for the periods indicated:

	30 June		31 December		
	2018	2017	2017	2016	2015
			(EUR million)		
Net interest income	9.6	8.4	18.0	14.7	13.8
Net non-interest income	1.7	1.7	3.0	2.6	3.2
Total costs	8.7	7.7	16.3	17.0	15.5
Provisions and impairments	0.1	(1.8)	0.9	(1.8)	0.3
Result after tax	2.5	4.2	3.7	2.2	1.2
Total assets	417.3	328.0	370.8	275.8	235.6
Loans and advances to non-banking sector (net)	284.4	202.5	238.8	159.4	92.9
Deposits from non-banking sector	287.0	214.4	259.8	190.0	179.8
Branches	31	31	31	31	31
Employees	449	419	431	406	459
NPL ratio (per cent.)	4.1	8.1	5.0	10.3	23.4
NPL coverage ratio (per cent.)	72.4	75.4	80.9	75.4	73.3

Products

NLB Serbia branches provide a full range of banking services to corporate and private clients alike. The main products for private individuals include cash loans, consumer loans, mortgages, deposits, credit and debit cards, overdraft and current accounts. The main products for corporate and agricultural segments include credit and debit cards, working capital liquidity, revolving loans, overdraft, permanent working capital loans, investment loans, guarantees and deposits. The product that currently contributes the most to NLB Serbia's income is loans. NLB Serbia's net loan book split as at 30 June 2018 consisted of 39 per cent. retail loans (EUR 110 million) and 61 per cent. corporate loans (EUR 175 million).

Distribution Channels

The products and services of NLB Serbia are distributed to customers through the following channels:

- Branches (31 branches as at 30 June 2018)
- Sales teams (for corporate and agricultural segment)
- Teams of promoter agents (new distribution channel established in 2017)
- ATMs (67 ATMs as at 30 June 2018)
- Contact Centre
- E-banking and mobile banking

Montenegro

NLB Banka, Podgorica ("**NLB Montenegro**") was established in 1905 and became a member of the NLB Group in 2003. NLB Montenegro embarked on an extensive restructuring programme in 2014, which was concluded in 2015 and aimed to increase efficiency and reduce the NPL ratio, while providing a solid foundation for future business. NLB Montenegro has a market share in terms of total assets of 10.9 per cent. as at 30 June 2018. In 2017, net profit amounted to EUR 5.4 million and in the first half of 2018, a net profit of EUR 5.5 million was generated. As at 30 June 2018, NLB Montenegro had total assets of EUR 469.2 million, a ROE (annualised) of 16.3 per cent. and a cost-to-income ratio of 53.2 per cent.

Clients

As at 30 June 2018, NLB Montenegro had approximately 60 thousand active clients, of which 55 thousand were retail and 5 thousand corporate clients.

The following table provides a breakdown of the key metrics of NLB Montenegro as at or for the periods indicated:

	30 June		31 December		
	2018	2017	2017	2016	2015
			(EUR million)		
Net interest income	8.5	7.8	16.4	17.2	14.9
Net non-interest income	2.7	2.6	5.1	4.2	4.9
Total costs	5.9	6.2	12.4	12.6	12.8
Provisions and impairments	(0.3)	1.7	3.8	3.5	0.7
Result after tax	5.5	2.4	5.4	5.3	6.2
Total assets	469.2	463.6	457.2	473.1	484.5
Loans and advances to non-banking sector (net)	289.7	273.2	265.1	255.9	253.7
Deposits from non-banking sector	367.2	349.4	359.7	361.2	379.8
Branches	18	18	18	18	18
Employees	316	341	320	338	330
NPL ratio (per cent.)	8.1	13.0	8.0	14.7	19.4
NPL coverage ratio (per cent.)	67.8	61.1	71.1	57.1	47.5

Products

The product mix of NLB Montenegro consists of traditional banking products, including loans, deposits, payment cards, e-banking and insurance. NLB Montenegro's net loan book split as at 30 June 2018 consisted of 63 per cent. retail loans (EUR 183 million) and 37 per cent. corporate loans (EUR 107 million). NLB Montenegro aims to develop new banking products and services from which non-interest rate related income can be derived, namely through combining various loan and insurance products and focusing on digital channels. The main product in terms of income for NLB Montenegro is loans.

Distribution Channels

The products and services of NLB Montenegro are distributed to customers through the following channels:

- Branches (18 branches as at 30 June 2018)
- ATMs
- POS
- Contact Centre
- E-banking and mobile banking

Non-core segments

The NLB Group's non-core segment includes the operations of non-core NLB Group members and the non-core part of NLB's portfolio, consisting of loans to foreign clients and a limited number of remaining NLB equity participations, which are to be terminated.

Total assets of the NLB Group in 2017 in the segment of non-core markets and activities amounted to EUR 391.3 million, a reduction of EUR 111.3 million (or 22 per cent.) from 2016. The share of non-core assets in total assets of the NLB Group was 3.2 per cent. or 1.0 percentage points less than at the end of 2016. An important contribution to reducing the exposure came from assets collected in pre-court and court proceedings, lowering exposure related to guarantees, and regular repayments.

The following table sets forth an overview of the NLB Group's non-core segments.

Segment	Total assets (standalone)	Total assets (consolidated)[1]	P&L Impairments	Profit before tax
	As at 30 June 2018			For the six months ended 30 June 2018
		(in EUR million)		
Non-core NLB	368	97	2	3
Non-core subsidiaries				
NLB Leasing Ljubljana	131	131	0	2
NLB Interfinanz	41	25	1	1

Segment	Total assets (standalone)	Total assets (consolidated)[(1)]	P&L Impairments	Profit before tax
	As at 30 June 2018			For the six months ended 30 June 2018
		(in EUR million)		
Other leasing	32	25	1	1
REAM Entities	75	65	2	2
Other non-core members	5	2	2	1
Cost allocation	0	0	0	-1
Total	**N/A**	**345**	**8**	**8**

(1) Excluding intragroup lending.

Controlled wind-down of non-core activities

The NLB Group met the objectives of the Restructuring Plan put in place under supervision of the EC in the context of the state aid process that was concluded in 2013. The objectives relating to the wind-down of non-core activities terminated on 31 December 2017 (with specific targets originally set for 31 December 2016) (see "*2. Risk Factors—Delays or incomplete implementation in the divestment process of non-core assets could have an adverse effect on the financial performance of the NLB Group.*" and "*—Any failure by the NLB Group and/or the Republic of Slovenia to adhere to the New Commitments towards the EC could have a negative effect on the NLB Group*"). This process entailed a rigorous wind-down of all non-core portfolios and consequent reduction of costs. The implementation of the wind-down has been pursued with a variety of measures, including sales of portfolios, sales of individual assets and the collection or restructuring of individual assets. In particular, these include:

- Reduction of credit business with foreign clients: NLB refrained from undertaking any new credit activities with corporate clients incorporated outside the Republic of Slovenia and who are not members of organisations whose headquarters or final beneficiary is in the Republic of Slovenia. As part of this effort, the closing of the Trieste (Italy) Branch was concluded in 2015.

- Sale of non-core equity participations: NLB is aiming to reduce all of its equity participations through sale processes. As at 30 June 2018, there were 9 participations in the portfolio with a total book value of EUR 0.97 million, of which 5 participations with a total book value of EUR 0.64 million were subject to the Restructuring Plan. 2015 and 2016 saw a successful exit from non-core equity exposures in Trimo, Trimo MSS, Elektro Celje, Elektro Primorska and Telekom Slovenije. Additionally, in 2017, the largest equity participation of NLB in Petrol, the leading energy company in Slovenia, Cimos, Induplati, Terme Topolšica, Istrabenz, KB1909, Hoteli Bernardin, Elektro Ljubljana, Prva Group and TKI Hrastnik were sold and as a consequence the remaining non-strategic equity portfolio was almost entirely divested.

- Non-strategic NLB Group members, including those with operations in leasing, factoring/trade finance and real estate are in the process of being wind down, with new business being suspended in all subsidiaries. The total portfolio of non-core subsidiaries is decreasing through regular repayments, collections and restructurings. In 2015, regular liquidation of LHB Trade, Zagreb, in 2016 liquidation of NLB Leasing, Sofia and in 2018 liquidation of NLB Propria was completed. NLB Factoring has been sold in 2017. Additionally, in 2016, liquidation was initiated in other local leasing companies in Zagreb, Belgrade, Podgorica and Skopje, as well as some other non-core subsidiaries according to EC Commitments (NLB InterFinanz, PRO-REM, OL Nekretnine and NLB Propria, the latter of which commenced liquidation on 1 January 2017). At the end of 2017 two additional liquidation proceedings were initiated for NLB Leasing Ljubljana and Prospera plus. As at 31 December 2017, total assets of non-core members amounted to EUR 391.3 million, as at 30 June 2018 EUR 345.0 million.

A substantial portion of the total NLB Group non-core assets consist of fully performing leasing businesses (EUR 142 million and EUR 110 million as at 31 December 2017 and 30 June 2018, respectively) as well as real estate assets (EUR 51 million as at 30 June 2018) and together these assets represent 47 per cent. of the NLB Group's total non-core assets as at 30 June 2018.

Active management of real-estate assets

A large portion of NPLs in the portfolio is secured by real estate and therefore the NLB Group has set up a specialised team for repossessing, managing and selling real estate as a non-core element of its business.

Management entities have been established in three relevant markets, Croatia, Serbia and Montenegro (REAM Zagreb, REAM Belgrade, REAM Podgorica), while in the Republic of Slovenia, PRO-REM (now in liquidation) has been carved out from NLB Leasing, Ljubljana, including assets, real-estate management and staff. Of the EUR 51 million real-estate assets owned by these entities as at 30 June 2018, approximately half by asset value was located in the Republic of Slovenia, with real-estate assets located in Montenegro, Croatia and Serbia accounting for 33 per cent., 13 per cent. and 9 per cent., respectively.

The main task of these teams is to ensure value-preserving strategies for the management of real estate, respectively the collateral value of NPL claims by either temporarily repossessing real estate or ensuring a value-preserving divestment process of the real estate or claim. In 2017, the team supported transactions with a real estate value of approximately EUR 59 million.

The total stock of investment real estate in the NLB Group as at 30 June 2018 was EUR 124 million, corresponding to 436 properties. The NLB Group reduced its stock in 2017 through a proactive sales process by 20 per cent., corresponding to 95 properties.

6.10 MARKET POSITION AND COMPETITION

The NLB Group is the largest banking and financial group in the Republic of Slovenia and the largest banking and financial group in the remainder of Southeastern Europe, with headquarters in and an exclusive focus on these markets. NLB classifies its competitors in the Republic of Slovenia into three categories: domestic banks, foreign banks and investment banking and brokerage firms. In the market for financial services, NLB faces competition from foreign and domestic universal banks such as NKBM, Abanka, SKB Banka, UniCredit Banka Slovenija, Addiko Bank (formerly Hypo Alpe-Adria Bank), and major regional banks such as Intesa Sanpaolo Bank (formerly Banka Koper) and Gorenjska banka.

Since the Republic of Slovenia entered the EU, the presence of foreign banks has increased considerably in both corporate and retail banking. For specialised services, such as investment banking, NLB's competitors are specialised companies, in particular stock broking companies, such as Alta and Ilirika.

For further information on the Slovenian and Southeastern Europe macro economy and banking sectors, see "*14. Macroeconomic Conditions and the Banking Sector in the Republic of Slovenia and Other Core Markets*".

6.11 HR MANAGEMENT AND EMPLOYEES

NLB's HR policy covers the employment, development, education and training, motivation, evaluation and remuneration of employees.

The table below shows the number of employees in the NLB Group as at 30 June 2018 and as at 31 December 2017, 2016, 2015, 2014, 2013, 2012 and 2011.

NLB Group	2011	2012	2013	2014	2015	2016	2017	30/06/2018
Slovenia	265	242	236	234	197	180	133	125
Serbia	638	629	587	450	480	424	447	459
R. Srpska	506	499	490	490	498	491	475	486
Federation of BiH	485	466	453	439	432	451	467	474
Montenegro	345	337	328	335	341	342	319	314
Macedonia	829	821	823	847	875	891	901	859
Kosovo	528	529	525	525	492	489	481	478
Germany	75	56	10	5	2	1	1	1
Czech Republic	21	12	0	0	0	0	0	0
Switzerland	18	17	12	9	9	5	4	4
Croatia	23	26	21	19	16	16	12	10
Bulgaria	2	2	2	2	2	0	0	0
NLB	3,713	3,572	3,425	3,093	3,028	2,885	2,789	2,746
Total	**7,448**	**7,208**	**6,912**	**6,448**	**6,372**	**6,175**	**6,029**	**5,956**

Since 2012, the NLB Group has reduced its number of employees in connection with efforts undertaken as part of the Reorganisation, see "*—Reorganisation and NLB Transformation Programme*".

In 2016, NLB was the first Slovenian company to receive the "Top Employer" certificate. NLB also received the certificate in 2017, implementing more than 60 relevant improvements in HR area, and in 2018, also with the introduction of more than 20 HR improvements. The certificate is issued by an independent institute from the Netherlands. In August 2018, a new cycle of evaluation shall begin for the NLB and for the first time also the selected other members of the NLB Group. The NLB pays close attention to talent management and social responsibility towards the employees, such as being a family-friendly company with healthy banking practices.

In the past few years, NLB has made substantial progress in improving the HR management function of the NLB Group, by introducing a system for management by objectives, development plans, promotion schemes, objective performance assessment and remuneration schemes and an active talent management programme, where all employees benefit from relevant and regular trainings and qualifications. The subsidiaries also adopted HR strategies and action plans until 2020.

NLB maintains a labour council and labour union, and also cooperates with the Slovenian Banking Union. NLB has established a cooperative relationship with and is not currently in conflict with any labour unions. There are currently no material lawsuits, legal disputes or other conflicts with the employees.

NLB Training Centre

The NLB's Training centre has a 44-year long history and strives for high quality and compliance with the standards of a learning organisation in the area of employee education and training. It offers the wide variety of educational schemes and materials that help employees meet the requirements of their work and monitor trends in the related environment. Employee development is systematic and target-oriented process which gives the employees the possibility of professional, work and personal development.

The Training Centre applies various contemporary methods of advanced learning, training and development for employees. Education and training is mostly provided by the experts from the NLB, and all employees also participate in the process of knowledge transfer as participants, mentors, lecturers or coaches.

Talent management

Every year, the NLB employee assessment system enables identification of employees with excellent results, well-developed competences, high potential and motivation for future development. The NLB looks for prospective individuals for all positions and divides them into three groups: Leadership Talent, Professional Talent, and Young Talent. Each NLB Group manager has all three categories defined in the HR strategy of the organisational unit with the emphasis on the development of successors and preparation of career plans. The NLB introduced the top talent programme in 2016 in the framework of which the selected employees train for the promotion within a period of up to two years. During this period they attend the training and seminars, participate in the projects in the framework of the NLB Group, work with the mentors and are assessed. By the end of 2018, the NLB Group expects to carry out another round of the process of identifying talents, assessing the existing two-year programme and developing the systems of mobility, sharing of good practices and assumption of tasks in the framework of the Group's range of projects., which requires the establishment of mobility knowledge sharing regarding cross border working processes and bureaucracy for countries outside the EU (including requirements relating to visas, work authorizations, salaries and taxes).

Remuneration system

Employees' salaries are set in fixed amounts, while the collective agreements also allow for a variable component, which allows NLB to remunerate above-average results arising from the employee's work performance on a quarterly and semi-annual basis, and annual remuneration on the basis of the NLB Group's business performance.

NLB's business strategy and the goals of the organisational unit, as defined by the head of the organisational unit, based on the top-down approach, are the basis for determining the employees' goals. The planning of quarterly or semi-annual goals of each employee is based on the plan of the organisational unit, presented to the employees by the head of the organisational unit, which serves as the basis for:

- semi-annual or quarterly employee performance assessment,

- conversation between the employees and their superior about the achievement, exceeding and non-achievement of goals,
- setting of action plans for improvements, and
- payout of part of the salary based on personal performance.

Each head of the organisational unit quarterly or semi-annually checks the achievement of the set goals of the organisational unit and the employee and establishes any over- or underachievement or deviations, of which the superiors are informed. All of the above serves as the basis for appropriate planning and setting of goals for the next assessment period and for the drafting of the development plan, where the head, together with the employee, defines the key development goals (know-how and competence upgrade) for the next annual period.

The methodology of setting the goals of the NLB Group demands that such goals are (a) specific (the goal must be defined in a brief and understandable manner), (b) measurable (the head of the organisational unit must specifically define the result), (c) complex (relating to the scope and ability to achieve the goal), (d) realistic and (e) timely (with a defined time frame).

Corporate climate and employee commitment

The effects of the NLB's HR Strategy are measured by surveying the corporate climate and the employee commitment, assessing the level of employee motivation and their willingness to do their best, exceed the expectations and thus contribute to the company's successful performance. The survey has shown that the share of committed employees increased by 5 per cent. in 2017 compared to 2016, reaching 56%. per cent. The share of non-committed employees was reduced.

When researching the corporate climate, NLB deals with each individual's perception and description of their social environment. NLB assesses 16 different categories and the highest scores are achieved in the following categories: quality, management, innovation and initiative, and motivation. The greatest positive change was achieved in the following categories: comparative questions, focus on the users and loyalty to the organisation.

A total of 60.65 per cent. of all NLB employees participated in this survey, which is above the average level of participation achieved in the Republic of Slovenia. In the previous survey carried out by the NLB in 2016, 72.36 per cent. of employees participated and in 2015 71%. per cent.

6.12 INFORMATION TECHNOLOGY

The NLB Group's management considers technology to be an important factor for the NLB Group's future success in achieving its key strategic priorities. As a result, the NLB Group has prepared an IT development strategy which aims to complement business initiatives of the NLB Group strategy. For more information on this IT strategy, see "*—IT development strategy*".

Commitment to development and projects

A dedicated team ensures the prioritisation of requirements and planning and supervision of key projects with a project office team. Major projects in 2015 included the conclusion of the Transformation Programme with 26 different projects and business initiatives, such as the automation of credit operations and introduction of the Klikin mobile banking application. In 2016, NLB had successfully implemented electronic signature in all branch offices, and new functionalities on mobile bank applications Klikin and KlikPro were also added. Automatic credit operations were put in place for SMEs, while further development for large customers is expected in the future. In 2017 and 2018, NLB has digitized several decision-making cycles and has been the first bank on the Slovenian market to offer end-to-end consumer lending process through mobile application as well as quick loan process for the segment of small enterprises. The bank has also further enhanced communication with clients by introducing video contact through web portal as well as mobile and web banking channels, where a client can get the service from the contact center at all times.

The NLB Group seeks to improve and prioritize its customers' digital experience. Therefore, further mid-term endeavours are aimed at implementing modern data management platform, enhancing hybrid integration capabilities and implementing new digital banking platform with several sales force automation functionalities.

IT stability

NLB believes that information technology is the cornerstone of all banking operations. In addition to high levels of information security and availability, a versatile IT system is seen as the key to a sustained competitive advantage. Currently, NLB's IT system availability stands at 99.97 per cent. To maintain a high level of information security and ensure compliance with applicable data protection and privacy laws, NLB pursues the continued improvement of its technology and operations (see, "*2. Risk Factors—Risks Relating to the Regulatory Environment in Which the NLB Group Operates—The NLB Group must comply with data protection and privacy laws and may be targeted by cybercriminals*" for further information on IT associated risks the NLB Group faces).

Recent projects and the foundations for the digital era

Besides regular maintenance activities, the NLB Group is pursuing activities in line with an increasingly digital and continuously developing technological landscape. The NLB Group has initiated a top-down review of its current technology architecture and has defined a transition path towards a simplified, less complex IT landscape able to support the high demands of a real-time/data-driven/omni-channel environment fully supported by state-of-the art cyber security measures. Such a transition will involve long-term efforts spanning several years in order to realise anticipated benefits such as the reduction of certain costs and defence of the NLB Group's position as a market leader in IT. More actively identifying and pursuing group synergies is also high on the agenda.

Cash Processing

The NLB's Cash Processing team has completed a substantial investment project. The largest cash processing centre in the Republic of Slovenia has been constructed in Ljubljana. It has enabled automation of processes and consequently reduction of costs in this area. To cover all specifics of cash processing, NLB has developed its own IT application. This enables appropriate support for automated processing of cash as well as automated capturing and transfer of data. NLB has also developed an online environment in which information about cash orders can be exchanged with its clients. As a result, NLB's clients (banks and companies) are able to send orders for cash services and monitor the status of their orders.

6.13 INTELLECTUAL PROPERTY

Significant trade marks

In its activities, the NLB Group uses a number of trademarks. As at the date of this Prospectus, the Slovenian Intellectual Property Office (the "**SIPO**") has granted protective rights to 72 words, graphics and figurative trademarks to members of the NLB Group. As at the date of this Prospectus, no proceedings were pending before the SIPO with regard to trademarks. Furthermore, as at the date of this Prospectus, the NLB Group had obtained protection for 48 trademarks from other Intellectual Property Offices (World Intellectual Property Office, Benelux Intellectual Property Office, Kosovo Intellectual Property Office and EU Intellectual Property Office).

The basic signs identifying the NLB Group are: NLB, NLB Banka and the NLB Group. Moreover, the NLB Group holds several trademarks of significant importance, which include trademarks identifying member companies of the NLB Group and trademarks constituting the designation of products and services offered by the NLB Group, including: NLB Skladi, NLB Funds, NLB Vita, NLB Leasing, Klik, Klikin, Proklik, KlikPro, NLB Pay, NLB Prepaid.

Internet domains

As at the date of this Prospectus, the NLB Group maintained over 40 internet domains, with the key domains including: nlb.si, nlbskupina.si, nlbgroup.si, osebnikredit.si, stanovanjskikredit.si, nlbgroup.biz, nlb.net, nlbgroup.net, nlb.eu, nlbgroup.eu, nlbskladi.eu, nlbvita.eu, klik.eu. Information contained in these sites is not incorporated by reference and does not constitute part of this Prospectus.

6.14 INSURANCE

The NLB Group maintains insurance protection for its companies and their activities against all risks and in all amount which, in the opinion of the Management Board, are adequate for the risks identified. The D&O insurance policy and majority of insurance policies within NLB Group Insurance Program are renewed annually, while some of the other insurance policies are permanent with annual adjustments following review by insurance broker.

NLB finalized the strategic review of insurance policies in the NLB Group in 2017, optimizing policies, costs and processes. From 1 January 2018 onward NLB and its banking subsidiaries are part of the NLB Group Master Insurance program, which consists of the:

- All Risk property insurance including Business interruption
- Comprehensive Crime and Professional Indemnity insurance (BBB&PI);
- General, Employers', Products and Pollution insurance; and
- Cyber - Network Security and Privacy Insurance.

In the arrangement of insurance policies, NLB uses the services of insurance broker for D&O insurance policy and NLB Group Insurance program, which places offers on the international (London) market and where applicable, also on the local market.

In the period covered by the Annual Financial Statements of the NLB Group, the NLB cooperated with leading international and domestic insurance companies. Other members of the NLB Group independently concluded insurance policies with local insurance Companies.

In the opinion of the Management Board, the insurance cover of NLB meets the standards applicable to banks operating in the Republic of Slovenia, while member banks respect local regulations.

6.15 PROPERTY, PLANT AND EQUIPMENT

The following table lists the NLB Group's material properties as at 30 June 2018. The threshold used for materiality us EUR 5 million in book value.

Name and Location	Type of Facility	Tenure	If leasehold, expiry date	If leasehold, annual rent	Approximate floor area (m^2)
Trg republike 2, Ljubljana (headquarters)....................................	office building	Freehold	/	/	28,500
Šmartinska 132, Ljubljana.....................	office building	Freehold	/	/	21,400
Šmartinska 130, Ljubljana.....................	office building	Freehold	/	/	10,600
Prishtina, Kosovo, ...	office building	Freehold	/	/	5,500
Podgorica, Črna gora............................	office building	Freehold	/	/	3,700

The NLB Group's material properties do not have any encumbrances and there are no known material environmental issues associated with any properties.

Environmental protection

In the opinion of the Management Board, as at the date of this Prospectus, the environmental issues were not of material significance to the activities of the NLB Group and its financial standing, and did not have a material impact on the property, plant and equipment used by the NLB Group.

Cultural Heritage Protection Project

In accordance with the Cultural Heritage Protection Act, NLB is obliged to maintain the immovable and movable cultural heritage which it owns. NLB considers that reserving the NLB Group's cultural heritage for future generations and opening it to the public is its social responsibility as the largest financial institution in Slovenia. Bearing this in mind, on 22 May 2018, the Management Board of NLB agreed to establish a Banking Museum & Gallery, where NLB banking heritage will be presented to public.

While the registered museum and the museum shop cannot be established within NLB itself in accordance with Article 30 of the Banking Act, NLB expects to establish a 100% privately owned and non-profit institute with the registered activity of protecting the cultural heritage and carrying out activities relating to the museum, gallery and trade. NLB expects to transfer its movable heritage collections in an amount of approximately EUR 1.9 million to the institute as a founding stake and to co-finance the museum operations with donations through reallocations within the CSR budget. The constitutional documents for the establishment of the NLB Cultural Heritage Institute are expected be prepared by the end of March 2019.

6.16 INTERNAL AUDIT

NLB, through its Internal Audit seeks to adequately monitor key risks which might jeopardise the achievement of its strategy and goals, related control systems and governance processes. Internal Audit directly reports on its activities primarily to the Supervisory Board and to the latter's Audit Committee and secondarily to the Management Board. By providing assurances and advice, and with a deep understanding of operations, Internal Audit helps to strengthen and protect the value of the NLB Group. The best practice examples and international guidelines established by the Committee of Sponsoring Organisations of the Treadway Commission ("**COSO**") are the criteria Internal Audit uses to cover all control objectives and risk management.

Internal Audit serves as an advisory tool for the systematic and professional assessment of the success of the NLB Group's risk management procedures, control system, and governance of the NLB Group operations. Following risk based methodology, Internal Audit prepared the audit plan for 2018, which was approved by the Management Board and the Supervisory Board. On that basis, Internal Audit served as an impartial guide to the Management Board and the Supervisory Board regarding those areas of NLB with the highest risk (information technology and information security, data management, risk management, lending, restructuring and NPLs, disinvestment of non-core activities, compliance function, corporate governance, and others) in order to help ensure such risks are managed appropriately. Internal Audit also performs "Group audits" in which internal auditors of the NLB Group members participate in order to provide assurance at the NLB Group level, as well as to provide additional expertise and assistance. Furthermore, a review of the quality of the internal audit service performance was carried out on all six banking members of the NLB Group.

Internal Audit dedicates significant resources to verifying whether audit recommendations have been fulfilled, providing training, consultancy to the management, and promoting assurance of high-quality and professional operations of the internal audit function. Internal Audit is introducing uniform rules of operation as part of the internal audit function and supervising compliance with these rules across the entire Group.

Internal Audit and other internal audit services in the NLB Group operate in accordance with the International Standards for the Professional Practice of Internal Auditing, the Banking Act or other relevant laws which regulate the operations of a member, the Code of Ethics of Internal Auditors, and the Code of Internal Auditing Principles.

6.17 LEGAL AND ADMINISTRATIVE PROCEEDINGS

General

As at 30 June 2018, NLB was involved in 19 legal disputes with monetary claims against NLB exceeding EUR 1 million per case (excluding accrued interest). The total amount of these claims, excluding accrued interest, was EUR 246.0 million. As at 30 June 2018, the NLB Group was involved in 34 legal disputes with monetary claims against NLB Group members exceeding EUR 1 million per case, excluding accrued interest, in the aggregate principal amount of EUR 411.5 million. NLB has established provisions in its financial statements for certain of these proceedings in which it is involved based on an assessment of the possible outcome of the proceedings, and such provisions with respect to claims exceeding EUR 1 million per case amount to EUR 4.28 million and EUR 5.49 million at the NLB and the NLB Group level, respectively, as at 30 June 2018.

Claims relating to liabilities in respect of the Transferred Deposits

NLB is currently involved in proceedings whereby the plaintiffs claim that NLB is responsible for the liabilities relating to the foreign currency deposits held with Ljubljanska banka Zagreb Branch. Ljubljanska banka Zagreb Branch is the Croatian branch of Ljubljanska banka, which in turn is an entity from which NLB received certain assets and liabilities in 1994 (as discussed below).

Two Croatian banks, Privredna banka Zagreb and Zagrebačka banka, filed claims against Ljubljanska banka and NLB, as the alleged co-debtor, in Croatian courts in relation to the Transferred Deposits. The proceedings were filed during the period from 1994 to 1996. The aggregate principal amount of the claims against NLB as per 30 June 2018 is equivalent to EUR 167.7 million (calculated at the exchange rates applicable on 29 June 2018), excluding any default interest. Due to the fact that the proceedings have been pending for a significant period of time, the default interest exceeds the principal amount of the Transferred Deposits. If NLB is found liable for these amounts, it would also be responsible for paying the litigation expenses of the plaintiffs.

Background

Due to a shortage of hard currency, the SFRY introduced measures in order to incentivise its expatriates and other citizens to deposit foreign currency with SFRY banks. Such deposits earned high interest rates and were guaranteed by the SFRY. Starting from the mid-1970s, SFRY banks incurred foreign exchange losses as a result of depreciation of the Yugoslav dinar exchange rate due to persistent budget deficits, excessive overseas borrowings and negative trade balances. In response, the SFRY introduced a system for "re-depositing" foreign currency, allowing banks to transfer citizens' foreign-currency deposits to the NBY, which assumed the currency risk. Those funds could be transferred back to an SFRY bank upon its request in order to meet its obligation to depositors when foreign currency was withdrawn.

After the SFRY disintegrated during 1991 and 1992, and the foreign currency deposit system collapsed, the NBY ceased providing banks with deposited foreign currencies for payment to the depositors. As the dissolution of the SFRY resulted in a series of armed conflicts in which various successor states came into political conflict, an agreement on the succession of the SFRY's and NBY's assets and financial liabilities was not reached for another 10 years. As a result, each successor state sought its own solution to ensure the stability of its respective financial and economic system, which usually involved the assumption of a part of the SFRY's and NBY's liabilities based on different criteria. In assuming the liabilities relating to foreign currency deposits, the Republic of Slovenia adopted the territorial principle according to which it took responsibility in relation to all deposits held with banks and bank branches in its territory, regardless of the citizenship of the depositor concerned and regardless of whether the bank was Slovenian.

In addition, the two largest Slovenian banks at the time, under the NFA, the last commercial debt restructuring undertaken by the SFRY prior to its dissolution, Ljubljanska banka and KBM, were jointly and severally liable, together with banks from other parts of the SFRY, the NBY and the SFRY as the guarantor, for the entire commercial external debt under the NFA. In order to protect its banking system from liabilities under the NFA which did not originate in the Republic of Slovenia, the Constitutional Act was passed by the National Assembly. According to the Constitutional Act, Ljubljanska banka's assets and liabilities were split between Ljubljanska banka and NLB. The Constitutional Act maintained the *status quo* with respect to the "branches" of Ljubljanska banka in republics other than the Republic of Slovenia in the territory of the SFRY, and their liabilities and corresponding assets were never transferred to NLB. Due to the dissolution of the SFRY, each of Ljubljanska banka and Ljubljanska banka Zagreb Branch were located in a separate independent sovereign state (the Republic of Slovenia and Croatia, respectively) and were therefore subject to different jurisdictions and legislations. In Croatia, Ljubljanska banka Zagreb Branch continued to exist but the Croatian authorities have prevented the continuation of any meaningful operations, primarily, according to the position of Ljubljanska banka and the Republic of Slovenia, as a result of restrictions resulting in Ljubljanska banka being unable to collect or enforce its loans to third-parties.

While most of the other successor states of the SFRY followed the same territorial principle as the Republic of Slovenia did, Croatia applied the "national principle" according to which it assumed the liability for foreign currency deposits deposited with banks which had their registered seat in Croatia. The obligations in respect of foreign currency deposits deposited with Croatian branches of non-Croatian banks were assumed by Croatia, but only if the depositors had Croatian citizenship and first transferred their rights under such deposit to a Croatian bank, such as Zagrebačka banka or Privredna banka Zagreb. Upon this transfer, a depositor acquired the right to an amount in foreign currency equal to the amount of the relevant Transferred Deposit on the same terms as the depositors which had their deposits with Croatian banks. Although the obligations of Privredna banka Zagreb and Zagrebačka banka in relation to the Transferred Deposits with Ljubljanska banka Zagreb Branch have been compensated in accordance with Croatian legislation and such foreign currency deposits were transformed into public debt of the Republic of Croatia, in the period from 1994 to 1996, both banks, which were acting for the account of Croatia, initiated courts proceedings in which they were also claiming repayment of the Transferred Deposits from Ljubljanska banka and NLB. Amongst other arguments, NLB is disputing the right of Privredna banka Zagreb and Zagrebačka banka to act as the plaintiffs and has filed the separate suit against both banks with a claim that the Power of Attorney issued to both banks by the Republic of Croatia (now interpreted by the plaintiffs as an assignment for collection) well after the proceedings started, are declared as null and void. According to the plaintiffs, the liability of NLB for the Transferred Deposits arises from the fact that, by operation of the Constitutional Act, allegedly all of Ljubljanska banka's assets were transferred to NLB and, accordingly, NLB shall also be liable for Ljubljanska banka's obligations. NLB has consistently objected to these claims on the grounds that NLB cannot be held liable for the deposits made in 1991 or earlier as NLB was only founded on 27 July 1994 on the basis of the Constitutional Act and on the basis that NLB did not assume any obligations of Ljubljanska banka Zagreb Branch in relation to the foreign currency deposits. NLB therefore insists that it is not the universal legal successor of Ljubljanska banka or Ljubljanska banka Zagreb Branch and is not liable for their debts, including the Transferred Deposits. Such conclusion was expressly accepted by the German courts in judgements rendered during the period from 26 August 2002 to 4 December 2015 which rejected the claims of several individual depositors who did not transfer their deposits to Croatian banks. NLB was also successful in all proceedings filed by individual depositors in Austria and Italy between 2000 and 2010. In connection with this issue it should be noted that certain foreign courts also oppose the Croatian interpretation of the NLB's liability. The German Higher Court in Munich, for instance, found that Slovenian law should be applied to assess the possible legal succession between NLB and LB, and that in accordance with Slovenian constitutional law there was no such succession with regard to the old foreign currency savings deposits. In other court disputes in Germany the ruling was consistently that NLB was not responsible for the old foreign currency savings.

The successor states of the SFRY concluded the Agreement on Succession in Vienna on 29 June 2001 and agreed that the liabilities of the SFRY and the NBY in relation to the foreign currency deposits with banks or their branches would be negotiated amongst the successor states under auspices of the Bank for International Settlements (Annex C of the Agreement on Succession). In addition, in March 2013 the Government of the Republic of Slovenia and the Government of Croatia concluded the Memorandum of Understanding and agreed that the solution for the transferred foreign currency deposits with Ljubljanska banka Zagreb Branch would be based on the Agreement on Succession (Annex C) and that the Government of Croatia will ensure the stay of all judicial proceedings initiated by two Croatian banks (Zagrebačka banka and Privredna banka Zagreb) related to the Transferred Deposits. Despite this, Croatia has not fulfilled its obligations under the Memorandum of Understanding and none of the pending proceedings were stayed.

On 19 July 2018 the National Assembly passed the ZVKNNLB, which entered into force on 14 August 2018. In accordance with the ZVKNNLB, the Fund shall compensate NLB for the sums recovered from NLB by enforcement of final judgements delivered by Croatian courts with regard to the Transferred Deposits (that is the principal amount, accrued interest, expenses of court, Attorney's expenses and other expenses of the plaintiff and expenses related to enforcement with the accrued interest). The Fund shall compensate NLB for the negative financial implications within 30 days after having received notice from NLB that the enforcement has taken place and after the relevant evidence has been presented. If the payment due exceeds the value of the Fund's special-purpose budget or if it could jeopardise the payment of other Fund's other liabilities and obligations payable from the Fund's special-purpose budget, the due date shall be extended by as long as deemed necessary for the Republic of Slovenia to provide an increase of the Fund's special-purpose budget, but by no more than 60 days. Should the Fund not settle its obligations in 30 days for the reasons stated in the immediately preceding sentence, the Republic of Slovenia as its founder shall be liable, in addition to the Fund being liable, for the obligations of the Fund and shall to this end increase the special-purpose budget of the Fund so that the Fund can settle its obligation to NLB in the extended time period. The Fund shall compensate NLB only for the amounts recovered from NLB by enforcement (i.e. the amount of the principal, accrued interest, court, lawyers' and other costs of the counterparty, the costs of forced payment and the interest accrued to all the costs mentioned above) and shall not compensate NLB for its own costs or for the difference between the book value of its assets sold in enforcement proceedings and the price obtained for such assets in enforcement proceedings.

It is likely the plaintiffs will initiate the enforcement proceedings in Croatia (being the primary jurisdiction in which final judgements are immediately and easiest enforceable), where assets of NLB can be divided in four main categories, namely: non-performing receivables, performing receivables from the subsidiaries of NLB and other debtors, capital investments in subsidiaries of NLB and real estate. In case of performing receivables, the enforcement proceeding should not have any influence on the value of such assets, due to the fact that in case of enforcement the debtor of NLB would need only to pay receivables to the plaintiff instead of NLB and since these are performing debtors (and subsidiaries of NLB) there would be no difference between the value of such assets and the amounts recovered from NLB by enforcement and the bank would be reimbursed for that part in full from the Fund. Furthermore, taking into account the fact that NLB is conservatively provisioned for the non-performing receivables and the low value of the remaining capital investments in subsidiaries of NLB and real estate in Croatia (NLB is actively divesting assets in Croatia), the difference between the book value of these assets sold in enforcement proceedings and the price obtained for such assets in enforcement proceedings in Croatia would, according to the NLB's knowledge, in line with the currently available information not be material.

The Fund shall also not compensate NLB for any payments made by NLB voluntarily in relation to the Transferred Deposits. In case the payment is made by the NLB on the basis of a request or decision of a competent regulator, from which the obligation of the NLB arises to make payment under a final judgement issued by any court of the Republic of Croatia in relation to Transferred Deposits, such fulfilment or repayment is not considered voluntary. NLB should repay to the Fund all received sums if, after having concluded the Agreement with the Fund, NLB voluntarily executes a final judicial decision by a court of the Republic of Croatia relating to Transferred Deposits.

In accordance with the ZVKNNLB and pursuant to the Agreement with the Fund, concluded on the basis of the ZVKNNLB, NLB has to contest the claims made against it in court proceedings in relation to Transferred Deposits and use all reasonable legal remedies against court decisions that are disadvantageous for NLB, including those which were already enforced against it and take other lawful steps which may prevent or minimise the risk of enforcement of such court decisions.

In accordance with the ZVKNNLB, NLB shall regularly consult the High Representative of the Republic of Slovenia for Succession Issues (Visoki predstavnik Republike Slovenije za nasledstvo) regarding the legal procedures and legal remedies and regarding the contesting of judicial decisions and shall, in particular, obtain his opinion before filing new legal remedies. Should NLB breach its obligation to inform and consult with the High Representative of the Republic of Slovenia for Succession or later takes actions that are different from the ones proposed to, and agreed by, the High Representative of the Republic of Slovenia for Succession Issues, for example by failing to file a legal remedy against a court decision, it shall be obliged to reimburse the Fund within 30 days from receipt of the Fund's request, for all the funds it has received in connection with the enforcement of such court decision, including the default interest accrued since the day NLB received the funds.

In accordance with the ZVKNNLB and the Agreement with the Fund, NLB requested a reimbursement from the Fund of the enforced amount from the first negative final judgment from May 2015, as described above. Pursuant to its request, the Fund acted in accordance with the terms of the signed Agreement with the Fund and NLB received the payment from the Fund on 5 October 2018 in the amount of EUR 3,461.31.

Final Proceedings

In May 2015, the court of appeal in Zagreb ruled, in relation to one claim by Privredna banka Zagreb, to reject the appeals by the Ljubljanska banka and NLB and determined that Privredna banka Zagreb was to be paid the principal value of EUR 254.76 plus default interest in the amount of approximately EUR 327.00, which exceeds the principal amount and costs of the proceedings totalling HRK 15,781.25 (approximately EUR 2,122.00). Different interpretations in the application of the interest rate and methods of interest calculation are possible and the Croatian courts apply different practices in the application of the interest rates, and as a result, a decision on the accrued interests on the principal amount in other proceedings (if negative for NLB) could be different, either higher or lower, than as was the case in this particular proceeding. Additionally, the applicable interest rate is different for each currency of the original claim. NLB filed a constitutional appeal against the aforementioned final judgement, as it found the court decision contrary to the legislation in force, as well as the Memorandum of Understanding. Constitutional Court of the Republic of Croatia rejected the constitutional appeal of NLB on 21 May 2018 (received on 8 June 2018). NLB is considering possibilities to challenge decisions of Croatian courts with European forums (including, the ECHR and the Court of Justice of the EU). Meanwhile, Privredna banka Zagreb commenced enforcement proceedings against NLB in Croatia and successfully collected the adjudicated amount from a bank account held by NLB with a Croatian bank in the total amount (principal amount with interest, costs of proceeding with interest and costs of enforcement proceeding) of EUR 3,461.31. NLB reserves the right to use all legal means, including those available under international law, to reverse the judgement on appeal and to obtain repayment from Privredna banka Zagreb of the amount collected thereunder. NLB has already received the reimbursement of the enforced amount from the Fund in full (see the last paragraph above in "Background").

In another case, on 8 April 2008, the court of appeal in Zagreb upheld the decision to reject a claim filed by the Privredna banka Zagreb (with a principal value of EUR 788.59). The Supreme court of Croatia then rejected the legal remedy of the Privredna banka Zagreb as inadmissible in favour of NLB on 16 June 2015.

On 16 November 2017, NLB received the judgement of Županijski sud in Zagreb, which as the Court of the second instance changed the judgement of the Court of the first instance, with which the claim against NLB was refused, in such a way that the defendants NLB and Ljubljanska banka are jointly and severally obliged to pay to the plaintiff, Zagrebačka Banka, the principal in the amount of EUR 492,430.53 plus interest, which exceeds the principal amount and litigation costs in the amount of 748.583,75 HRK (approximately EUR 99 thousand) with default interest. Ljubljanska banka and NLB are, in accordance with the judgement, obliged to pay all relevant amounts jointly and severally. The adjudicated amount was settled on the due date. NLB challenged the judgement with the extraordinary legal measure on the Supreme Court of the Republic of Croatia and later, if necessary, will also challenge the judgement with all other available remedies, as its position is that the obligations of the old foreign currency savings in accordance with Slovenian Constitutional Law are not the liabilities of the NLB.

In another case Županijski sud in Zagreb, which as the Court of the second instance in a judgement dated 21 November 2017 upheld the judgement of the Court of first instance dated 21 January 2014, with which was decided that the defendants NLB and Ljubljanska banka are jointly and severally obliged to pay to the plaintiff, Privredna banka Zagreb, the principal in the amount of EUR 220,115.98 plus interest, which exceeds the principal amount and litigation costs in the amount of HRK 688,268.12 (approximately EUR 93 thousand) with default interest until payment. Ljubljanska banka and NLB are, in accordance with the judgement, obliged to pay all relevant amounts jointly and severally. NLB has challenged the judgement with the extraordinary legal measure with the Supreme Court of the Republic of Croatia and later, if necessary, will also challenge the judgement with all other available remedies, as its position is that the obligations of the old foreign currency savings in accordance with Slovenian Constitutional Law are not the liabilities of the NLB.

On 15 May 2018, NLB received in another case the final judgement of the County Court of Zagreb as the Court of Appeals with which it was confirmed the Judgement brought by the Court of First Instance, ordering the defendants NLB and Ljubljanska banka a joint and several payment of EUR 222,426.39 to the plaintiff, Privredna banka Zagreb, plus interest, which exceeds the principal amount and litigation costs in the amount of HRK 253,283.37 with default interest until payment. NLB has challenged the judgement with the extraordinary legal measure with the Supreme Court of the Republic of Croatia and later, if necessary, will also challenge the judgement with all other available remedies, as the obligations of the old foreign currency savings in accordance with Slovenian Constitutional Law are not the liabilities of the NLB.

NLB's Shareholders' Meetings provided the Management Board of NLB with instructions for actions to be taken in the event of existing or potential new final judgements by Croatian courts against Ljubljanska banka and NLB regarding the Transferred Deposits and, in particular, provided instructions to not voluntarily settle such adjudicated amounts and also provided certain additional instructions on the usage of legal remedies and how to manage its assets in this respect.

Pending proceedings

All other court proceedings relating to the liabilities of Ljubljanska banka Zagreb Branch under Transferred Deposits are still pending.

NLB is considering all options available to protect its interests in the belief that, in accordance with the Constitutional Act and international agreements, the obligations in question are not the obligation of NLB. NLB's audit opinion from past years contained an emphasis of matter with respect to the uncertainty related to the outcome of such lawsuits. The National Assembly passed the ZVKNNLB, therefore NLB's audit opinion for the six months ended June 2018 did not contain such emphasis of matter. Provisions for any of these claims have not been recorded because NLB believes that there are no legal grounds for such claims. Additionally, on the basis of the ZVKNNLB, NLB is expected to be compensated for the sums recovered from NLB by enforcement of final judgements delivered by Croatian courts, which should provide an effective risk transfer. However, an unfavourable outcome in any of these pending proceedings may have a negative financial impact on NLB. See also, "*2. Risk Factors—Unfavourable outcomes in pending litigation may adversely affect NLB and the Group*".

Proceedings relating to the Bank of Slovenia Decision

In relation to the decision of the Slovenian government for the Republic of Slovenia to participate in the capital increases of NLB in 2011 and 2012, the EC initiated a procedure to determine the compatibility of this participation with the EU state aid rules. In accordance with the recommendations of the European Council published in June 2013, NLB (along with the majority of other Slovenian banks) underwent the AQR and "bottom up" stress tests. In December 2013, the results of the AQR and stress test exercise revealed a capital shortfall for NLB of EUR 1,904 million. As a result, several measures were taken, aimed at ensuring the capital adequacy of NLB and the NLB Group, including, amongst other measures, termination of all of the Qualified Liabilities by way of the Bail-In pursuant to the Bank of Slovenia Decision. For further information, see "*6. Business—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy*".

Pursuant to ZBan-1, the only remedy available to Affected Investors is to claim compensation from the Bank of Slovenia. The Constitutional Court conducted the constitutional review of the provisions of ZBan-1 that provided the grounds for the Bank of Slovenia Decision. On 19 October 2016, the Constitutional Court deemed the provisions of ZBan-1 that govern the Bail-In as constitutional, including the provision which excluded the right of the Affected Investors to claim damages or use any contractual remedy against NLB. However, the Constitutional Court further determined that the provisions relating to the claims against the Bank of Slovenia failed to provide an effective remedy and were therefore unconstitutional and ordered the National Assembly to amend the legislation before 19 April 2017 such that it will, amongst others, take into account the inequality in access to information and evidence between the Bank of Slovenia and the Affected Investors and ruled that all court proceedings in which the Affected Investors claim compensation from the Bank of Slovenia shall be suspended until the said unconstutionality is removed. As of the date of this Prospectus, a new law has not yet been passed.

Nevertheless, in December 2016, certain Affected Investors publicly announced that they initiated proceedings against NLB in which they are claiming compensation for the losses they incurred as a result of the Bail-In.

The claims made by the plaintiffs are based on various allegations, including misrepresentations made by NLB in the context of the public offering of the subordinated notes, failure to disclose the conflict of interest, failure to contest the Bank of Slovenia Decision, amongst others. Some plaintiffs have not specified the grounds for their claim.

As of the date of this Prospectus, all these proceedings are suspended until the preliminary issue whether or not any compensation will be payable to the Affected Investors by the Bank of Slovenia is resolved.

As 30 June 2018 the aggregate amount of these claims received by NLB was EUR 3.6 million. As certain Affected Investors publicly announced claims exceeding that amount and since there is a possibility that NLB has not yet been notified of all the legal proceedings initiated against it in December 2016, this amount may increase in the course of time and such additional claims may be material.

Provisions for any of these claims have not been recorded because the Management Board believes that it is not probable that these claims will result in liabilities for NLB due to a lack of substantive grounds for such claims. Accordingly, an unfavourable outcome in any of these pending proceedings may result in a substantial loss to NLB.

See also, "*2. Risk Factors—If NLB is found liable for claims relating to the Bail-In, it may incur substantial financial burden*".

Following the Bail-In, certain Affected Investors initiated proceedings in which they are contesting the registration of the reduction of NLB's share capital to zero in accordance with the Bail-In and the corresponding increase of NLB's share capital to EUR 200 million in relation to which the Republic of Slovenia paid EUR 1,551 million into the capital of NLB (the "**Recapitalisation**") in accordance with the Bank of Slovenia Decision (for further information on the Bank of Slovenia Decision, see "*—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy*"). While the appeals against the decision on the registration of the Recapitalisation have been finally rejected, one of the Affected Investors has publicly announced that it has filed an appeal against such decision with the Constitutional Court but there is no publicly available information regarding these proceedings. If the appeal with the Constitutional Court would be successful or the plaintiffs were to succeed with these claims, the Recapitalisation could be found invalid. However, NLB believes that the appeal with the Constitutional Court and these pending claims are wholly without grounds as the Bank of Slovenia Decision became final following the decision of the Constitutional Court on 19 October 2016.

Other monetary claims involving substantial amounts

The NLB Group members are involved in other legal proceedings involving substantial monetary claims. Some of these proceedings are briefly described below. Based on an assessment of the probable outcome of this proceeding, NLB Group has not established any provisions in its financial statements for the proceeding described below.

NLB and certain members of the NLB Group are involved in litigation brought by two plaintiffs in Bosnia and Herzegovina in connection with the alleged breaches by the defendants of their contractual obligations in connection with the planned and later aborted development of a commercial property in Sarajevo. Proceedings began in 2012 with a claimed amount of EUR 32.3 million. On 13 March 2015, the court of first instance ruled in favour of the plaintiffs, but the judgement was reversed and remanded on appeal. The court of first instance in repeated proceeding adopted the decision in 2017 that the court have no jurisdiction in case of all points of the suit, except in two points (amounting approximately EUR 6.2 million). The court will continue with the proceeding when the decision on jurisdiction will become final. The proceeding is still pending.

NLB Montenegro is involved in a litigation brought by 68 of its present and former employees for an alleged shortfall in salaries. The aggregate amount of all these claims does not exceed EUR 2 million and NLB Montenegro believes that the claims are without merit. However, if these plaintiffs would succeed, claims of other employees and former employees would likely follow and which could result in liability of up to EUR 15 million. The NLB Group estimates that the final decision in the matter should conclude by 2020.

In April 2017, a Montenegrin court imposed a temporary injunction preventing NLB Montenegro from disposing of certain real estate properties acquired by NLB Montenegro as a result of the enforcement of security related to a non-performing loan which was underwritten in 2009. The loan was also guaranteed by the state of Montenegro for an amount of up to EUR 4.5 million. The loan defaulted in 2010. In 2014, as part of NLB Group's review of exposures to large NPLs, NLB Montenegro discovered certain irregularities in the loan underwriting process and filed a criminal charge against anonymous persons in this case in 2014, however, to the best knowledge of NLB the authorities in Montenegro did not pursue the investigation at the time. Based on information currently available to NLB, the temporary injunction granted in 2017 is related to an alleged criminal abuse of authority by several individuals, including employees of the government of Montenegro and, among others, a former member of the management board of NLB Montenegro. The mandate of this former member of the Management Board expired in 2011. Among other things, the criminal proceedings may focus on the validity of the issuance of the guarantee by Montenegro in 2010. On 24 September 2018, NLB was informed that NLB Montenegro received a formal indictment from the Special Prosecutor's Office of Montenegro which was filed with the High Court of Montenegro, in which, in addition to five other persons, this former member of the Management Board and NLB Montenegro, as a legal entity, were charged for the suspicion of a criminal offense for the misuse of their position. This indictment is not yet final, with the date of an initial hearing with the High Court in Montenegro determining the merits of the indictment yet to be announced. If it were determined that an abuse of authority was carried out in the name of NLB Montenegro, it could be found liable as a legal entity, including a possible financial penalty. Under Montenegrin law, there are a range of potential penalties for such a criminal offence, including a suspended sentencing and also a fine (based on the incurred damage or the gained profit) which can range from *de minimis* amounts up to a multiple of the profits gained as may be determined by the court. The determination of the penalty depends on the particular circumstances of the case, as the law allows the court to take into consideration, among other things, the previous conduct of the legal person and its previous compliance with the relevant legislation, the conduct of the legal person after the criminal offense was committed (including the remedial measures it undertook) and, in particular, if the legal person notified the relevant authorities of the events of the case. According to the indictment, the profits gained amount to EUR 6,651,611.09. Pursuant to the laws of Montenegro, a legal entity may be exempted from punishment or penalties if it voluntarily filed a criminal charge prior to having knowledge of a related investigation. In addition, because in such an instance the court may exempt the legal entity from any punishment, the law also necessarily allows the court to also reduce the fines without any limitation. NLB Montenegro initiated the filing of a criminal charge against persons-then-unknown in 2014 and it does not believe that it should be subject to fines in relation to these proceedings, and therefore has no provisions in relation to these proceedings. However, there can be no assurance that the High Court of Montenegro would not take a different position.

Other substantial claims against the members of the NLB Group include a claim in an amount equivalent to approximately EUR 79 million against Optima Leasing d.o.o., Zagreb, relating to compensation for damages because the defendant prevented the plaintiff from performing its business activity, and a claim against Prvi faktor faktoring d.o.o. Beograd (a subsidiary of a joint-venture of NLB and SID Banka) in an amount equivalent to approximately EUR 50 million., relating to compensation for damages caused by the defendant because of the freezing of its account with defendant and the resulting financial breakdown of the plaintiff. After initiating these lawsuits, bankruptcy proceedings have been opened in relation to both plaintiffs and the plaintiff in the case against Optima Leasing d.o.o. Zagreb no longer exists. Accordingly, both proceedings have been suspended and are only likely to continue if the bankruptcy administrator or, if applicable, a creditor, decides to pursue the claims. NLB believes that these claims are without grounds.

In addition to the legal proceeding described above, the NLB Group members are involved in various other ongoing legal proceedings that have arisen in connection with the ordinary course of business of NLB and the NLB Group.

7. SELECTED FINANCIAL AND OTHER INFORMATION

The financial information set forth below as of and for the years ended 31 December 2017, 2016 and 2015 has been extracted from the Audited Financial Statements. The financial information set forth below as of and for the six months ended 30 June 2018 and 2017 has been extracted from the Interim Financial Statements. The Financial Statements that include the financial information set forth below are attached to and a part of this Prospectus.

Net interest income for the six months ended 30 June 2018 for NLB amounted to EUR 70,220 thousand and for the NLB Group amounted to EUR 151,679 thousand. Net fee and commission income for the six months ended 30 June 2018 for NLB amounted to EUR 50,284 thousand and for NLB Group amounted to EUR 79,559 thousand. Profit for the period for the six months ended 30 June 2018 for NLB amounted to EUR 103,335 thousand and for the NLB Group profit attributable to the owners of the parent amounted to EUR 104,847 thousand. Total assets for the six months ended 30 June 2018 for NLB amounted to EUR 8,908,270 thousand and for the NLB Group amounted to EUR 12,516,186 thousand. Total equity for the six months ended 30 June 2018 for NLB amounted to EUR 1,508,817 thousand and for the NLB Group amounted to EUR 1,834,581 thousand. Cash flows from operating activities before changes in operating assets and liabilities for the six months ended for NLB amounted to EUR 111,056 thousand and for the NLB Group amounted to EUR 127,406 thousand. Net cash from investing activities for the six months ended for NLB amounted to 34,656 thousand and for NLB Group EUR 41,525 thousand.

The following table sets out the main components of NLB's and the NLB Group's statements of income for the years indicated:

Income statement of NLB and the NLB Group

The following tables sets out NLB's and the NLB Group's income statements for the periods indicated:

	NLB			**NLB Group**		
	Six months ended 30 June		**% change**	**Six months ended 30 June**		**% change**
	2018	**2017**	**2018/17**	**2018**	**2017**	**2018/17**
	unaudited	*unaudited restated*		*unaudited*	*unaudited restated*	
	(EUR thousands)			*(EUR thousands)*		
Interest income, using the effective interest method	85,366	89,429	(5)%	171,503	174,867	(2)%
Interest income, not using the effective interest method	3,663	3,879	(6)%	3,625	3,879	(7)%
Interest and similar income	89,029	93,308	(5)%	175,128	178,746	(2)%
Interest and similar expense	(11,809)	(17,378)	(32)%	(23,449)	(30,179)	(22)%
Net interest income	**77,220**	**75,930**	2%	**151,679**	**148,567**	2%
Dividend income	49,680	42,082	18%	97	142	(32)%
Fee and commission income	65,276	62,459	5%	105,997	100,630	5%
Fee and commission expense	(14,992)	(13,905)	8%	(26,438)	(24,877)	6%
Net fee and commission income	**50,284**	**48,554**	4%	**79,559**	**75,753**	5%
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	282	11,420	(98)%	565	11,814	(95)%
Gains less losses from financial assets and liabilities held for trading	820	3,061	(73)%	3,918	5.680	(31)%
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	2,588	-	–	1,641	–	–
Gains less losses from financial assets and liabilities designated at fair value through profit or loss	(56)	–	–	(56)	18	–
Fair value adjustments in hedge accounting	257	(1,374)	–	257	(1,374)	–
Foreign exchange translation gains less losses	(2)	170	–	326	1,022	(68)%
Gains less losses on derecognition of assets other than held for sale	56	180	(69)%	1,370	1,470	(7)%
Other operating income	3,810	7,032	(46)%	8,310	12,890	(36)%
Other operating expenses	(10,360)	(8,830)	17%	(16,765)	(15,101)	11%
Administrative expenses	(77,103)	(77,034)	0%	(126,323)	(125,268)	1%
Depreciation and amortisation	(8,715)	(8,936)	(2)%	(13,642)	(13,787)	(1)%
Provisions for other liabilities and charges	628	4,382	(86)%	3,378	5,229	(35)%
Impairment charge	11,342	11,517	(2)%	10,993	20,391	(46)%
Share of profit from investments in associates and joint ventures (accounted for using the equity method)	–	–	–	2,538	2,736	(7)%
Gains less losses from non-current assets held for sale	8,809	345	–	12,147	202	–
PROFIT BEFORE INCOME TAX	**109,540**	**108,499**	**1%**	**119,992**	**130,384**	**(8)%**
Income tax	(6,205)	(3,181)	95%	(10,603)	(8,093)	31%
PROFIT FOR THE PERIOD	**103,335**	**105,318**	**(2)%**	**109,389**	**122,291**	**(11)%**
Attributable to owners of the parent	103,335	105,318	(2)%	104,847	117,919	(11)%
Attributable to non-controlling interests	–	–	–	4,542	4,372	4%
Earnings per share (in EUR per share)	5.17	5.27	(2)%	5.24	5.90	(11)%

	NLB					NLB Group				
	Year ended 31 December					Year ended 31 December				
	2017	**2016**	**2015**	**% change 2017/16**	**% change 2016/15**	**2017**	**2016**	**2015**	**% change 2017/16**	**% change 2016/15**
	audited	*audited*	*audited*			*audited*	*audited*	*audited*		
		(EUR thousands)					*(EUR thousands)*			
Interest and similar income	188,255	215,550	269,000	(13)%	(20)%	363,733	388,494	443,203	(6)%	(12)%
Interest and similar expense	(29,466)	(40,672)	(60,993)	(28)%	(33)%	(54,417)	(71,189)	(103,001)	(24)%	(31)%
Net interest income	**158,789**	**174,878**	**208,007**	**(9)%**	**(16)%**	**309,316**	**317,305**	**340,202**	**(3)%**	**(7)%**
Dividend income	50	1,144	1,264	(96)%	(9)%	179	1,238	1,346	(86)%	(8)%
Fee and commission income	127,749	123,014	128,896	4%	(5)%	207,908	194,371	195,710	7%	(1)%
Fee and commission expense	(29,240)	(27,728)	(30,828)	5%	(10)%	(52,490)	(48,706)	(48,640)	8%	0%
Net fee and commission income	**98,509**	**95,286**	**98,068**	**3%**	**(3)%**	**155,418**	**145,665**	**147,070**	**7%**	**(1)%**
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	11,711	14,639	10,685	(20)%	37%	12,242	14,788	10,659	(17)%	39%
Gains less losses from financial assets and liabilities held for trading	7,065	336	(25,304)	–	–	13,067	6,921	(18,877)	89%	–
Gains less losses from financial assets and liabilities designated at fair value through profit or loss	–	–	–	–	–	75	235	(3)	(68)%	–
Fair value adjustments in hedge accounting	(813)	(2,437)	231	(67)%	–	(813)	(3,239)	231	(75)%	–
Foreign exchange translation gains less losses	(1,007)	738	23,251	–	(97)%	2,149	1,158	11,831	86%	(90)%
Gains less losses on derecognition of assets other than held for sale	249	252	(450)	(1)%	–	1,748	867	(624)	102%	–
Other operating income	12,172	12,267	13,234	(1)%	(7)%	26,424	24,442	27,329	8%	(11)%
Other operating expenses	(15,249)	(13,176)	(15,133)	16%	(13)%	(29,411)	(33,204)	(35,083)	(11)%	(5)%
Administrative expenses	(157,877)	(162,083)	(165,813)	(3)%	(2)%	(256,907)	(261,160)	(265,984)	(2)%	(2)%
Depreciation and amortisation	(18,010)	(18,880)	(21,410)	(5)%	(12)%	(27,802)	(28,345)	(31,856)	(2)%	(11)%
Provisions for other liabilities and charges	(7,344)	482	5,153	–	(91)%	(5,251)	(4,357)	696	21%	–
Impairment charge	38,008	(64,433)	(93,114)	–	(31)%	34,781	(56,288)	(83,801)	–	(33)%
Gains less losses from capital investments in subsidiaries, associates and joint ventures	58,171	28,915	13,747	101%	110%	3,852	5,006	4,312	(23)%	16%
Net losses from non-current assets held for sale	451	(220)	(567)	–	(61)%	(1,756)	(432)	(690)	306%	(37)%
PROFIT BEFORE INCOME TAX	**184,875**	**67,708**	**51,849**	**173%**	**31%**	**237,311**	**130,600**	**106,758**	**82%**	**22%**
Income tax	4,219	(3,925)	(7,968)	–	(51)%	(3,997)	(14,975)	(11,380)	(73)%	32%
PROFIT FOR THE YEAR	**189,094**	**63,783**	**43,881**	**196%**	**45%**	**233,314**	**115,625**	**95,378**	**102%**	**21%**
Attributable to owners of the parent	189,094	63,783	43,881	196%	45%	225,069	110,017	91,914	105%	20%
Attributable to non-controlling interests	–	–	–	–	–	8,245	5,608	3,464	47%	62%
Earnings per share (in EUR per share)	9.5	3.2	2.2	196%	45%	11.3	5.5	4.6	105%	20%

In the Income Statement for the year ended 31 December 2017 line "Gains less losses from capital investments in subsidiaries, associates, and joint ventures" for NLB included dividends and effects from sale of investments in subsidiaries, associates, and joint ventures, and effects from the equity method from investments in associates and joint ventures. In the Income Statement for the six months ended 30 June 2018 and 2017 the dividends from subsidiaries, associates, and joint ventures for NLB are included in the line "Dividend income" and the effects from sale of investments in subsidiaries, associates, and joint ventures are included in the line "Net gain or losses from non–current assets held for sale".

The income statement for the year ended 31 December 2017, 2016 and 2015 and six months ended 30 June 2017 reflects the classification and measurement effects in accordance with IAS 39, whereas the financial statements for the six months ended 30 June 2018 reflects the classification and measurement effects in accordance with IFRS 9.

Due to implementation of IFRS 9 also IAS 1 changed and requires "interest revenue calculated using the effective interest method" to be shown separately. Change is reflected in the income statement for the period ended 30 June 2018 and 2017.

Statement of financial position of NLB and the NLB Group

The following tables sets out NLB's and the NLB Group's financial position as at the dates indicated:

	NLB				NLB Group			
	As at 30 June 2018	As at 1 January 2018	As at 31 December 2017	% change 30 June 2018 / 1 January 2018	As at 30 June 2018	As at 1 January 2018	As at 31 December 2017	% change 30 June 2018 / 1 January 2018
	unaudited	*unaudited*	*audited*		*unaudited*	*unaudited*	*audited*	
		(EUR thousands)				*(EUR thousands)*		
Cash, cash balances at central banks and other demand deposits at banks	660,851	569,943	570,010	16%	1,298,731	1,255,824	1,256,481	3%
Financial assets held for trading	67,459	72,180	72,180	(7)%	67,458	72,189	72,189	(7)%
Non-trading financial assets mandatorily at fair value through profit or loss	25,746	31,239	–	(18)%	25,752	31,404	–	(18)%
Financial assets designated at fair value through profit or loss	–	–	634	–	–	–	5,003	–
Financial assets measured at fair value through other comprehensive income	1,484,016	1,285,276	–	15%	1,876,219	1,656,365	–	13%
Financial assets measured at amortised cost								
- debt securities	1,129,743	1,178,088	–	(4)%	1,265,726	1,301,413	–	(3)%
- loans and advances to banks	448,569	461,830	–	(3)%	453,724	509,970	–	(11)%
- loans and advances to customers	4,522,241	4,594,286	–	(2)%	7,037,953	6,956,362	–	1%
- other financial assets	59,877	38,915	–	54%	62,783	67,046	–	(6)%
Available-for-sale financial assets	–	–	1,777,762	–	–	–	2,276,493	–
Loans and advances								
- debt securities	–	–	82,133	–	–	–	82,133	–
- loans and advances to banks	–	–	462,322	–	–	–	510,107	–
- loans and advances to customers	–	–	4,587,477	–	–	–	6,912,333	–
- other financial assets	–	–	38,389	–	–	–	66,077	–
Held-to-maturity financial assets	–	–	609,712	–	–	–	609,712	–
Derivatives - hedge accounting	695	1,188	1,188	(41)%	695	1,188	1,188	(41)%
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,669	719	719	132%	1,669	719	719	132%
Investments in subsidiaries	350,445	349,945	349,945	0%	–	–	–	–
Investments in associates and joint ventures	6,932	6,932	6,932	0%	42,331	43,765	43,765	(3)%
Tangible assets								
Property and equipment	85,490	87,051	87,051	(2)%	184,643	188,355	188,355	(2)%
Investment property	9,266	9,257	9,257	0%	51,130	51,838	51,838	(1)%
Intangible assets	21,747	23,911	23,911	(9)%	32,674	34,974	34,974	(7)%
Current income tax assets	–	–	2,196	–	711	599	2,795	19%
Deferred income tax assets	21,017	20,318	19,758	3%	21,146	19,745	18,603	7%
Other assets	10,905	8,692	8,692	25%	88,614	93,349	93,349	(5)%
Non-current assets classified as held for sale	1,602	2,564	2,564	(38)%	4,227	11,631	11,631	(64)%
TOTAL ASSETS	**8,908,270**	**8,742,334**	**8,712,832**	**2%**	**12,516,186**	**12,296,736**	**12,237,745**	**2%**
Trading liabilities	11,505	9,398	9,398	22%	11,509	9,502	9,502	21%
Financial liabilities measured at fair value through profit or loss	9,152	5,166	635	77%	9,264	5,815	635	59%
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	55,480	72,072	72,072	(23)%	39,083	40,602	40,602	(4)%
- borrowings from banks and central banks	252,499	260,747	260,747	(3)%	268,543	279,616	279,616	(4)%
- due to customers	6,879,432	6,810,967	6,810,967	1%	10,018,043	9,878,378	9,878,378	1%
- borrowings from other customers	4,928	5,726	5,726	(14)%	65,037	74,286	74,286	(12)%
- subordinated liabilities	–	–	–	–	15,029	27,350	27,350	(45)%
- other financial liabilities	81,429	71,534	71,534	14%	119,438	111,019	111,019	8%
Derivatives-hedge accounting	26,132	25,529	25,529	2%	26,132	25,529	25,529	2%
Provisions	65,493	67,232	70,817	(3)%	87,187	93,989	88,639	(7)%
Liabilities of disposal group classified as held for sale	–	–	–	–	–	440	440	(100)%

	NLB				NLB Group			
	As at 30 June	As at 1 January	As at 31 December	% change 30 June	As at 30 June	As at 1 January	As at 31 December	% change 30 June
	2018	2018	2017	2018 / 1 January 2018	2018	2018	2017	2018 / 1 January 2018
	unaudited	*unaudited* (EUR thousands)	*audited*		*unaudited*	*unaudited* (EUR thousands)	*audited*	
Current income tax liabilities	6,489	1,014	–	540%	7,257	3,908	2,894	86%
Deferred income tax liabilities	–	–	–	–	2,746	2,558	1,096	7%
Other liabilities	6,914	4,057	4,181	70%	12,337	9,467	9,596	30%
TOTAL LIABILITIES	**7,399,453**	**7,333,442**	**7,331,606**	**1%**	**10,681,605**	**10,562,459**	**10,549,582**	**1%**
EQUITY AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT								
Share capital	200,000	200,000	200,000	0%	200,000	200,000	200,000	0%
Share premium	871,378	871,378	871,378	0%	871,378	871,378	871,378	0%
Accumulated other comprehensive income	21,234	24,688	25,699	(14)%	19,170	24,744	26,752	(23)%
Profit reserves	13,522	13,522	13,522	0%	13,522	13,522	13,522	0%
Retained earnings	402,683	299,304	270,627	35%	692,640	587,742	541,901	18%
	1,508,817	**1,408,892**	1,381,226	7%	**1,796,710**	**1,697,386**	**1,653,553**	6%
Non-controlling interests	–	–	–	–	37,871	36,891	34,610	3%
TOTAL EQUITY	**1,508,817**	**1,408,892**	**1,381,226**	**7%**	**1,834,581**	**1,734,277**	**1,688,163**	**6%**
TOTAL LIABILITIES AND EQUITY	**8,908,270**	**8,742,334**	**8,712,832**	**2%**	**12,516,186**	**12,296,736**	**12,237,745**	**2%**

	NLB					NLB Group				
	As at 31 December					As at 31 December				
	2017	2016	2015	% change 2017/16	% change 2016/15	2017	2016	2015	% change 2017/16	% change 2016/15
	audited	*audited* (EUR thousands)	*audited*			*audited*	*audited* (EUR thousands)	*audited*		
Cash, cash balances at central banks and other demand deposits at banks	570,010	617,039	496,806	(8)%	24%	1,256,481	1,299,014	1,161,983	(3)%	12%
Trading assets	72,180	87,693	267,880	(18)%	(67)%	72,189	87,699	267,413	(18)%	(67)%
Financial assets designated at fair value through profit or loss	634	2,011	4,913	(68)%	(59)%	5,003	6,694	7,595	(25)%	(12)%
Available-for-sale financial assets	1,777,762	1,594,094	1,248,359	12%	28%	2,276,493	2,072,153	1,737,191	10%	19%
Derivatives-hedge accounting	1,188	217	1,083	447%	(80)%	1,188	217	1,083	447%	(80)%
Loans and advances										
- debt securities	82,133	85,315	394,579	(4)%	(78)%	82,133	85,315	394,579	(4)%	(78)%
- loans and advances to banks	462,322	408,056	345,207	13%	18%	510,107	435,537	431,775	17%	1%
- loans and advances to customers	4,587,477	4,843,594	4,826,139	(5)%	0%	6,912,333	6,912,067	6,693,621	0%	3%
- other financial assets	38,389	36,151	48,944	6%	(26)%	66,077	61,014	69,521	8%	(12)%
Held-to-maturity financial assets	609,712	611,449	565,535	0%	8%	609,712	611,449	565,535	0%	8%
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	678	741	6%	(9)%	719	678	741	6%	(9)%
Non-current assets classified as held for sale	2,564	1,788	1,776	43%	1%	11,631	4,263	4,629	173%	(8)%

	NLB					NLB Group				
	As at 31 December					As at 31 December				
	2017	2016	2015	% change 2017/16	% change 2016/15	2017	2016	2015	% change 2017/16	% change 2016/15
	audited	*audited*	*audited*			*audited*	*audited*	*audited*		
		(EUR thousands)					*(EUR thousands)*			
Property and equipment	87,051	90,496	94,570	(4)%	(4)%	188,355	196,849	207,730	(4)%	(5)%
Investment property	9,257	8,151	8,613	14%	(5)%	51,838	83,663	93,513	(38)%	(11)%
Intangible assets	23,911	23,345	29,627	2%	(21)%	34,974	33,970	39,327	3%	(14)%
Investments in subsidiaries	349,945	339,693	346,001	3%	(2)%	–	–	–	–	–
Investments in associates and joint ventures	6,932	7,031	7,094	(1)%	(1)%	43,765	43,248	39,696	1%	9%
Current income tax assets	2,196	2,124	–	3%	–	2,795	2,888	929	(3)%	211%
Deferred income tax assets	19,758	10,622	9,139	86%	16%	18,603	7,735	9,400	141%	(18)%
Other assets	8,692	8,419	9,779	3%	(14)%	93,349	94,558	95,354	(1)%	(1)%
TOTAL ASSETS	**8,712,832**	**8,777,966**	**8,706,785**	**(1)%**	**1%**	**12,237,745**	**12,039,011**	**11,821,615**	**2%**	**2%**
Trading liabilities	9,398	18,787	29,909	(50)%	(37)%	9,502	18,791	29,920	(49)%	(37)%
Financial liabilities designated at fair value through profit or loss	635	2,011	4,912	(68)%	(59)%	635	2,011	4,912	(68)%	(59)%
Derivatives-hedge accounting	25,529	29,024	33,842	(12)%	(14)%	25,529	29,024	33,842	(12)%	(14)%
Financial liabilities measured at amortised cost										
- deposits from banks and central banks	72,072	74,977	96,736	(4)%	(22)%	40,602	42,334	57,982	(4)%	(27)%
- borrowings from banks and central banks	260,747	338,467	519,926	(23)%	(35)%	279,616	371,769	571,029	(25)%	(35)%
- due to customers	6,810,967	6,615,390	6,293,339	3%	5%	9,878,378	9,437,147	9,020,666	5%	5%
- borrowings from other customers	5,726	4,274	16,168	34%	(74)%	74,286	83,619	100,267	(11)%	(17)%
- debt securities in issue	-	277,726	304,962	-	(9)%	-	277,726	304,962	-	(9)%
- subordinated liabilities	-	-	-	-	-	27,350	27,145	27,340	1%	(1)%
- other financial liabilities	71,534	68,784	47,346	4%	45%	111,019	110,295	75,307	1%	46%
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–	–	–	–	–	–	–	–	–	–
Liabilities of disposal group classified as held for sale	–	–	–	–	–	440	–	–	–	–
Provisions	70,817	79,546	105,137	(11)%	(24)%	88,639	100,914	122,639	(12)%	(18)%
Current income tax liabilities	–	–	6,681	–	–	2,894	3,146	7,514	(8)%	(58)%
Deferred income tax liabilities	–	–	–	–	–	1,096	727	313	51%	132%
Other liabilities	4,181	4,186	5,676	0%	(26)%	9,596	8,703	14,539	10%	(40)%
TOTAL LIABILITIES	**7,331,606**	**7,513,172**	**7,464,634**	(2)%	1%	**10,549,582**	**10,513,351**	**10,371,232**	0%	1%
EQUITY AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT										

	NLB					NLB Group				
	As at 31 December					As at 31 December				
	2017	**2016**	**2015**	**% change 2017/16**	**% change 2016/15**	**2017**	**2016**	**2015**	**% change 2017/16**	**% change 2016/15**
	audited	*audited*	*audited*			*audited*	*audited*	*audited*		
		(EUR thousands)					*(EUR thousands)*			
Share capital	200,000	200,000	200,000	0%	0%	200,000	200,000	200,000	0%	0%
Share premium	871,378	871,378	871,378	0%	0%	871,378	871,378	871,378	0%	0%
Accumulated other comprehensive income	25,699	34,581	31,841	(26)%	9%	26,752	29,969	23,603	(11)%	27%
Profit reserves	13,522	13,522	13,522	0%	0%	13,522	13,522	13,522	0%	0%
Retained earnings	270,627	145,313	125,410	86%	16%	541,901	380,444	314,307	42%	21%
	1,381,226	1,264,794	1,242,151	9%	2%	**1,653,553**	1,495,313	1,422,810	11%	5%
Non-controlling interests	–	–	–	–	–	34,610	30,347	27,573	14%	10%
TOTAL EQUITY	1,381,226	1,264,794	1,242,151	9%	2%	**1,688,163**	1,525,660	1,450,383	11%	5%
TOTAL LIABILITIES AND EQUITY	**8,712,832**	**8,777,966**	**8,706,785**	**(1)%**	**1%**	**12,237,745**	**12,039,011**	**11,821,615**	**2%**	**2%**

The statements of financial position for the years ended 31 December 2017, 2016 and 2015 and six months ended 30 June 2017 reflect the classification and measurement in accordance with IAS 39, whereas the statement of financial position for the six months ended 30 June 2018 reflects the classification and measurement in accordance with IFRS 9.

An adjustment arising from the adoption of IFRS 9 was recognised in retained earnings and other comprehensive income as at 1 January 2018. Due to the transition to IFRS 9 requirements, the NLB Group's Shareholders equity increased by EUR 43.8 million and EUR 27.7 million for NLB.

Statement of cash flows of NLB and the NLB Group

The following tables summarises NLB's and the NLB Group's selected statements of cash flows for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	**2017**	**2018**	**2017**
	unaudited	*audited*	*unaudited*	*audited*
	(EUR thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	116,571	115,492	203,809	198,948
Interest paid	(12,827)	(15,199)	(24,050)	(27,794)
Dividends received	40,469	27,417	1,809	4,348
Fee and commission receipts	65,078	62,174	106,637	100,674
Fee and commission payments	(15,267)	(14,248)	(28,195)	(26,596)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	462	11,574	716	11,976
Net (losses)/gains from financial assets and liabilities held for trading	1,189	(187)	4,394	2,315
Payments to employees and suppliers	(81,869)	(77,224)	(129,251)	(122,098)
Other income	6,428	7,348	11,756	14,654
Other expenses	(10,223)	(9,105)	(14,842)	(14,926)
Income tax paid	1,045	2,082	(5,377)	(3,834)
Cash flows from operating activities before changes in operating assets and liabilities	**111,056**	**110,124**	**127,406**	**137,667**
(Increases)/decreases in operating assets	**(141,490)**	**38,080**	**(281,254)**	**(54,863)**
Net (increase)/decrease in trading assets	6,392	(34,454)	6,392	(34,454)
Net (increase)/decrease in financial assets designated at fair value through profit or loss	–	–	–	946
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss	12,351	–	9,768	–
Net (increase)/decrease in financial assets at fair value through other comprehensive income	(211,502)	–	(233.629)	–
Net (increase)/decrease in available-for-sale financial assets	–	(46,071)	–	(53,673)
Net (increase)/decrease in loans and receivables at amortised cost	50,990	117,610	(71,570)	28,527
Net (increase)/decrease in other assets	279	995	7,785	3,791
(Increases)/decreases in operating liabilities	**54,883**	**16,231**	**133,573**	**20,342**
Net increase/(decrease) in financial liabilities designated at fair value through profit or loss	(691)	–	(691)	–
Net increase/(decrease) in deposits and borrowings measured at amortised cost	54,882	15,786	133,953	19,182
Net increase/(decrease) in other liabilities	692	445	311	1,160
Net cash used in operating activities	**24,449**	**164,435**	**(20,275)**	**103,146**
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts from investing activities	**171,441**	**55,972**	**181,853**	**57,184**
Proceeds from sale of property and equipment and investment property	5	8	2,014	1,220
Proceeds from sale of subsidiaries and associates	10,268	238	18,671	238
Proceeds from disposals of debt securities measured at amortised cost	161,131	–	161,131	–
Proceeds from non-current assets held for sale	37	323	37	323
Proceeds from disposals of held-to-maturity financial assets	–	55,403	–	55,403
Payments from investing activities	**(136,785)**	**(59,861)**	**(140,328)**	**(52,365)**

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	unaudited	*audited*	*unaudited*	*audited*
	(EUR thousands)			
Purchase of property and equipment and investment property	(6,344)	(2,146)	(8,916)	(4,136)
Purchase of intangible assets	(4,357)	(5,382)	(5,828)	(6,680)
Purchase of subsidiaries and increase in subsidiaries' equity	(500)	(10,784)	–	–
Purchase of debt securities measured at amortised cost	(125,584)	–	(125,584)	–
Purchase of held-to-maturity financial assets	–	(41,549)	–	(41,549)
Net cash flows used in investing activities	**34,656**	**(3,889)**	**41,525**	**4,819**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from financing activities	–	(63,780)	(15,094)	(67,430)
Dividends paid	–	(63,780)	(3,116)	(67,430)
Repayments of subordinated debt	–	–	(11,978)	–
Net cash from financing activities	**–**	**(63,780)**	(15,094)	(67,430)
Effects of exchange rate changes on cash and cash equivalents	(402)	(7,661)	(2,611)	(5,366)
Net increase/(decrease) in cash and cash equivalents	**59,105**	**96,766**	**6,156**	**40,535**
Cash and cash equivalents at beginning of period	**662,419**	**670,682**	**1,475,714**	**1,449,275**
Cash and cash equivalents at end of period	**721,122**	**759,787**	**1,479,259**	**1,484,444**

	NLB			NLB Group		
	Year ended 31 December					
	2017	2016	2015	2017	2016	2015
	audited	*audited*	*audited*	*audited*	*audited*	*audited*
	(EUR thousands)					
CASH FLOWS FROM OPERATING ACTIVITIES						
Interest received	210,292	240,789	294,113	383,615	413,337	467,091
Interest paid	(33,714)	(44,510)	(72,613)	(60,165)	(78,401)	(121,143)
Dividends received	50	1,139	1,264	179	1,233	1,346
Fee and commission receipts	125,760	119,296	126,371	206,100	192,295	194,133
Fee and commission payments	(29,385)	(27,056)	(30,993)	(56,855)	(51,996)	(48,713)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	11,883	13,147	10,886	12,455	13,296	10,964
Realised losses from financial assets and financial liabilities not at fair value through profit or loss	–	(40)	(234)	–	(40)	(234)
Net (losses)/gains from financial assets and liabilities held for trading	3,646	(2,785)	(28,335)	9,421	3,246	(23,110)
Payments to employees and suppliers	(160,484)	(165,579)	(174,051)	(254,877)	(262,202)	(271,456)
Other income	12,391	13,256	14,136	27,135	26,352	31,129
Other expenses	(15,075)	(14,857)	(16,487)	(28,775)	(26,132)	(28,935)
Income tax paid	(509)	(14,489)	(678)	(10,557)	(19,991)	(4,980)
Cash flows from operating activities before changes in operating assets and liabilities	**124,855**	**118,311**	**123,379**	**227,676**	**210,997**	**206,092**
(Increases)/decreases in operating assets	**45,391**	**30,540**	**(34,116)**	**(227,829)**	**(139,839)**	**(143,429)**

	NLB			NLB Group		
	Year ended 31 December					
	2017	2016	2015	2017	2016	2015
	audited	*audited*	*audited*	*audited*	*audited*	*audited*
	(EUR thousands)					
Net (increase)/decrease in trading assets	9,001	164,609	(135,235)	9,001	163,609	(135,235)
Net (increase)/decrease in financial assets designated at fair value through profit or loss	1,487	2,795	–	1,801	1,026	(880)
Net (increase)/decrease in available-for-sale financial assets	(216,235)	(353,677)	(88,304)	(228,936)	(344,588)	(45,544)
Net decrease in loans and advances	250,062	214,615	189,680	(18,524)	37,715	33,155
Net (increase)/decrease in other assets	1,076	2,198	(257)	8,829	2,399	5,075
Increase/(decrease) in operating liabilities	**(130,582)**	**101,342**	**(208,931)**	**86,953**	**197,351**	**(200,359)**
Net decrease in financial liabilities designated at fair value through profit or loss	(1,487)	(2,801)	–	(1,487)	(2,801)	–
Net increase/(decrease) in deposits and borrowings measured at amortised cost	145,241	130,815	(155,700)	361,928	227,842	(146,993)
Net (decrease)/increase in securities measured at amortised cost	(274,200)	(26,913)	(53,469)	(274,200)	(26,913)	(53,469)
Net increase/(decrease) in other liabilities	(136)	241	238	712	(777)	103
Net cash used in operating activities	**39,664**	**250,193**	**(119,668)**	**86,800**	**268,509**	**(137,696)**
CASH FLOWS FROM INVESTING ACTIVITIES						
Receipts from investing activities	**129,259**	**98,095**	**188,913**	**112,661**	**77,903**	**178,923**
Proceeds from sale of property and equipment and investment property	75	400	68	37,274	5,536	3,718
Proceeds from sale of subsidiaries	38	–	–	38	–	–
Proceeds from dividends from subsidiaries and associates	58,012	28,915	13,747	4,215	3,587	35
Proceeds from sale of associates and joint ventures	238	–	–	238	–	–
Proceeds from non-current assets held for sale	493	128	98	493	128	170
Proceeds from disposals of held-to-maturity financial assets	70,403	68,652	175,000	70,403	68,652	175,000
Payments from investing activities	**(99,762)**	**(161,064)**	**(70,863)**	**96,991**	**(153,178)**	**(51,377)**
Purchase of property and equipment and investment property	(5,776)	(10,990)	(5,672)	(10,793)	(17,896)	(11,404)
Purchase of intangible assets	(7,605)	(4,466)	(5,577)	(10,801)	(6,981)	(7,685)
Purchase of subsidiaries and increase in subsidiaries' equity	(12,580)	(17,307)	(27,730)	(1,596)	–	(404)
Increase in associates and joint ventures' equity	–	(12,250)	–	–	(12,250)	–
Purchase of held-to-maturity financial assets	(73,801)	(116,051)	(31,884)	(73,801)	(116,051)	(31,884)
Net cash flows used in investing activities	**29,497**	**(62,969)**	**118,050**	**15,670**	**(75,275)**	**127,546**

	NLB			NLB Group		
	Year ended 31 December					
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
	audited	*audited*	*audited*	*audited*	*audited*	*audited*
	(EUR thousands)					
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from financing activities	**–**	**–**	**–**	–	–	**9,900**
Issue of subordinated debt	–	–	–	**–**	**–**	9,900
Issue of ordinary shares and other equity instruments	–	–	–	–	–	–
Payments from financing activities	**(63,780)**	**(43,880)**	**–**	**(67,557)**	**(46,655)**	**(977)**
Dividends paid	(63,780)	(43,880)	–	(67,512)	(46,655)	(977)
Repayments of subordinated debt	–	–	–	–	–	–
Other payments related to financing activities	–	–	–	(45)	–	–
Net cash from financing activities	**(63,780)**	**(43,880)**	**–**	**(67,557)**	**(46,655)**	**8,923**
Effects of exchange rate changes on cash and cash equivalents	(13,644)	1,507	8,226	(8,474)	693	10,246
Net increase / (decrease) in cash and cash equivalents	**5,381**	**143,344**	**(1,618)**	**34,913**	**146,579**	**(1,227)**
Cash and cash equivalents at beginning of year	**670,682**	**525,831**	**519,223**	**1,449,275**	**1,302,003**	**1,292,984**
Cash and cash equivalents at end of year	**662,419**	**670,682**	**525,831**	**1,475,714**	**1,449,275**	**1,302,003**

Statement of changes in equity of NLB and the NLB Group

The following tables sets out NLB's and the NLB Group's statement of changes in equity for the periods indicated:

NLB Group	**Share capital**	**Share premium**	**Accumulated other comprehensive income reserve**	**Profit reserves**	**Retained earnings**	**Equity attributable to owners of the parent**	**Equity attributable to non-controlling interests**	**Total equity**
Balance as at 31 December 2017	200,000	871,378	26,752	13,522	541,901	1,653,553	34,610	1,688,163
Impact of adopting IFRS 9	–	–	(2,008)	–	45,841	43,833	2,281	46,114
Restated opening balance under IFRS 9	200,000	871,378	24,744	13,522	587,742	1,697,386	36,891	1,734,277
- Net profit for the period	–	–	–	–	104,847	104,847	4,542	109,389
- Other comprehensive income	–	–	(5,523)	–	–	(5,523)	(89)	(5,612)
Total comprehensive income after tax	–	–	(5,523)	–	104,847	99,324	4,453	103,777
Dividends paid	–	–	–	–	–	–	(3,133)	(3,133)
Other	–	–	(51)	–	51	–	(340)	(340)
Balance as at 30 June 2018	**200,000**	**871,378**	**19,170**	**13,522**	**692,640**	**1,796,710**	**37,871**	**1,834,581**

NLB	**Share capital**	**Share premium**	**Accumulated other comprehensive income reserve**	**Profit reserves**	**Retained earnings**	**Total equity**
Balance as at 31 December 2017	200,000	871,378	25,699	13,522	270,627	1,381,226
Impact of adopting IFRS 9	–	–	(1,011)	–	28,677	27,666
Restated opening balance under IFRS 9	200,000	871,378	24,688	13,522	299,304	1,408,892
- Net profit for the period	–	–	–	–	103,335	103,335
- Other comprehensive income	–	–	(3,410)	–	–	(3,410)
Total comprehensive income after tax	–	–	(3,410)	–	103,335	99,925
Other	–	–	(44)	–	44	–
Balance as at 30 June 2018	**200,000**	**871,378**	**21,234**	**13,522**	**402,683**	**1,508,817**

NLB Group	Share capital	Share premium	Accumulated other comprehensive income reserve	Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance as at 1 January 2015	200,000	871,378	36,485	13,522	221,676	1,343,061	26,234	1,369,295
- Net profit for the period	–	–	–	–	91,914	91,914	3,464	95,378
- Other comprehensive income	–	–	(12,882)	–	–	(12,882)	23	(12,859)
Total comprehensive income after tax	–	–	(12,882)	–	91,914	79,032	3,487	82,519
Dividends paid	–	–	–	–	–	–	(1,048)	(1,048)
Transactions with non-controlling interest	–	–	–	–	717	717	(1,100)	(383)
Balance as at 31 December 2015	**200,000**	**871,378**	**23,603**	**13,522**	**314,307**	**1,422,810**	**27,573**	**1,450,383**
- Net profit for the period	–	–	–	–	110,017	110,017	5,608	115,625
- Other comprehensive income	–	–	6,366	–	–	6,366	(35)	6,331
Total comprehensive income after tax	–	–	6,366	–	110,017	116,383	5,573	121,956
Dividends paid	–	–	–	–	(43,880)	(43,880)	(2,799)	(46,679)
Balance as at 31 December 2016	**200,000**	**871,378**	**29,969**	**13,522**	**380,444**	**1,495,313**	**30,347**	**1,525,660**
- Net profit for the period	–	–	–	–	225,069	225,069	8,245	233,314
- Other comprehensive income	–	–	(3,217)	–	–	(3,217)	117	(3,100)
Total comprehensive income after tax	–	–	(3,217)	–	225,069	221,852	8,362	230,214
Dividends paid	–	–	–	–	(63,780)	(63,780)	(3,752)	(67,532)
Other	–	–	–	–	168	168	(347)	(179)
Balance as at 31 December 2017.	**200,000**	**871,378**	**26,752**	**13,522**	**541,901**	**1,653,553**	**34,610**	**1,688,163**

NLB	Share capital	Share premium	Accumulated other comprehensive income reserve	Profit reserves	Retained earnings	Total equity
Balance as at 1 January 2015	200,000	871,378	38,491	13,522	81,529	1,204,920
- Net profit for the period	–	–	–	–	43,881	43,881
- Other comprehensive income	–	–	(6,650)	–	–	(6,650)
Total comprehensive income after tax	–	–	(6,650)	–	43,881	37,231
Balance as at 31 December 2015	**200,000**	**871,378**	**31,841**	**13,522**	**125,410**	**1,242,151**
- Net profit for the period	–	–	–	–	63,783	63,783
- Other comprehensive income	–	–	2,740	–	–	2,740
Total comprehensive income after tax	–	–	2,740	–	63,783	66,523
Dividends paid	–	–	–	–	(43,880)	(43,880)
Balance as at 31 December 2016	**200,000**	**871,378**	**34,581**	**13,522**	**145,313**	**1,264,794**
- Net profit for the period	–	–	–	–	189,094	189,094
- Other comprehensive income	–	–	(8,882)	–	–	(8,882)
Total comprehensive income after tax	–	–	(8,882)	–	189,094	180,212
Dividends paid	–	–	–	–	(63,780)	(63,780)
Balance as at 31 December 2017	**200,000**	**871,378**	**25,699**	**13,522**	**270,627**	**1,381,226**

8. OPERATING AND FINANCIAL REVIEW

The following review is intended to assist in the understanding and assessment of the trends and significant changes in the NLB Group's operating and financial results. Historical results may not indicate future performance. The forward-looking statements contained in this review are subject to a variety of factors that could cause actual results to differ materially from those contemplated by such statements. Factors that may cause such differences include, but are not limited to, those discussed in "Presentation of Financial Information—Cautionary Note Regarding Forward-Looking Statements" and "2. Risk Factors". In this Prospectus, the financial statements presented are those of NLB and the NLB Group. The Audited Financial Statements as of and for the years ended 31 December 2017, 2016 and 2015 were audited by, and the unaudited Interim Financial Statements as of and for the six months ended 30 June 2018 with comparative information for the six months ended 30 June 2017 which were reviewed in accordance with International Standard on Review Engagements 2410 by, Ernst & Young d.o.o., Ljubljana, independent auditor of NLB. NLB's and the NLB Group's Financial Statements have been prepared in accordance with IFRS as adopted by the EU. NLB's audit opinions contain an emphasis of matter with respect to the uncertainty related to the outcome of certain lawsuits. On 19 July 2018 the National Assembly passed the ZVKNNLB, therefore NLB's review opinion for the six months ended June 2018 did not contain such emphasis of matter. For detailed information refer to the Interim Financial Statements for the six months ended June 2018 "Note 5.15. Provisions". The additional financial data include non-IFRS measures and were derived from the Financial Statements and the NLB Group's unaudited consolidated management accounts.

Among the NLB Group's key business performance indicators, alternative measures for business performance are used. These indicators include: coverage ratio of NPLs with impairments on all loans, net NPLs/net total loans, interest margin, liquidity assets/short-term financial liabilities to non-banking sector, liquidity assets/average total assets and cost of risk. Alternative measures for business performance are used with the aim of monitoring the performance of NLB and the NLB Group and its performance relative to other banking groups. Their calculation is defined later in this chapter, in the table KPIs for NLB and NLB Group.

Unless otherwise indicated, all of the financial data and discussions thereof are based on the Financial Statements and the unaudited consolidated management accounts, and should be read in conjunction with the Financial Statements and all other financial data included elsewhere in this Prospectus.

8.1 Key Factors Affecting the NLB Group's Financial Condition and Results of Operations

The NLB Group's financial condition and results of operations are affected by numerous factors.

Management believes that the following are of particular importance:

General economic conditions in the Republic of Slovenia, Southeastern Europe and the EU

The NLB Group's operating and financial results are highly dependent on the general economic conditions of the Republic of Slovenia. Operations in the Republic of Slovenia accounted for 45.6 per cent., 51.0 percent, 53.8 per cent. and 89.4 per cent. of the NLB Group's operating income (calculated as the profit before income tax for the NLB Group operations in the Republic of Slovenia divided by the profit before income tax for the NLB Group operations as a whole) for the six months ended 30 June 2018 and the years ended 31 December 2017, 2016 and 2015, respectively. As at 30 June 2018 and as at 31 December 2017, 2016 and 2015, 67.5 per cent., 67.8 per cent., 69.7 per cent. and 70.1 per cent., respectively, of the NLB Group's amount of total assets (calculated as amount of total assets for the NLB Group operations in the Republic of Slovenia divided by the amount of total assets for the NLB Group operations as a whole) were attributable to Slovenian residents. In addition, NLB holds a significant amount of government securities. The NLB Group also has significant operations in Southeastern Europe, and its operating and financial results are also dependent on the general economic conditions of Southeastern Europe. There has been measured significant economic growth in the economies of the Republic of Slovenia and Southeastern Europe during the periods under review. The Republic of Slovenia's GDP grew by 4.9 per cent. in 2017, 3.1 per cent. in 2016 and 2.3 per cent. in 2015 and based on data provided by regional statistical offices and IMF, the average GDP for areas in which the NLB Group operates grew 2.7 per cent., 3.2 per cent. and 3.1 per cent. in 2017, 2016 and 2015, respectively. Overall GDP growth in the EU increased to 2.4 per cent. in 2017. For more information regarding economic developments in the Republic of Slovenia, Southeastern Europe and the Eurozone, see "*14. Macroeconomic Conditions and the Banking Sector in the Republic of Slovenia and Other Core Markets*", "*2. Risk Factors—The NLB Group is subject to risks arising from the*

Slovenian macroeconomic and political environment" and "*2. Risk Factors—The NLB Group is subject to risks arising from the macroeconomic and political environment in Southeastern Europe*".

The NLB Group has benefited from the economic growth in the Republic of Slovenia and Southeastern Europe in 2017, with all Core NLB Group Members returning a profit. The Republic of Slovenia's banking system has shown improvement recently, achieving aggregate profit of EUR 323 million and EUR 443 million for the six months ended 30 June 2018 and for the year ended 31 December 2017 respectively, according to the Bank of Slovenia, an increase of nearly 26.5 per cent. in the first six months of 2018 and 21.9 per cent. increase in 2017, respectively, compared with the same periods a year prior, which corresponds to a ROE of 14.0 per cent. and 9.6 per cent., respectively. This extends the positive trend from 2015, which was the first year with a positive result for the Slovenian banking system in six years, according to the Bank of Slovenia. The Slovenian banking system's balance sheet amounted to EUR 37.9 billion in 2017, representing an increase of 2.4 per cent. compared to the previous year. The increase was mainly a result of growth in households' deposits and growth in the nonbanking loans. The increase in deposits by the non-banking sector is sufficient to fund the increase in loans, and banks thus had no need to increase other sources of funding, according to the Bank of Slovenia. The gradual stabilisation of funding is being reflected in the stabilisation of the non-banking LTD, which ended 2017 at 78.2 per cent., a decrease of 0.4 percentage points. Net interest income is still decreasing in the Republic of Slovenia's banking system, though its downward path is being slowed down in 2017 and in 2018. Despite the fact that the average interest rate for loans has been decreasing, greater lending volume, evident throughout 2017 and in 2018, resulting in growth in interest income from loans. Nevertheless, the banks' profitability is still uncertain, therefore adequate loan activity and higher net interest income are essential for banks in achieving their solid profitability on the longer term.

Competition in the Slovenian and Southeastern European banking sectors

The level of competition in the Slovenian banking sector, and to a lesser degree in the Southeastern European banking sectors, has a significant impact on the NLB Group's net interest income, net interest margin, net commission and fee income, and volume of loans and customer deposits, which can also impact the NLB Group's overall cost of funding. Higher competitiveness in the banking sector typically leads to increased competition in particular for lending products, creating downward pressure on the NLB Group's net interest margin, and potentially its profitability, by forcing the NLB Group to offer lower interest rates on loans. The NLB Group's commission and fee income and expenses are also affected by competition in the banking sector. Accordingly, the NLB Group's operating results could be materially impacted by changes in the competitive landscape in the Slovenian or Southeastern European banking sectors.

The level of competition in the Slovenian banking sector is relatively high. As at 31 December 2017, in the Republic of Slovenia there were a total of 12 banks, three saving banks, three branches of foreign banks and one representative office according to the Bank of Slovenia. There is significant concentration, as the eight largest banks in terms of customer assets (excluding assets of banks), NKBM, SKB, Abanka, UniCredit, Banka Intesa Sanpaolo (formerly Banka Koper), Sberbank, Addiko and NLB, together accounted for 78.3 per cent. of customer assets.

NLB classifies its competitors in the Republic of Slovenia into three categories: domestic banks, foreign banks and investment banks and brokerage firms. In the market for financial services, NLB faces competition from foreign and domestic universal banks such as NKBM, Abanka, SKB Banka, UniCredit Banka Slovenija, Addiko Bank (formerly Hypo Alpe-Adria Bank), and major regional banks such as Banka Intesa Sanpaolo (formerly Banka Koper) and Gorenjska banka. NLB also faces competition from foreign banks which offer financial services through their subsidiaries and thereby increase the range of products and services in the Slovenian market.

For specialised services, such as investment banking, NLB's competitors are other specialised companies, in particular stock broking companies, such as Alta and Ilirika. Since the Republic of Slovenia entered the EU, the presence of foreign banks has increased considerably in both corporate and retail banking. The NLB Group expects that competition may further increase.

In addition, the Southeastern European region, which includes Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia, is the NLB Group's most significant geographic area of operations outside of the Republic of Slovenia and therefore competition in this region are important to the NLB Group's results of operations and financial condition. For additional information on the risks the NLB Group faces as a result of competition and the impact competition may have on the NLB Group in the future, see

"*2. Risk Factors—The NLB Group may be negatively affected by increased competition*". Notwithstanding this competition, NLB's vision is to retain its leading role in the Slovenian banking sector and to become one of the leading financial groups in Southeastern Europe.

Interest rates and net interest income

The NLB Group derives the majority of its net income from net interest income, which represented 62.4 per cent., 63.3 per cent., 66.7 per cent., and 70.4 per cent. of the NLB Group's net operating income (calculated as the sum of net interest income, net fee and commission income, dividend income, net income from financial transactions, net other income and net non–interest income) for the six months ended 30 June 2018 and the years ended 31 December 2017, 2016 and 2015, respectively.

The NLB Group derives interest income primarily from its loan portfolio, as well as its securities portfolio. As at 30 June 2018 and 31 December 2017, floating rate loans represented 62 per cent. and 64 per cent., respectively, in NLB and 78 per cent. and 80 per cent., respectively of the loans in the NLB Group's loan portfolios, respectively. The decrease in interest income from the NLB Group's loan portfolio has been driven primarily by a decrease in the size of its loan portfolio since 2015. The NLB Group's securities portfolio consists primarily of fixed rate investments.

The NLB Group's net interest margin is a significant factor in determining the NLB Group's profitability. Net interest margin at the NLB Group level remained stable despite monetary easing in the Eurozone, increasing in slightly from 2.47 per cent. to 2.51 per cent. from the first half of 2017 to the first half of 2018, attributed in large part to the maturity in July 2017 of NLB's bond in the amount of EUR 300 million issued in July 2014. The growth trend in the foreign Core NLB Group Members interest margin reversed at the end of 2017 as a result of the decrease in the interest margin due to the strong competitive pressure of lower interest rates.

For the six months ended 30 June 2018 and the years ended 31 December 2017, 2016 and 2015, the yield on the NLB Group's loan portfolio was 4.0 per cent., 4.0 per cent., 4.0 per cent., and 4.2 per cent., respectively. Yield on the NLB Group's loan portfolio is calculated as total interest income from loans and receivables for the relevant period as a percentage of the average of total loans and receivables for the relevant period.

For the same periods, yield on the NLB Group's securities portfolio was 1.4 per cent., 1.6 per cent. 2.1 per cent. and 2.5 per cent., respectively, driven primarily by the declining interest rate environment. Yield on the NLB Group's securities portfolio is calculated as total interest income from interest-bearing securities for the relevant period as a percentage of average total interest-bearing securities for the relevant period. Average total securities is calculated as the average of the sum of interest-bearing securities held for trading, financial assets designated at fair value through profit or loss, securities designated at fair value through equity and securities designated at amortized cost for the relevant period.

Both the level of market interest rates and the changes in such rates have a material impact on the interest income earned by the NLB Group's loan and securities portfolios, as well as on the interest expenses paid by the NLB Group. Decreases in interest rates on the NLB Group's loans from customers without corresponding decreases in interest rates payable on customer deposits or other interest-bearing liabilities would have a negative impact on the NLB Group's profitability, but would increase the NLB Group's equity due to the revaluation of the NLB Group's securities portfolio designated at fair value through equity. Conversely, increases in interest rates would have positive effect on interest earnings, but would also have an immediate negative impact on the NLB Group's equity due to the revaluation of the NLB Group's securities portfolio designated at fair value through equity. See "*2. Risk Factors—Fluctuations in interest rates may adversely affect the NLB Group's results*" for further information on the risks.

Interest rates remain low in most of the countries where the NLB Group operates. As economic growth potential deteriorated and inflation expectations fell during and following the global financial crisis in 2008 and 2009, the ECB has continued to reduce interest rates from 2008 until the date of this Prospectus, resulting in a negative rate for deposit facilities in the Eurozone from June 2015 until the date of this Prospectus. In conjunction with a record low main refinancing rate and quantitative easing, many Eurozone sovereign bond yields have been pushed to extremely low levels including negative yields. Although the current interest rate environment allows the NLB Group to benefit from lower interest expenses, the NLB Group's profits are also impacted through lower interest income on its loan and receivables portfolio and on its securities portfolios.

Cost of funding

The cost at which the NLB Group is able to obtain funding for its operations directly impacts the NLB Group's interest expense, which may in turn affect the NLB Group's net interest margin and its overall profitability. The NLB Group's principal source of funding is customer deposits. Interest rates on customer deposits depend mostly on the liquidity position of the NLB Group, the level of competition in the market and market interest rates. Historically, a higher share of customer deposits in total funding have generally lowered the NLB Group's cost of funding by reducing the amount of wholesale funding sources required and allowing the NLB Group to pay lower interest rates than it would be required to pay for other sources of funding. Consequently, customer deposits represent a reasonably priced source of funding for the NLB Group in comparison to other funding sources.

The interest rates that the NLB Group offers to its customers are determined based on the NLB Group's short-term and long-term liquidity targets, as well as its market position and the level of competition in the markets where it operates. The NLB Group will seek to attract higher volumes of customer deposits if it anticipates an increased need for liquidity in the short or long term. Competition from other participants in the banking market limits the extent to which the NLB Group can reduce its interest rates when it believes that its liquidity needs are currently being met. Currently, the majority of the NLB Group's securities purchases are driven by its liquidity management needs, and the NLB Group does not generally engage in trading activities for profit.

The NLB Group's strategy is to be funded predominantly from customer deposits, with customer deposits representing 96.3 per cent. and 95.9 per cent. of funding for the six months ended 30 June 2018 and the year ending 31 December 2017 (including EUR 7,548 million and EUR 7,363 million from households, respectively, and EUR 2,204 million and EUR 2,260 million from corporate deposits, respectively), and the NLB Group believes that customer deposits will continue to make up a substantial part of its funding mix going forward. Furthermore, the majority of the NLB Group's deposits from the non-banking sector are sight deposits (77.3 per cent.), with 84.0 per cent. of total deposits from the non-banking sector in NLB and 62.7 per cent. in the Core Foreign Markets segment, and 22.7 per cent. and 37.3 per cent., respectively, being term deposits for the six months ended 30 June 2018. However, deposit yields have decreased steadily from 0.2 per cent. and 0.8 per cent. in the first half of 2017 to 0.1 per cent. and 0.6 per cent. in the first half of 2018 for NLB and the Core Foreign Markets segment, respectively, and the NLB Group may consider pursuing additional forms of funding in the future, including wholesale funding, with the aim of achieving diversification, improvement of structural liquidity and fulfilment of regulatory requirements (i.e. minimum requirements for own funds and eligible liabilities).

The NLB Group's cost of funding is also impacted by the prevailing interest rate environment, particularly in the Eurozone. As described in "—Interest rates and net interest income" above, the ECB has continued to reduce interest rates substantially in the Eurozone from 2008 until the date of this Prospectus, resulting in a negative rate for deposit facilities in the Eurozone from June 2014 to the date of this Prospectus. ECB's negative interest rates may negatively affect the NLB Group's overall profitability due to legal restrictions which prohibit reducing customer deposit interest rates below 0 per cent., whereas negative interest rates are applied to the cash position with the Bank of Slovenia as well as with commercial banks.

Average interest rates on the NLB Group's customer deposits have generally declined to 0.3 per cent., 0.3 per cent., 0.5 per cent. and 0.7 per cent. for the six months ended 30 June 2018 and the years ended 31 December 2017, 2016 and 2015, respectively. In 2016, NLB introduced fees for the management of high monthly balances in the business accounts. Accordingly, new customer deposits have typically had lower interest rates than older customer deposits. In addition, over these same periods, the composition of the NLB Group's customer deposit base has changed, with demand deposits making up 77.3 per cent. and 74.2 per cent. of the NLB's Group's customer deposit base as at 30 June 2018 and 31 December 2017, respectively, as compared to 68.0 per cent. and 61.4 per cent. as at 31 December 2016 and 2015, respectively. This shift toward demand deposits instead of fixed-term deposits has been driven by the low interest rates currently available to retail customers on fixed-term deposits, and the NLB Group anticipates that this shift will continue in the short- to medium-term. The NLB Group's demand deposits have tended to be fairly stable in the periods under review in this Prospectus, in particular with a high stability of core deposits in all Core NLB Group Members. The NLB Group does not anticipate a substantial impact on its cost of funding due to this change in customer deposit composition in the current interest rate environment.

As at 30 June 2018, and 31 December 2017, 30 June 2017, 31 December 2016 and 31 December 2015, the NLB Group's net LTD was 70 per cent., 71 per cent., 73 per cent., 74 per cent. and 75 per cent., respectively.

This overall decrease in the NLB Group's loan-to-deposit ratio since 2015 reflects the growth in the NLB Group's customer deposits and decrease in loans to customers, largely driven by the NLB Group's focus on increasing overall liquidity and capitalisation and limits on its ability to increase its loan portfolio as part of the EC Commitments (as described below in "—*European Commission Commitments*"). The decrease in the NLB Group's LTD in 2016 was driven mostly by the increase of customer deposits. As the NLB Group believes that it currently has sufficient liquidity to support its operations and business strategy, it has not actively competed for additional customer deposits on the basis of interest rate. The NLB Group regularly evaluates and adjusts, if necessary, the interest rates that it offers on customer deposits based on its short- and long-term funding needs.

For further information on the risks associated with cost of funding, see "*2. Risk Factors—The NLB Group is subject to the risk that liquidity and sources of funding that it currently utilises may not always be readily available*" and "*2. Risk Factors—The NLB Group faces interest rate, liquidity, foreign exchange, credit, market, investment and operational risks that could adversely affect it should its risk management policies not succeed*".

Quality of credit portfolio

During 2016, 2017 and the first half of 2018, the NLB Group's focus was on improving the quality of the credit portfolio, with appropriate portfolio diversification in order to avoid large concentration and to further decrease the volume of NPEs (NPEs are disclosed in line with EBA reporting requirements (Finrep), while NPLs refers only to credit portfolio exposures) towards average EU banking levels. The efforts have so far resulted in moderate formation of new NPEs and sustainable cost of risk, even negative in 1H 2018, which are also partly related to the positive macroeconomic environment conditions. The NLB Group is active, financing existing and new creditworthy clients, with a focus on the quality of new placements leading to a diversified portfolio of customers. The current structure of the NLB Group's credit portfolio as of 30 June 2018 consists of 39.5 per cent. of retail clients, 19.4 per cent. of large corporate clients, 23.2 per cent. of SMEs and micro companies, with the remainder of the portfolio made up of other liquid assets.

The restructuring and work out capacities and approaches built in the past are partly still occupied with the legacy of NPEs, although increasingly focused on actively resolving new cases with a faster and more active approach to restructuring and work outs. The structured approach since 2014 and successful application of various restructuring tools resulted in numerous clients being rehabilitated and their matters were transferred from the workout unit to the front office. The NLB has made substantial progress on retail restructuring with a focus on systematic approach and use of standardised tools for restructuring exposures towards private individuals.

The reduction of NPLs' legacy on the NLB Group continued in 2016, 2017 and the first half of 2018. Precise targets and constant monitoring of realisations enabled the achievement of further substantial reduction in the volume of non performing portfolio. The existing non performing credit portfolio stock in the NLB Group was reduced from EUR 1,896 million as at 31 December 2015 to EUR 752 million as at 30 June 2018. As at 30 June 2018 and 31 December 2017, EUR 274 million and EUR 342 million, or 36.4 per cent. and 40.4 per cent., respectively, of NPLs have no delays. The NLB Group realised the 2016 NPL Sale in two tranches (corporate and retail), which resulted in a reduction in NPLs of EUR 233.3 million. The 2016 NPL Sale resulted in a one-off impact on the NLB Group's income statement for the year ended 31 December 2016 of EUR 29.9 million (composed of a loss of EUR 25.8 million from selling the NPLs below book value and a reduction of previously recognised income of EUR 4.1 million) and a simultaneous substantial reduction NPLs, with the share NPEs by EBA methodology consequently reduced from 14.3 per cent. to 5.8 per cent. between 2015 and 30 June 2018. The NLB Group aims to achieve an NPE ratio (based on EBA methodology) of 3-4 per cent. as part of the targets set by NLB's management as a part of the five-year plan for 2019-2023. NPL formation has been low in the first half of 2018, in 2017, 2016 and 2015 at EUR 28 million, EUR 60 million, EUR 128 million and EUR 123 million, respectively, which has driven the normalisation of loan impairments; in in first half of 2018 and in 2017 the release of loan impairments of EUR 12.4 million, EUR 41.1 million in 2016 and 2015 the impairment charges in the amount of EUR 36.0 million and EUR 55.5 million respectively. The vast majority of NPL formation is in connection with the legacy portfolio (i.e. corporate loans issued before 2014 and retail loans issued before 2015), as shown in the table below:

Segment	Gross NPL Formation[1]									
	For the six months ended 30 June				For the year ended 31 December					
	New		Legacy		New			Legacy		
	2018	2017	2018	2017	2017	2016	2015	2017	2016	2015
	(EUR millions)									
Core Republic of Slovenia										
Corporate banking in the Republic of Slovenia	1	–	–	5	–	–	1	6	60[2]	32
Retail banking in the Republic of Slovenia	1	1	9	9	2	2	1	18	16	8
Core foreign (international) markets	3	3	13	13	12	8	3	22	34	41
Non-Core	–	–	–	1	–	–	–	2	7	37
Total	**5**	**3**	**23**	**28**	**13**	**10**	**5**	**47**	**118**	**118**

(1) Figures rounded to the nearest 1 million, therefore totals may not be exactly equal to the sum of subtotals.
(2) Including EUR 56 million from borrowers with no delay.

An important strength of the NLB Group is its coverage ratio (impairments on the entire loan portfolio divided by gross non-performing loan portfolio), which remains at 73.7 per cent., as at 30 June 2018. Furthermore, the NLB Group's NPL coverage ratio (impairments on the NPL loan portfolio divided by gross non-performing loan portfolio) amounted to 64.0 per cent. as at 30 June 2018, which is significantly above the EU average published by EBA (46.3 per cent. for the first quarter of 2018) and which enables further reduction of NPEs without significant influence on the cost of risk in the coming years.

See "*2. Risk Factors—Delays or incomplete implementation of the NPL reduction strategy could have an adverse effect on the financial performance of the NLB Group*".

Impairment methodology

In the first half of 2018 and in 2017 NLB Group's loan impairments of EUR 12.4 million and EUR 41.1 million were released while for the years ended 31 December 2016 and 2015, the total allowance for impairment was EUR 36.0 million and EUR 55.5 million, respectively.

The NLB Group assesses specific and collective loan impairments at the end of each month for all exposures valued at amortized cost based on IFRS9, which came into force as of 1 January 2018. IFRS 9 requires the shift from an incurred loss model to an expected loss model that provides an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. The expected loss model requires the NLB Group to recognise not only credit losses that have already occurred, but also losses that are expected to occur in the future. An allowance for expected credit losses ("**ECL**") is required for all loans and other debt financial assets not held at FVTPL (fair value through Profit and loss), together with loan commitments and financial guarantee contracts.

The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset ("**LECL**"). When determining whether the risk of default increased significantly since initial recognition, the NLB Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the NLB Group's historical data, experience, and expert credit assessment and incorporation of forward-looking information.

Classification into stages

NLB Group prepared a methodology for ECL defining the criteria for classification into stages, transition criteria between stages, risk indicators calculation, and validation of models. The NLB Group classifies financial instruments into Stage 1, Stage 2, and Stage 3, based on the applied impairment methodology as described below:

- Stage 1 – performing portfolio: no significant increase of credit risk since initial recognition, NLB Group recognises an allowance based on 12-month period,
- Stage 2 – underperforming portfolio: significant increase in credit risk since initial recognition, NLB Group recognises an allowance for lifetime period, and

- Stage 3 – impaired portfolio: NLB Group recognises lifetime allowances for these financial assets. Definition of default is harmonised with EBA guidelines.

The proportion of the NLB Group's credit exposure per stage as at 30 June 2018 was as follows:

	Volume of Loans (EUR thousands)	**% of Loans**
Stage 1	7,729.3	85.4%
Stage 2	607.8	6.7%
Stage 3	702.8	7.8%

A significant increase in credit risk is assumed:

- when a credit rating significantly deteriorates at the reporting date, in comparison to the credit rating at initial recognition,

- when a financial asset has material delays over 30 days (days-past due are also included in the credit rating assessment),

- if NLB Group expects to grant the borrower forbearance, or

- if the facility is placed on the watch list.

ECL for Stage 1 financial assets is calculated based on 12-month probabilities of default ("**PD**") or shorter period PDs, if the maturity of the financial asset is shorter than 1 year. The 12-month PD already includes macroeconomic impact effect. Impairment losses in stage 1 are designed to reflect impairment losses that had been incurred in the performing portfolio, but have not been identified.

LECL for Stage 2 financial assets is calculated on the basis of lifetime PDs ("**LPD**") because their credit risk has increased significantly since their initial recognition. This calculation is also based on forward-looking assessment that takes into account number of economic scenarios in order to recognise the probability of losses associated with the predicted macro-economic forecasts.

For financial instruments in Stage 3 the same treatment is applied as for those considered to be credit impaired in accordance with IAS 39, which means that repayments from collateral after hair-cuts and possible regular repayments as well as the timing of these cash-flows are taken into account when estimating the required specific provisions. Exposures below the materiality threshold obtain collective provisions using PD of 100%. per cent. Financial instruments will be transferred out of Stage 3 if they no longer meet the criteria of credit-impaired after a probation period. Special treatment applies for purchased or originated credit-impaired financial instruments ("**POCI**"), where only the cumulative changes in the lifetime expected losses since initial recognition is recognised a loss allowance.

Net commission and fee income

Net commission and fee income represents a substantial component of the NLB Group's net income. Net commission and fee income amounted to EUR 79.6 million, EUR 155.4 million, EUR 145.7 million and EUR 147.1 million the six months ended 30 June 2018 and the years ended 31 December 2017, 2016 and 2015, respectively, accounting for 32.7 per cent., 31.8 per cent., 30.6 per cent. and 30.4 per cent., of the NLB Group's net operating income (defined as the sum of net interest income, net fee and commission income, dividend income, net income from financial transactions, net other income), respectively, for the same periods.

The key drivers of commission and fee income for the NLB Group are transaction-based commissions and fees associated with the use of payment transfer fees and fees related to bank accounts, as well as payment cards and merchant banking services by customers in the Republic of Slovenia and Southeastern Europe, fees related to custody and trust and asset management fees associated with the NLB Group's asset management activities. The stability of these revenue streams allows the NLB Group to diversify its income base, making the NLB Group less reliant on net interest margins for profitability. The NLB Group anticipates that commission and fee income will continue to be a significant part of its revenues going forward.

Prudential regulation

As a systemic bank, NLB is subject to the regulatory supervision of SSM, which is supervised by the JST of the ECB and the Bank of Slovenia. ECB regulation is followed by all the NLB Group members, and the NLB Group's subsidiaries operating outside the Republic of Slovenia are also compliant with rules set by the local regulators. Assessments are made and risks is managed across the NLB Group in a uniform fashion, taking into account the specifics of the markets in which individual NLB Group members are operating, in line with the NLB Group's Risk Management standards.

In particular, NLB is subject to prudential regulation in the Republic of Slovenia as well as the EU capital adequacy framework published by the Basel Committee, which is known as Basel III and has been implemented into EU law by a legislative package referred to as the "**CRD-IV Package**". Slovenian laws are aligned with EU laws regarding capital adequacy and prudential requirements for credit institutions. For more information regarding the prudential and other regulations to which the NLB Group is subject, see "*15. Regulation of the Banking Sector in the Republic of Slovenia*" and for related information on the risks associated with such regulation, "*2. Risk Factors—Risks Relating to the Regulatory Environment in which the NLB Group Operates*".

The SSM assesses NLB's standalone minimum capital adequacy requirement based on CRD-IV Package. NLB's total own funds (total capital) requirements in 2018 on a consolidated basis must be at least 13.375 per cent. (including a conservation buffer of 1.875 per cent) on a Basel III transitional basis and CRD-IV Package. NLB uses the standardised approach under Basel III for determining its credit and market risk weighting percentages and the basic indicator approach on the group level for the calculation of operational risk. The decline in the NLB Group's RWA from 2015 to 2016, resulted primarily from its regular business operations while in 2017 and first half of 2018 the RWA are gradually slowly increasing.

In 2016, the NLB Group has been included in the ECB stress testing exercise. The NLB Group has concluded the ECB's stress testing exercise in accordance with its requirements and the results were included in the SREP decision for the NLB Group. Also in 2018, the ECB stress test exercise for NLB Group is taking place.

Operating expenses

The NLB Group's operating expenses consist primarily of personnel expenses, but also include administrative expenses, depreciation and amortisation expenses, and restructuring costs in relation to increased expenses resulting from efforts undertaken in connection with the Restructuring Plan and Transformation Programme (see "*6. Business—History and Developments of the NLB Group*" *and* "*6. Business—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy*").

For the six months ended 30 June 2018 and the years ended 31 December 2017, 2016 and 2015, the NLB Group's operating expenses, including restructuring costs, were EUR 140.0 million, EUR 284.7 million, EUR 289.5 million and EUR 297.8 million, respectively. For the six months ended 30 June 2018 and the years ended 31 December 2017, 2016 and 2015, the NLB Group's cost-to-income ratio, including restructuring costs (calculated as operating expenses divided by operating income) was 57.6 per cent., 58.3 per cent., 60.9 per cent. and 61.6 per cent., respectively. In 2016, a special initiative was spearheaded, aiming at additional cost optimisation (the "**Non-FTE Cost Optimisation Project**"), targeting lower general and administrative expenses across the NLB Group, an ongoing strategic initiative of the NLB Group in the mid-term period. From 2012 to 2017, the NLB Group reduced employee costs, general administration costs and depreciation and amortisation by EUR 33 million, EUR 27 million and EUR 24 million, respectively. This coincided with a reduction in headcount by 16 per cent. from 7,208 to 6,029 employees, primarily driven by Slovenian Core and Non-core segments, and a reduction in branches by 17 per cent. from 423 to 350 from 2012 to 2017.

Measures to be implemented include group procurement initiatives, optimisation of spending, contract price negotiations with vendors, IT cost optimisation and other measures targeting improved cost efficiency.

Currency exchange rates

A portion of the NLB Group's assets and liabilities is denominated in foreign currencies. NLB's primary currency is EUR, which represents 82 per cent. of total assets, while the NLB Group's net open foreign exchange position amounts to less than 32 per cent. of capital under standardised approach as at 30 June 2018, due to inclusion of all positions in local currencies of foreign (non-euro) subsidiaries. These positions are of a structural nature and arise from regular banking activities of non-euro subsidiaries. Exchange differences from these positions have no impact on income statement effects as they present a translation risk and are recognised directly in equity. The transaction net open foreign exchange position of the NLB Group amounts to 1.3 per cent. of capital, thus reflecting the NLB Group's low tolerance for currency risk. 96 per cent. of NLB's gross loans were denominated in EUR as at 30 June 2018.

The NLB Group does not currently engage in any strategic currency exchange transactions for investment purposes. The NLB Group operates its main business activities in euro, while in case of our banking subsidiary, beside their domestic currencies, they partially operate in euro as well. Nonetheless, fluctuations in exchange rates between the EUR and other currencies could impact the NLB Group's financial results in a number of ways, including negative foreign exchange differences from open foreign exchange positions or financial assets revaluation and higher client indebtedness due to foreign exchange lending (as a result of depreciation of domestic currency against the EUR). Exchange rate fluctuations could affect the NLB Group's financial results and may also have other financial or accounting impacts on individual entities in the NLB Group.

The following tables provide a sensitivity analysis for NLB and the NLB Group for currency risk in the following scenarios:

NLB and NLB Group	**31 December**		
Scenarios	**2017**	**2016**	**2015**
USD	+/- 6%	+/- 8%	+/- 13%
CHF	+/- 5%	+/- 4%	+/- 4%
CZK	+/- 3%	+/- 1%	+/- 1%
RSD	+/- 2%	+/- 2%	+/- 3%
MKD	+/- 3%	+/- 1%	+/- 0.4%
JPY	+/- 7%	+/- 12.5%	+/- 10.5%
AUD	+/- 7%	+/- 11%	+/- 15%
HUF	+/- 3%	+/- 5%	+/- 7%
HRK	+/- 2%	+/- 2%	+/- 1%

	31 December 2017			
	NLB		**NLB Group**	
	Effects on income statement	**Effects on other comprehensive income**	**Effects on income statement**	**Effects on other comprehensive income**
	(EUR thousands)			
Appreciation of				
USD	92	–	221	–
CHF	26	–	(308)	211
CZK	1	–	2	–
RSD	8	–	7	2,125
MKD	64	–	47	5,412
Other	6	–	(72)	338
Effects on comprehensive income	**197**	–	**(103)**	**8,086**
Depreciation of				
USD	(82)	–	(196)	–
CHF	(24)	–	281	(192)
CZK	(1)	–	(2)	–
RSD	(8)	–	(7)	(2,046)
MKD	(60)	–	(44)	(5,048)
Other	(6)	–	70	(327)
Effects on comprehensive income	**(181)**	–	**102**	**(7,613)**
Total	**16**	–	**(1)**	**473**

	31 December 2016			
	NLB		NLB Group	
	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensiv e income
	(EUR thousands)			
Appreciation of				
USD	79	–	271	–
CHF	13	–	(205)	227
CZK	2	–	(8)	23
RSD	2	–	(3)	1,567
MKD	1	–	1	1,425
Other	70	–	(16)	251
Effects on comprehensive income	**167**	–	**40**	**3,493**
Depreciation of				
USD	(67)	–	(229)	–
CHF	(12)	–	187	(208)
CZK	(2)	–	7	(22)
RSD	(2)	–	2	(1,506)
MKD	(1)	–	(1)	(1,390)
Other	(60)	–	23	(243)
Effects on comprehensive income	**(144)**	**–**	**(11)**	**(3,369)**
Total	**23**	**–**	**29**	**124**

	31 December 2015			
	NLB		NLB Group	
	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensiv e income
	(EUR thousands)			
Appreciation of				
USD	45	10	(11)	–
CHF	(9)	–	(434)	384
CZK	9	–	(7)	38
RSD	1	–	(5)	2,391
MKD	1	–	1	782
Other	65	–	(27)	718
Effects on comprehensive income	**112**	**10**	**(483)**	**4,313**
Depreciation of				
USD	(35)	(8)	8	–
CHF	8	–	397	(351)
CZK	(9)	–	6	(37)
RSD	(1)	–	5	(2,235)
MKD	(1)	–	(1)	(771)
Other	(52)	–	35	(709)
Effects on comprehensive income	**(90)**	**(8)**	**450**	**(4,103)**
Total	**22**	**2**	**(33)**	**210**

See "*2. Risk Factors—The NLB Group faces interest rate, liquidity, foreign exchange, credit, market, investment and operational risks that could adversely affect it should its risk management policies not succeed*".

European Commission Commitments

As part of the Final EC Decision and the New Commitments, the assets and liabilities of NLB became subject to the New Commitments. The New Commitments place certain limits on the NLB Group's operations (see "*6. Business—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy*" and "*2. Risk Factors—Any failure by the NLB Group and/or the Republic of Slovenia to adhere to the New Commitments towards the EC could have a negative effect on the NLB Group*"). Different time limits are set for the fulfillment of different obligations under the New Commitments, and the last possible deadline for the fulfillment of or compliance with a particular obligation expires on 31 December 2019 (except if the shareholding of the Republic of Slovenia in NLB is not reduced to 25 per cent. plus one Share by that date, in which case the last possible deadline for the fulfilment of or compliance with a particular obligation expires when the shareholding of the

Republic of Slovenia in NLB is reduced to 25 per cent. plus one Share). The New Commitments may affect the NLB Group's profitability.

Slovenian tax regime

NLB has a large amount of tax loss carry forwards which can be carried forward to subsequent years without limitations. NLB recognised deferred tax assets accrued on the basis of temporary differences in an amount that is expected to be reversed in the foreseeable future (i.e. within five years based on future profit projections). Unrecognised deferred tax assets amount to EUR 277.3 million for the year ended 31 December 2017 (EUR 265.1 million for the year ended 31 December 2016) of which EUR 204.7 million (EUR 208.7 million for the year ended 31 December 2016) relates to unrecognised deferred tax assets from tax losses and EUR 72.7 million (EUR 56.5 million for the year ended 31 December 2016) to unrecognised deferred tax assets from impairments of non-strategic capital investments. For further information, see "*2. Risk Factors—The NLB Group is exposed to risks related to tax regulations*".

The Slovenian tax regime provides that 50 per cent. of the actual tax base can be decreased by tax loss carry forwards. NLB anticipates that it may use its tax loss carry forwards for longer than 10 years, provided that the carry forward period is not limited in the future by a change in legislation.

Regulatory levies

The NLB Group's other operating expenses are driven in part by regulatory levies imposed at the national and EU level.

On 15 July 2014, the Council adopted regulation EU/806/2014 establishing the SRM, which provides for the establishment of the SRB in each EU member state as the authority in charge of the implementation of the SRM and the establishment of the SRF financed by banks at the national level in each EU member state. The SRM is fully applicable from 1 January 2016 and pursuant to the Directive No 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms ("**BRRD**") will be built up over a period of eight years with 'ex-ante' contributions from the banking industry. Pursuant to regulation EU/806/2014, on 8 October 2014, the EC adopted the delegated regulation on the provisional system of instalments on contributions to cover the administrative expenditures of the SRB during the provisional period; on 19 December 2014, the Council adopted the proposal for a Council implementing act to calculate the contributions of banks to the SRF, which provides for annual contributions to the SRF to be made by banks calculated on the basis of their liabilities, excluding own funds and covered deposits and adjusted for risks. For the years ended 31 December 2015 and 2016, NLB's contribution to the SRF were EUR 4.3 million and EUR 3.9 million, and in 2017 and 2018 the contribution to SRF amounted to EUR 2.6 million and EUR 2.5 million, respectively. See "*2. Risk Factors—The NLB Group may be adversely impacted by Slovenian and/or European banking reform initiatives*".

The Bank of Slovenia established a special fund for bank resolution at the end of March 2015 pursuant to the ZOSRB-A. The fund is financed by contributions from commercial banks and savings banks established in the Republic of Slovenia. The fund is designed for financing the compulsory wind-up measures that can be imposed by the Bank of Slovenia. According to the aforementioned law, the fund will cease its operations on 31 December 2024. The target level for the fund, comprising bank assets that are managed separately from other assets by the Bank of Slovenia, is 2.3 per cent. of total guaranteed deposits at all banks in the Republic of Slovenia. Of this, the banks provided founding assets in the amount of 1.3 per cent. of total deposits covered by guarantee by paying in their founding contributions. At the same time the banks must be able at any time to provide cash to the fund in the amount of 1 per cent. of total deposits covered by guarantee, for which reason they are required to hold liquid assets in the form and in the manner set out by the Regulation on liquid investments for the purpose of the resolution fund (Official Gazette of the Republic of Slovenia, No. 6/15; corresponding SRB form). As of 30 June 2018, NLB had contributed EUR 44.5 million to the National Resolution Fund, which was 23.3 per cent. of total amount of cash contributions.

The law of the DGS, which entered into force on 12 April 2016 implemented the EU DGSD into Slovenian law. In July 2016, the Bank of Slovenia issued the "**Decision on Deposit Guarantee Scheme**", (Official Gazette, no. 49/2016) which prescribes the operative instructions regarding DGS operating and financing. In accordance with this law, the Bank of Slovenia manages the DGS system, which means that it has the powers to collect ex-ante (regular) and ex-post (extraordinary) contributions from the banks to the DGS fund, sets a target level and prescribes an annual management fee for the DGS fund. The target level for the DGS fund amounts to 0.8 per cent. of the sum of all covered deposits in the Republic of Slovenia, which represents EUR 128 million and must be provided by the 3 July 2024. The proportion of NLB covered deposits in the Slovenian system represents around 30 per cent. of this total amount, or EUR 38.4 million, for which NLB will be responsible for contributing by 3 July 2024. The NLB contribution to the regulatory DGS fund for 2016 in the form of an annual contribution was EUR 4.2 million 2016, for 2017 amounted to EUR 4.7 million and in 2018 EUR 5.7 million, while other NLB Group members also contributed to DGS in 2017 in the total amount of EUR 8.7 million.

8.2 Segment Information

The NLB Group's operating segments reflect the internal reporting methodology of the Management Board. For reporting purposes, the NLB Group is organised into the following operating segments:

Core segments

- Retail banking in the Republic of Slovenia, which includes transactions with individuals and asset management transactions as well as the results of the jointly-controlled company NLB Vita ("**NLB Vita**") and associated companies Skupna pokojninska družba, and Bankart.

- Corporate banking in the Republic of Slovenia, which includes banking with (i) key, mid and small corporate business, (ii) restructuring; and (iii) workout. The results of business conducted with stable companies and companies currently undergoing restructuring or in default (restructuring and workout) are monitored separately within the segment.

- Financial markets in Slovenia, which include treasury activities, asset and liabilities management ALM, trading in financial instruments, brokerage and custody of securities services, as well as financial advisory services.

- Core foreign markets, which includes the operations of the core NLB Group members in core markets (Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia and Serbia).

Non-core segment

- This segment includes the operations of non-core NLB Group members and the non-core part of NLB's portfolio.

For information regarding the results of operations of the NLB Group's segments, see "*—Results of Operations for the Years ended 31 December 2017, 2016 and 2015—Segment analysis for the Years Ended 31 December 2017, 2016 and 2015*".

8.3 Description of material investments

Description of recent material investments

In 2015, NLB started a program to renovate branches in accordance with new organizational standards for branches based on the concept of work, where NLB wants to approach the customer, including the introduction of automatic cash registers. In addition, with the introduction of these new standards have aided in the optimization of branch costs. In 2015, 16 branches were renovated, in 2016, 9 branches were further renovated, and another 16 branches in 2017. In total, 41 branches were renovated in from 2015 to 2017.

In addition to the renovation of our branches, NLB invested in a mobile ATM in 2016, which enabled it to be present at major events across Slovenia.

From 2016 to 2017, NLB intensively invested in the field of cash management, renovating the main vault with the associated infrastructure, investing in vehicles for money transportation and vault equipment, including counting machines and money-packing machines).

The NLB Group has also invested in the purchase of licenses and maintenance contracts for several software and hardware solutions by renowned global and regional providers of banking software and IT equipment.

A large portion of the NLB Group's NPLs in its portfolio are secured by real estate and as a result the NLB Group has set up a specialised team for repossessing, managing and selling real estate as a non-core element of its business. Management entities have been established in three relevant markets, Croatia, Serbia and Montenegro (REAM Zagreb, REAM Belgrade, REAM Podgorica) and in Serbia and BiH also separate SPVs, while in the Republic of Slovenia, PRO-REM (now in liquidation) has been carved out from NLB Leasing, Ljubljana, including assets, real-estate management and staff. In consideration of the status of this company, which is in liquidation, a new company was established in 2017 in Slovenia (S-REAM Ljubljana).

Cash flow from investing activities are presented in the Analysis of cash flow for the six months ended 30 June 2018 and 2017 and Analysis of cash flow for the years ended 31 December 2017, 2016 and 2015.

Description of ongoing material investments

As of the date of this Prospectus, NLB has 108 branches. In 2018, NLB plans to close 14 branches and another one branch in 2019.

In 2018, nine branches were renovated through September, and an additional four branches are planned to be renovated by the end of the year. The renovation of the remaining branches is planned until 2020.

In 2018, NLB signed a contract for the implementation of a comprehensive data management platform and hybrid integration platform and digital banking platforms.

8.4 Recent Developments

In March 2018, the NLB Group sold its subsidiary NLB Nov Penziski Fond, Skopje and realised profit in amount of EUR 12 million on NLB Group and EUR 9 million on NLB.

In April 2018, Fitch assigned NLB a BB long-term credit rating (outlook Rating watch evolving) that was affirmed in October 2018, in May 2018, S&P assigned NLB a long-term credit rating of BB+ (outlook Developing) and, in August 2018, Moody's assigned NLB a Ba1 long-term credit rating (outlook Positive).

In September 2018, NLB sold the shares representing 28.13% of Skupna share capital to Zavarovalnica Triglav d.d., as a result of which NLB is no longer a shareholder in Skupna. The sale generated a profit in the amount of EUR 2.5 million on NLB and a loss of EUR 0.5 million at the NLB Group level.

Current trading and prospects

The NLB Group's financial performance since 30 June 2018 has been generally consistent with prior periods.

The following table provides key line items for the NLB Group's unaudited and unreviewed statement of profit and loss for the nine months ended 30 September 2018 and 2017, as well as the unaudited statement of profit and loss for the six months ended 30 June 2018 and 2017:

	NLB Group			
	Nine months ended 30 September		Six months ended 30 June	
	2018	2017	2018	2017
	unaudited	*unaudited*	*unaudited*	*unaudited*
	(*EUR thousands*)			
Net interest income	231,865	228,693	151,679	148,567
Net fee and commission income	119,959	115,209	79,559	75,753
Other non-interest income	17,138	21,378	11,810	16,763
Total costs	(210,374)	(207,843)	(139,965)	(139,055)
Profit before impairments and provisions	**158,558**	**157,437**	**103,083**	**102,028**
Provisions for other liabilities and charges	3,383	8,361	3,378	5,229
Impairment charge	15,586	28,911	10,993	20,391
Share of profit from investments in associates and joint ventures (accounted for using the equity method)	4,105	3,738	2,538	2,736
PROFIT BEFORE INCOME TAX	**181,662**	**198,447**	**119,992**	**130,384**
Income tax	(16,625)	(7,170)	(10,603)	(8,093)
PROFIT FOR THE PERIOD	**165,037**	**191,277**	**109,389**	**122,291**
Attributable to owners of the parent	158,326	183,991	104,847	117,919
Attributable to non-controlling interests	6,711	7,286	4,542	4,372
Earnings per share/diluted earnings per share (in EUR per share)	7.92	9.20	5.24	5.90

For the nine months ended 30 September 2018, profit before impairment and provisions remained generally consistent with prior periods. The third quarter result in 2018 generally shows the same trend as the first six months results in 2018. Profit before income tax in 2017 was largely impacted by the release of pool provisions in the amount of EUR 21 million, principally in the corporate client segment. Income tax in 2017 includes a positive impact from a non-recurring event due to the utilization of previously tax non-deductible expenses from impairments of a subsidiary of NLB that was divested in 2017.

The financial information for the nine months ended 30 September 2018 presented above has not been audited or reviewed, and as a result is subject to change prior to the publication of the final results.

8.5 Results of Operations for the six months ended 30 June 2018 and 2017

Results of operations

The following table sets out the main components of NLB's and the NLB Group's statement of income for the periods indicated:

Income statement of NLB and the NLB Group

	NLB			NLB Group		
	Six months ended 30 June			Six months ended 30 June		
	2018	2017	% change 2018/17	2018	2017	% change 2018/17
	unaudited	*unaudited restated*		*unaudited*	*unaudited restated*	
	(EUR thousands)			*(EUR thousands)*		
Interest income, using the effective interest method	85,366	89,429	(5)%	171,503	174,867	(2)%
Interest income, not using the effective interest method	3,663	3,879	(6)%	3,625	3,879	(7)%
Interest and similar income	89,029	93,308	(5)%	175,128	178,746	(2)%
Interest and similar expense	(11,809)	(17,378)	(32)%	(23,449)	(30,179)	(22)%
Net interest income	**77,220**	**75,930**	2%	**151,679**	**148,567**	2%
Dividend income	49,680	42,082	18%	97	142	(32)%
Fee and commission income	65,276	62,459	5%	105,997	100,630	5%
Fee and commission expense	(14,992)	(13,905)	8%	(26,438)	(24,877)	6%
Net fee and commission income	**50,284**	**48,554**	4%	**79,559**	**75,753**	5%
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	282	11,420	(98)%	565	11,814	(95)%
Gains less losses from financial assets and liabilities held for trading	820	3,061	(73)%	3,918	5.680	(31)%
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	2,588	–	–	1,641	–	–
Gains less losses from financial assets and liabilities designated at fair value through profit or loss	(56)	–	–	(56)	18	–
Fair value adjustments in hedge accounting	257	(1,374)	–	257	(1,374)	–
Foreign exchange translation gains less losses	(2)	170	–	326	1,022	(68)%
Gains less losses on derecognition of assets other than held for sale	56	180	(69)%	1,370	1,470	(7)%
Other operating income	3,810	7,032	(46)%	8,310	12,890	(36)%
Other operating expenses	(10,360)	(8,830)	17%	(16,765)	(15,101)	11%
Administrative expenses	(77,103)	(77,034)	0%	(126,323)	(125,268)	1%
Depreciation and amortisation	(8,715)	(8,936)	(2)%	(13,642)	(13,787)	(1)%
Provisions for other liabilities and charges	628	4,382	(86)%	3,378	5,229	(35)%
Impairment charge	11,342	11,517	(2)%	10,993	20,391	(46)%
Share of profit from investments in associates and joint ventures (accounted for using the equity method)	–	–	–	2,538	2,736	(7)%

	NLB			NLB Group		
	Six months ended 30 June			Six months ended 30 June		
	2018	**2017**	**% change 2018/17**	**2018**	**2017**	**% change 2018/17**
	unaudited	*unaudited restated*		*unaudited*	*unaudited restated*	
	(EUR thousands)			*(EUR thousands)*		
Gains less losses from non-current assets held for sale	8,809	345	–	12,147	202	–
PROFIT BEFORE INCOME TAX	**109,540**	**108,499**	1%	**119,992**	**130,384**	(8)%
Income tax	(6,205)	(3,181)	95%	(10,603)	(8,093)	31%
PROFIT FOR THE PERIOD	**103,335**	**105,318**	(2)%	**109,389**	**122,291**	(11)%
Attributable to owners of the parent	103,335	105,318	(2)%	104,847	117,919	(11)%
Attributable to non-controlling interests	–	–	–	4,542	4,372	4%
Earnings per share/diluted earnings per share (in EUR per share)	5.17	5.27	(2)%	5.24	5.90	(11)%

In the Income Statement for the year ended 31 December 2017 line "Gains less losses from capital investments in subsidiaries, associates, and joint ventures" for NLB included dividends and effects from sale of investments in subsidiaries, associates, and joint ventures, and effects from the equity method from investments in associates and joint ventures. In the Income Statement for the six months ended 30 June 2018 and 2017 the dividends from subsidiaries, associates, and joint ventures for NLB are included in the line "Dividend income" and the effects from sale of investments in subsidiaries, associates, and joint ventures are included in the line "Net gain or losses from non-current assets held for sale".

The income statement for the years ended 31 December 2017, 2016 and 2015 and six months ended 30 June 2017 reflects the classification and measurement effects in accordance with IAS 39, whereas the financial statements for the six months ended 30 June 2018 reflects the classification and measurement effects in accordance with IFRS 9.

Due to implementation of IFRS 9 also IAS 1 changed and requires "interest revenue calculated using the effective interest method" to be shown separately. Change is reflected in the income statement for the period ended 30 June 2018 and 2017.

Presentation of effects at transition to IFRS 9 as of 1 January 2018

An adjustment arising from the adoption of IFRS 9 was recognised in retained earnings and other comprehensive income as at 1 January 2018. Due to the transition to IFRS 9 requirements, the NLB Group's Shareholder's equity increased by EUR 43.8 million and EUR 27.7 million for NLB. The Tier 1 capital ratio for NLB Group increased by 0.4 percentage points (as at 1 January 2018). The NLB Group will not apply transitional arrangements at the transition to the ECL model in accordance with Regulation (EU) 2017/2395. A summary of the effects at the transition to IFRS 9 as at 1 January 2018 are presented below:

	NLB Group	**NLB**
	(EUR thousands)	
Impact on equity due to transition to IFRS 9 – details		
Changed methodology for impairments and provisions	58,160	37,319
Remeasurement of loans to fair value	36	(687)
Recognition of modification loss	(1,049)	(1,049)
Reclassification and remeasurement of securities	(7,504)	(5,267)
Income tax on transition	(3,529)	(2,650)
Total impact	**46,114**	**27,666**
Minority share	(2,281)	–
Total impact attributable to the owners of the parent	**43,833**	**27,666**

The following table sets out KPIs for NLB and the NLB Group for the periods indicated:

	NLB		**NLB Group**	
	Six months ended 30 June			
	2018	**2017**	**2018**	**2017**
(a) Capital				
Capital adequacy ratio	26.2%	21.8%	18.7%	16.5%
Tier 1 ratio	26.2%	21.8%	18.7%	16.5%
CET1 ratio	26.2%	21.8%	18.7%	16.5%

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
(b) Asset quality				
Gross NPLs (in EUR million)	407	719	752	1,181
Coverage ratio of NPLs with impairments on all loans[(1)]	64.2%	71.2%	73.7%	76.1%
Net NPLs/net total loans[(2)]	3.2%	4.8%	3.2%	4.9%
(c) Profitability				
Interest margin[(3)]	1.9%	1.8%	2.5%	2.5%
Financial intermediation margin	4.2%	4.1%	3.9%	4.0%
Return on equity before tax (ROE b.t.)	15.2%	17.0%	13.5%	16.8%
Return on assets before tax (ROA b.t.)	2.5%	2.5%	1.9%	2.2%
Return on equity after tax (ROE a.t.)	14.3%	16.5%	12.1%	15.5%
Return on assets after tax (ROA a.t.)	2.3%	2.4%	1.7%	2.0%
(d) Business costs				
Operating costs / average total assets	1.9%	2.0%	2.3%	2.3%
Costs / net income (CIR)	46.8%	48.1%	57.6%	57.7%
(e) Liquidity				
Liquidity assets/short-term financial liabilities to non-banking sector[(4)]	—[(5)]	—[(5)]	—[(5)]	—[(5)]
Liquidity assets/average total assets[(6)]	—[(5)]	—[(5)]	—[(5)]	—[(5)]
(f) Other				
Market share of total assets	23.2%	23.6%	—[(5)]	—[(5)]
Loans to non-banking sector / deposits from non-banking sector (LTD)[(7)]	66.1	72.0	70.5	73.5
Cost of risk (bps)[(8)]	(52)	(66)	(46)	(80)

(1) Impairments on all loans / gross non-performing loans (Gross NPLs).
(2) (Gross non-performing loans – Impairments on NPLs) / (Gross total loans– impairments on all loans).
(3) Calculated on the basis interest bearing assets (Net interest income / Interest bearing assets).
(4) Unencumbered liquidity reserves / Financial liabilities to non-banking sector with remaining maturity less than 1 year.
(5) Data not available as of the date of this Prospectus.
(6) Unencumbered liquidity reserves / average total assets / balance sheet (for the year 2018 and 2017).
(7) Excluding BAMC bond.
(8) Credit impairments and provisions from income statement / Average net loans to customers.

Net interest income

Interest and similar income

The following table sets out the principal components of NLB's and the NLB Group's interest and similar income for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	(EUR thousands)			
Interest and similar income				
Interest income using effective interest method	85,366	89,429	171,503	174,867
Loans and advances to customers at amortised cost	68,149	–	148,298	–
Securities measured at amortised cost	9,377	–	11,338	–
Financial assets measured at fair value through other comprehensive income	6,304	–	10,167	–
Loans and advances to banks measured at amortised cost	1,265	–	1,147	–
Loans and advances to customers	–	72,150	–	151,439
Held-to-maturity financial assets	–	8,537	–	8,537
Available-for-sale financial assets	–	7,435	–	13,829
Loans and advances to banks and central banks	–	1,126	–	676
Deposits with banks and central banks	271	181	553	386
Interest income not using effective interest method	3,663	3,879	3,625	3,879
Non-trading financial assets mandatorily at fair value through profit or loss	815	–	777	–
Financial assets held for trading	2,848	3,879	2,848	3,879
Total	**89,029**	**93,308**	**175,128**	**178,746**

For the six months ended 30 June 2018, the NLB Group's total interest income in NLB Group decreased by 2.0 per cent., to EUR 175.1 million from EUR 178.7 million for the six months ended 30 June 2017. This decrease was primarily due to prevailing low levels of interest rates.

Interest and similar expenses

The following table sets out the principal components of NLB's and the NLB Group's interest and similar expenses for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	**2017**	**2018**	**2017**
	(EUR thousands)			
Interest and similar expenses				
Due to customers	3,110	4,907	12,924	15,482
Debt securities in issue	–	4,309	–	4,309
Financial liabilities held for trading	2,502	3,219	2,502	3,219
Derivatives - hedge accounting	4,021	2,680	4,021	2,680
Borrowings from banks and central banks	564	939	731	1,244
Subordinated liabilities	–	–	787	814
Borrowings from other customers	–	–	637	846
Deposits from banks and central banks	112	61	106	79
Other financial liabilities	1,500	1,263	1,741	1,506
Total	**11,809**	**17,378**	**23,449**	**30,179**
Net Interest	**77,220**	**75,930**	**151,679**	**148,567**

For the six months ended 30 June 2018, the NLB Group's total interest expense decreased by 22 per cent. to EUR 23.4 million from EUR 30.2 million for the six months ended 30 June 2017. This decrease was primarily due to the declining interest rates on long term deposits, the increasing share of demand deposits where cost of funding is lower compared to term deposits, maturity of NLB's bond in July 2017, in the amount of EUR 300 million (issued in July 2014) and some early repayments of NLB's liabilities in 2017. There are no additional prepayments expected as of the date of this Prospectus.

Net interest income and margin

The NLB Group's net interest income increased by 2.1 per cent. for the six months ended 30 June 2018 to EUR 151.7 million as compared to EUR 148.6 million for the six months ended 30 June 2017, supported by an increase of net interest income, due to higher volume of loans to individuals, and in the reduction of the interest expenses of NLB, attributed in large part to the maturity of the NLB's bond in July 2017.

The NLB Group's net interest margin increased to 2.51 per cent. for the six months ended 30 June 2018 from 2.47 per cent. for the six months ended 30 June 2017 primarily as a result of maturity of NLB's bond in July 2017, in the amount of EUR 300 million, and higher interest rates on new loans in Slovenia.

Net fee and commission income

Fees and commission income

The following table sets out certain information on NLB's and the NLB Group's fee and commission income for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	**2017**	**2018**	**2017**
	(EUR thousands)			
Fee and commission income				
Fee and commission income relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	20,424	18,830	31,980	28,848
Customer transaction accounts	17,222	16,147	23,184	21,189
Other fee and commission income				
Payments	13,805	14,138	27,683	27,921
Guarantees	3,438	3,651	5,281	5,544
Investment funds	2,389	2,437	8,198	8,282
Agency of insurance products	2,117	2,079	2,122	2,087
Investment banking	3,948	2,964	4,687	3,656
Other services	1,933	2,213	2,862	3,103
Total	**65,276**	**62,459**	**105,997**	**100,630**

Fee and commission expense

The following table sets out certain information on NLB's and the NLB Group's fee and commission expenses for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	(EUR thousands)			
Fee and commission expenses				
Fee and commission expenses relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	12,079	10,970	19,735	18,009
Other fee and commission expenses				
Insurance for holders of personal accounts and golden cards	607	638	725	928
Payments	395	411	2,803	2,675
Guarantees	23	89	115	121
Investment banking	1,319	1,235	1,944	1,765
Other services	569	562	1,116	1,379
Total	**14,992**	**13,905**	**26,438**	**24,877**
Net Fee and Commission Income	**50,284**	**48,554**	**79,559**	**75,753**

Net fee and commission income

For the six months ended 30 June 2018, the NLB Group's net fees and commissions were the main source of net non-interest income. For the six months ended 30 June 2018, net fees and commission totalled EUR 79.6 million (six months ended 30 June 2017: EUR 75.8 million). The increase is primarily a result of higher fees from customer transaction accounts, investment banking and cards and ATM operations.

Dividend income

The following table sets out certain information on NLB's and the NLB Group's dividend income for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	(EUR thousands)			
Financial assets measured at fair value through other comprehensive income	11	–	97	–
Investments in subsidiaries, associates and joint ventures	49,669	42,058	–	–
Available-for-sale financial assets	–	24	–	142
Total	**49,680**	**42,082**	**97**	**142**

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

The following table sets out certain information on NLB's and the NLB Group's gains less losses from financial assets and liabilities not classified at fair value through profit or loss for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	(EUR thousands)			
Financial assets measured at fair value through other comprehensive income				
- *gains*	412	–	441	–
- *losses*	(124)	–	(124)	–
Available-for-sale financial assets				
- *gains*	–	11,574	–	11,976
- losses	–	(154)	–	(162)
Financial liabilities measured at amortised cost				
- *gains*	–	–	254	–
- *losses*	–	–	–	–
Financial assets measured at amortised cost				
- *gains*	6	–	6	–
- *losses*	(12)	–	(12)	–
Loans and receivables				
- *gains*	–	–	–	–

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	(EUR thousands)			
- *losses*	–	–	–	–
TOTAL	**282**	**11,420**	**565**	**11,814**

For the six months ended 30 June 2018, the NLB Group's gains less losses from financial assets and liabilities not classified at fair value through profit or losses totalled EUR 0.56 million, compared to EUR 11.814 million for the six months ended 30 June 2017. The difference is primarily due to high realised gains from the available for sale financial assets in 2017, including the EUR 9.5 million profit from the sale of NLB's 3 per cent. participation in Petrol d.d.

Gains less losses from financial assets and liabilities held for trading

The following table sets out certain information on NLB's and the NLB Group's gains less losses from financial assets and liabilities held for trading for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	(EUR thousands)			
Equity instruments				
- *gains*	–	–	–	–
- *losses*	–	–	–	–
Foreign exchange trading				
- *gains*	5,592	5,698	9,293	9,422
- *losses*	(3,888)	(3,714)	(4,470)	(4,449)
Debt instruments				
- *gains*	356	655	356	655
- *losses*	(669)	(665)	(669)	(665)
Derivatives				
- *currency*	371	428	350	58
- *interest rate*	(600)	743	(600)	743
- *cross currency interest rate*	–	(141)	–	(141)
- *securities*	(342)	57	(342)	57
TOTAL	**820**	**3,061**	**3,918**	**5,680**

For the six months ended 30 June 2018, the NLB Group's gains less losses from financial assets and liabilities held for trading decreased by EUR 1.8 million to EUR 3.9 million from EUR 5.7 million for the six months ended 30 June 2017, primarily due to the negative valuation of interest rate derivatives in 2018.

The NLB Group uses currency derivatives to hedge its currency exposure and the effects of which should be taken into account in relation to the foreign exchange difference in the NLB Group's income statements.

Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss

The following table sets out certain information on NLB's and the NLB Group's gains less losses from non-trading financial assets mandatorily at fair value through profit or loss for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	(EUR thousands)			
Equity instruments				
- *gains*	571	–	742	–
- *losses*	(429)	–	(667)	–
Loans and advances to customers				
- *gains*	7,902	–	7,619	–
- losses	(5,456)	–	(6,053)	–
TOTAL	**2,588**	**–**	**1,641**	**–**

In the six months ended 30 June 2018, the NLB Group's gains less losses from non-trading financial assets mandatorily at fair value through profit or loss amount to EUR 1.6 million and represent mainly the changes in fair value of loans and advances, measured at fair value through profit and loss that did not pass the "payment of solely interests and principal" test required by IFRS 9.

Foreign exchange translation gains less losses

The following table sets out certain information on NLB's and the NLB Group's foreign exchange translation gains less losses for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	(EUR thousands)			
Financial assets and liabilities not classified as at fair value through profit or loss	76	306	404	1,147
Financial assets designated at fair value through profit or loss	(79)	(177)	(79)	(177)
Other	1	41	1	52
TOTAL	**(2)**	**170**	**326**	**1,022**

For the six months ended 30 June 2018, the NLB Group's foreign exchange translation gains less losses decreased by EUR 0.7 million to EUR 0.33 million from EUR 1.0 million for the six months ended 30 June 2017, primarily due to favourable effects from financial assets and liabilities not classified as at fair value through profit or loss in 2017.

Other operating income

The following table sets out certain information on NLB's and the NLB Group's other operating income for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	(EUR thousands)			
Income from non-banking services	2,722	4,078	4,578	6,112
Rental income from investment property	246	185	2,086	2,891
Other	842	2,769	1,646	3,887
TOTAL	**3,810**	**7,032**	**8,310**	**12,890**

For the six months ended 30 June 2018, the NLB Group's other operating income decreased by EUR 4.6 million to EUR 8.3 million from EUR 12.9 million for the six months ended 30 June 2017, including lower rental income from investment property in 2018 and income from a court settlement with Zavarovalnica Triglav in the amount of EUR 1.2 million in 2017.

Other operating expenses

The following table sets out certain information on NLB's and the NLB Group's other operating expenses for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	(EUR thousands)			
Deposit guarantee	5,746	4,731	9,699	9,166
Single Resolution Fund	2,506	2,590	2,506	2,590
Other taxes and compulsory public levies	486	574	1,552	1,450
Expenses related to issued service guarantees	168	183	168	183
Membership fees and similar fees	150	322	372	522
Other	1,304	430	2,468	1,190
TOTAL	**10,360**	**8,830**	**16,765**	**15,101**

Administrative expenses

The following table sets out certain information on NLB's and the NLB Group's administrative expenses for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	(EUR thousands)			
Employee costs				

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	(EUR thousands)			
- gross salaries, compensations and other short-term benefits	44,268	44,342	71,457	70,161
- defined contribution scheme	3,210	3,196	4,961	5,497
- social security contributions	2,630	2,618	3,966	4,409
- defined benefit expenses	318	285	496	347
- *post-employment benefits*	254	224	399	255
- other employee benefits	64	61	97	92
TOTAL	**50,426**	**50,441**	**80,880**	**80,414**
Other general and administrative expenses				
- material	1,314	1,533	2,709	2,960
- services	6,708	7,413	11,728	13,075
- *intellectual services*	1,978	2,925	3,920	5,303
- *cost of supervision*	827	486	1,545	997
- *cost of other services*	3,903	4,002	6,263	6,775
- business travel	208	215	634	584
- marketing	2,752	1,306	4,106	2,650
- buildings and equipment	6,999	6,767	13,502	12,671
- *electricity*	1,172	1,080	2,189	2,115
- *rents and leases*	642	632	3,139	3,012
- *maintenance costs*	2,403	1,975	3,190	2,820
- *costs of security*	763	702	1,883	1,467
- *insurance for tangible assets*	586	632	1,059	1,146
- *other costs related to buildings and equipment*	1,433	1,746	2,042	2,111
- technology	4,961	5,614	7,295	7,666
- *maintenance of software and hardware*	2,643	2,552	4,182	3,861
- *licences*	1,024	1,573	1,241	1,746
- *data assets and subscription costs*	717	651	960	927
- *other technology costs*	577	838	912	1,132
- communications	3,062	3,083	4,413	4,313
postal services	2,073	1,957	2,304	2,180
telecommunication and internet	388	495	1,104	1,137
other communication costs	601	631	1,005	996
-other general and administrative costs	673	662	1,056	935
TOTAL	**26,677**	**26,593**	**45,443**	**44,854**
TOTAL ADMINISTRATIVE EXPENSES	**77,103**	**77,034**	**126,323**	**125,268**

For the six months ended 30 June 2018, the NLB Group's administrative expenses increased by 1 per cent. to EUR 126.3 million from EUR 125.3 million for the six months ended 30 June 2017. A major growth was recorded in accelerated marketing costs, but off-set by the decrease of the restructuring costs (EUR 1.3 million) compared to year 2017.

Depreciation and amortisation

The following table sets out certain information on NLB's and the NLB Group's depreciation and amortisation amounts for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	(EUR thousands)			
Amortisation of intangible assets	4,618	4,717	8,197	8,422
Depreciation of property and equipment	4,097	4,219	5,445	5,365
TOTAL	**8,715**	**8,936**	**13,642**	**13,787**

Provisions for other liabilities and charges

The following table sets out certain information on NLB's and the NLB Group's provisions for other liabilities and charges for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	(EUR thousands)			
Guarantees and commitments	(654)	(4,447)	(3,923)	(5,995)
Restructuring provisions	–	–	(6)	17
Provisions for premiums from National Housing Savings Scheme	–	–	–	–
Provisions for legal issues	26	65	551	717
Other provisions	–	–	–	32
TOTAL	**(628)**	**(4,382)**	**(3,378)**	**(5,229)**

For the six months ended 30 June 2018, the NLB Group's provisions for other liabilities and charges decreased by EUR 1.9 million to EUR 3.4 million from EUR 5.3 million for the six months ended 30 June 2017, primarily due to lower provisions for credit losses on issued guarantees and commitments for clients.

Impairment charge

The following table sets out certain information on NLB's and the NLB Group's impairment charge for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	(EUR thousands)			
Impairment of financial assets				
Cash balances at central banks, and other demand deposits at banks	9	–	(12)	–
Loans and advances to banks measured at amortised cost	(226)	–	(385)	–
Loans and advances to customers measured at amortised cost	(10,538)	–	(12,071)	–
Debt securities measured at fair value through other comprehensive income	302	–	559	–
Debt securities measured at amortised cost	(78)	–	279	–
Other financial assets measured at amortised cost	(277)	–	(52)	–
Available-for-sale financial assets	–	–	–	11
Held-to-maturity financial assets	–	(11)	–	(11)
Loans and advances to banks	–	–	–	(129)
Loans and advances to customers	–	(11,991)	–	(22,137)
Other financial assets	–	407	–	279
TOTAL	**(10,808)**	**(11,595)**	**(11,682)**	**(21,987)**
Impairment of investments in subsidiaries, associates and joint ventures				
Investments in subsidiaries	(376)	75	–	–
Investments in associates and joint ventures	–	–	–	–
TOTAL	**(376)**	**75**	**–**	**–**
Impairment of other assets				
Property and equipment	–	–	120	–
Intangible assets	–	–	–	–
Other assets	(158)	3	569	1,596
TOTAL	**(158)**	**3**	**689**	**1,596**
TOTAL IMPAIRMENT	**(11,342)**	**(11,517)**	**(10,993)**	**(20,391)**

For the six months ended 30 June 2018, the NLB Group's net reversals of impairment charge amount to EUR 11.0 million, compared to EUR 20.4 million net reversals for the six months ended 30 June 2017. The positive effect in 2018 is mainly a result of a successful restructuring of some major exposures and the recovery of non-performing loans. In addition, it includes the effect of re-calculated risk parameters in 2018 in the amount of EUR 1.6 million. Effect for recalculated risk parameters in 2017 amounts to EUR 21 million reversals, relating to positive macroeconomic trends which contributed to lower percentages of pool provisions, principally in the corporate client segment. (see "*—Key Factors Affecting the NLB Group's Financial Condition and Results of Operations—Impairment methodology*"). The volume of the impact in respective years are not directly comparable due to the change of the models for estimating the risk parameters and increased data quality with the implementation of the IFRS 9. In addition, IFRS 9 calculation based on one year or lifetime ECL varies significantly from the previous methodology.

Gains less losses from non-current assets held for sale

The following table sets out certain information on NLB's and the NLB Group's gains less losses from non-current assets held for sale for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	(EUR thousands)			
Gains less losses on derecognition of subsidiaries	8,840	159	12,178	(2)
Gains less losses from property and equipment	(31)	186	(31)	204
TOTAL	**8,809**	**345**	**12,147**	**202**

Income tax

The following table sets out certain information on NLB's and the NLB Group's income tax for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	(EUR thousands)			
Current income tax	6,094	3,043	11,167	7,980
Deferred tax	111	138	(564)	113
TOTAL	**6,205**	**3,181**	**10,603**	**8,093**

For the six months ended 30 June 2018, the NLB Group's income tax increased by 31 per cent., to EUR 10.6 million from EUR 8.1 million for the six months ended 30 June 2017, primarily due to higher current income tax.

8.6 Segment analysis for the six months ended 30 June 2018 and 2017

For the six months ended 30 June 2018, Corporate Banking in the Republic of Slovenia, Retail Banking in the Republic of Slovenia, Financial Markets in the Republic of Slovenia and Foreign Strategic Markets (which comprise its Core operations) contributed 15.4 per cent., 28.8 per cent., 9.2 per cent. and 46.6 per cent., respectively, of the NLB Group's total Core net income. This corresponded to a contribution to the NLB Group's Core profit-before-tax of 21.9 per cent., 14.9 per cent., 13.6 per cent. and 52.3 per cent. from Corporate Banking in the Republic of Slovenia, Retail Banking in the Republic of Slovenia, Financial Markets in the Republic of Slovenia and Foreign Strategic Markets, respectively, for the six months ended 30 June 2018.

The following table sets out information on the financial results of the NLB Group's segments for the six months ended 30 June 2018 and 2017:

Segmental analysis

(a) Business segments

Six months ended 30 June 2018

NLB Group	Corporate banking Slovenia	Retail banking Slovenia	Financial markets Slovenia	Foreign strategic markets	Non-strategic markets and activities	Other activities	Unallocated	Total
Total net income	35,990	67,515	21,602	109,162	9,578	143		243,990
Net income from external customers	38,029	69,782	15,940	109,645	9,535	117	0	243,048
Intersegment net income	(2,039)	(2,267)	5,662	(483)	43	26	0	942
Net interest income	20,167	36,565	17,729	71,931	5,336	(49)	0	151,679
Net interest income from external customers	22,206	39,011	12,114	72,747	5,676	(75)	0	151,679
Intersegment net interest income	(2,039)	(2,446)	5,615	(816)	(340)	26	0	0
Administrative expenses	(19,295)	(46,049)	(5,752)	(44,518)	(8,650)	(3,000)	0	(127,265)
Depreciation and amortization	(2,134)	(5,111)	(563)	(4,614)	(761)	(459)	0	(13,642)
Reportable segment profit/(loss) before impairment and provision charge	14,561	16,355	15,287	60,029	167	(3,317)	0	103,083
Gains less losses from investments in associates and joint ventures (equity method)	0	2,538	0	0	0	0		2,538
Impairment and provisions charge	9,970	(2,218)	(30)	(1,459)	7,804	303	0	14,371
Profit/(loss) before Income tax	24,531	16,676	15,257	58,570	7,972	(3,013)	0	119,992
Owners of the parent	24,531	16,676	15,257	54,028	7,972	(3,013)	0	115,450
Non-controlling interests	0	0	0	4,542	0	0	0	4,542
Income tax[(1)]					0		(10,603)	(10,603)
Profit/(loss) for the period	0	0	0	0	0	0	0	104,847
Reportable segment assets	2,018,808	2,265,253	3,684,628	3,978,148	344,950	182,068		12,473,855
Investments in associates and joint ventures	0	42,331	0	0	0	0		42,331
Reportable segment liabilities	1,127,141	5,666,461	455,131	3,316,081	17,359	99,431	0	10,681,605

(1) Tax is not distributed on a segmented basis.

Six months ended 30 June 2017

NLB Group	Corporate banking Slovenia	Retail banking Slovenia	Financial markets Slovenia	Foreign strategic markets	Non-strategic markets and activities	Other activities	Unallocated	Total
Total net income	35,257	66,747	19,059	93,238	24,839	3,361		242,502
Net income from external customers	37,923	66,954	13,932	94,362	24,415	3,497	0	241,083
Intersegment net income	(2,667)	(207)	5,127	(1,124)	424	(135)	0	1,419
Net interest income	20,314	35,144	16,036	70,258	6,987	(172)	0	148,567
Net interest income from external customers	22,981	35,490	10,908	71,249	7,982	(42)	0	148,567
Intersegment net interest income	(2,667)	(346)	5,128	(991)	(995)	(130)	0	0
Administrative expenses	(19,448)	(44,340)	(5,519)	(42,504)	(10,357)	(4,519)	0	(126,687)
Depreciation and amortization	(2,167)	(5,104)	(507)	(4,436)	(826)	(747)	0	(13,787)
Reportable segment profit/(loss) before impairment and provision charge	13,642	17,303	13,033	46,298	13,656	(1,904)	0	102,028
Gains less losses from investments in subsidiaries, associates and joint ventures	0	2,736	0	0	0	0		2,736
Impairment and provisions charge	4,574	(83)	(42)	12,497	8,651	23	0	25,620
Profit/(loss) before Income tax	18,216	19,956	12,992	58,795	22,307	(1,882)	0	130,384
Owners of the parent	18,216	19,956	12,992	54,423	22,307	(1,882)	0	126,012
Non-controlling interests	0	0	0	4,372	0	0	0	4,372
Income tax					0		(8,093)	(8,093)
Profit/(loss) for the period	0	0	0	0	0	0	0	117,919
Reportable segment assets	2,055,734	2,204,045	3,508,467	3,851,214	391,308	183,212		12,193,980
Investments in associates and joint ventures	0	43,765	0	0	0	0		43,765
Reportable segment liabilities	1,122,742	5,542,818	501,609	3,264,781	19,287	98,346	0	10,549,582
Additions to non-current assets	5,357	12,768	778	8,722	1,357	1,627		30,609

(1) Tax is not distributed on a segmented basis.

Retail banking in the Republic of Slovenia

The following table sets out information on the financial results of the retail banking in the Republic of Slovenia segment for the six months ended 30 June 2018 and 2017:

	Six months ended 30 June		
	2018	2017	% change 2018/17
	(EUR thousands)		
Net interest income	36,565	35,144	4%
Net non-interest income	30,951	31,764	(3)%
Total net operating income	67,515	66,908	1%
Total costs	(51,160)	(49,444)	(3)%
Result before impairments and provisions	16,355	17,464	(6)%
Impairments and provisions	(2,218)	(83)	(2,565)%
Net gains from investments in subsidiaries, associates, and joint ventures	2,538	2,575	(1)%
Result before tax	16,676	19,956	(16)%

	Six months ended 30 June 2018	Year ended 31 December 2017	% change 2018/17
	(EUR thousands)		
Segment assets	2,307,584	2,247,810	3%
Segment liabilities	5,666,461	5,542,818	2%

For the six months ended 30 June 2018, the retail banking in the Republic of Slovenia segment result before tax decreased by 16 per cent. to EUR 16.7 million from EUR 20.0 million for the six months ended 30 June 2017. The results in the first half of 2018 are lower primarily due to higher costs and additional impairments and provisions. Costs were reduced by EUR 1.7 million. Compared to the first half of 2017, net interest income increased by 4 per cent., primarily due to growth in retail loan portfolio and slow growth in interest rates on new loans.

Corporate banking in the Republic of Slovenia

The following table sets out information on the financial results of the corporate banking in the Republic of Slovenia segment for the six months ended 30 June 2018 and 2017:

	Six months ended 30 June		
	2018	2017	% change 2018/17
	(EUR thousands)		
Net interest income	20,167	20,314	(1)%
Net non-interest income	15,823	14,943	6%
Total net operating income	35,990	35,257	2%
Total costs	(21,429)	(21,615)	1%
Result before impairments and provisions	14,561	13,642	7%
Impairments and provisions	9,970	4,574	118%
Result before tax	24,531	18,216	35%

	Six months ended 30 June 2018	Year ended 31 December 2017	% change 2018/17
	(EUR thousands)		
Segment assets	2,018,808	2,055,734	(2)%
Segment liabilities	1,127,141	1,122,742	0%

For the six months ended 30 June 2018, the corporate banking in the Republic of Slovenia segment result before tax increased by EUR 6.3 million to EUR 24.5 million from EUR 18.2 million for the six months ended 30 June 2017, primarily due to higher release of impairments and provisions. Net operating income and costs remained stable.

The result of key business activities within the Corporate segment in the Republic of Slovenia was positive in the amount of EUR 5.8 million in the first half of 2018.

Financial markets in the Republic of Slovenia

The following table sets out information on the financial results of the financial markets in the Republic of Slovenia segment for the six months ended 30 June 2018 and 2017:

	Six months ended 30 June		
	2018	2017	% change 2018/17
	(EUR thousands)		
Net interest income	17,729	16,036	11%
Net non-interest income	3,873	2,864	35%
Total net operating income	21,602	18,900	14%
Total costs	(6,315)	(6,026)	(5)%
Result before impairments and provisions	15,287	12,874	19%
Impairments and provisions	(30)	(42)	27%
Result before tax	15,257	12,833	19%

	Six months ended 30 June 2018	Year ended 31 December 2017	% change 2018/17
	(EUR thousands)		
Segment assets	3,684,628	3,508,467	5%
Segment liabilities	455,131	501,609	(9)%

For the six months ended 30 June 2018, the financial markets in the Republic of Slovenia segment result before tax increased by 19 per cent. to EUR 15.3 million from EUR 12.8 million for the six months ended 30 June 2017. Higher net interest income was due to lower costs of refinancing and negative but higher net non-interest income was a consequence of positive one-off effects from divestments of debt securities in the six months ended 30 June 2017.

Core foreign markets

The following table sets out information on the financial results of the core foreign markets segment for the six months ended 30 June 2018 and 2017:

	Six months ended 30 June		
	2018	2017	% change 2018/17
	(EUR thousands)		
Net interest income	71,931	70,258	2%
Net non-interest income	37,231	22,980	62%
Total net operating income	109,162	93,238	17%
Total costs	(49,133)	(46,940)	(5)%
Result before impairments and provisions	60,029	46,298	30%
Impairments and provisions	(1,459)	12,497	(112)%
Result before tax	58,570	58,795	0%
of which Result of minority shareholders	4,542	4,372	4%

	Six months ended 30 June 2018	Year ended 31 December 2017	% change 2018/17
	(EUR thousands)		
Segment assets	3,978,148	3,851,214	3%
Segment liabilities	3,316,081	3,264,781	2%

For the six months ended 30 June 2018, the core foreign markets segment result before tax remained stable at EUR 59 million, including non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje in the positive amount of EUR 12.2 million. On the other hand, in the six months ended 30 June 2017 the profit was positively affected with release of impairments and provisions in the amount of EUR

12.5 million. Growth of 5 per cent. was recorded in loan balances and growth of 2 per cent. in deposits volume compared with the 31 December 2017.

Non-core markets and activities

The following table sets out information on the financial results of the non-core markets and activities segment for the six months ended 30 June 2018 and 2017:

	Six months ended 30 June		
	2018	2017	% change 2018/17
	(EUR thousands)		
Net interest income	5,336	6,987	(24)%
Net non-interest income	4,242	17,852	(76)%
Total net operating income	9,578	24,839	(61)%
Total costs	(9,411)	(11,183)	16%
Result before impairments and provisions	167	13,656	(99)%
Impairments and provisions	7,804	8,651	(10)%
Result before tax	7,972	22,307	(64)%

	Six months ended 30 June 2018	Year ended 31 December 2017	% change 2018/17
	(EUR thousands)		
Segment assets	344,950	391,308	(12)%
Segment liabilities	17,359	19,287	(10)%

For the six months ended 30 June 2018, the non-core markets and activities segment result before tax decreased to EUR 8.0 million from EUR 22.3 million, due to non-recurring income impacting the six months ended 30 June 2017 result. The volume of non-strategic segment operations has been decreasing, due to the continued divestment process.

8.7 Results of Operations for the Years ended 31 December 2017, 2016 and 2015

Results of operations

The following table sets out the main components of NLB's and the NLB Group's statement of income for the years indicated:

Income statement of NLB and the NLB Group

	NLB					NLB Group				
	2017	2016	2015	% change 2017/16	% change 2016/15	2017	2016	2015	% change 2017/16	% change 2016/15
	audited	*audited*	*audited*			*audited*	*audited*	*audited*		
	(EUR thousands)					*(EUR thousands)*				
Interest and similar income	188,255	215,550	269,000	(13)%	(20)%	363,733	388,494	443,203	(6)%	(12)%
Interest and similar expense	(29,466)	(40,672)	(60,993)	(28)%	(33)%	(54,417)	(71,189)	(103,001)	(24)%	(31)%
Net interest income	**158,789**	**174,878**	**208,007**	**(9)%**	**(16)%**	**309,316**	**317,305**	**340,202**	**(3)%**	**(7)%**
Dividend income	50	1,144	1,264	(96)%	(9)%	179	1,238	1,346	(86)%	(8)%
Fee and commission income	127,749	123,014	128,896	4%	(5)%	207,908	194,371	195,710	7%	(1)%
Fee and commission expense	(29,240)	(27,728)	(30,828)	5%	(10)%	(52,490)	(48,706)	(48,640)	8%	0%
Net fee and commission income	**98,509**	**95,286**	**98,068**	**3%**	**(3)%**	**155,418**	**145,665**	**147,070**	**7%**	**(1)%**
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	11,711	14,639	10,685	(20)%	37%	12,242	14,788	10,659	(17)%	39%
Gains less losses from financial assets and liabilities held for trading	7,065	336	(25,304)	–	–	13,067	6,921	(18,877)	89%	–
Gains less losses from financial assets and liabilities designated at fair value through profit or loss	–	–	–	–	–	75	235	(3)	(68)%	–
Fair value adjustments in hedge accounting	(813)	(2,437)	231	(67)%	–	(813)	(3,239)	231	(75)%	–
Foreign exchange translation gains less losses	(1,007)	738	23,251	–	(97)%	2,149	1,158	11,831	86%	(90)%
Gains less losses on derecognition of assets other than held for sale	249	252	(450)	(1)%	–	1,748	867	(624)	102%	–
Other operating income	12,172	12,267	13,234	(1)%	(7)%	26,424	24,442	27,329	8%	(11)%
Other operating expenses	(15,249)	(13,176)	(15,133)	16%	(13)%	(29,411)	(33,204)	(35,083)	(11)%	(5)%
Administrative expenses	(157,877)	(162,083)	(165,813)	(3)%	(2)%	(256,907)	(261,160)	(265,984)	(2)%	(2)%
Depreciation and amortisation	(18,010)	(18,880)	(21,410)	(5)%	(12)%	(27,802)	(28,345)	(31,856)	(2)%	(11)%
Provisions for other liabilities and charges	(7,344)	482	5,153	–	(91)%	(5,251)	(4,357)	696	21%	–

	NLB					NLB Group				
	2017	2016	2015	% change 2017/16	% change 2016/15	2017	2016	2015	% change 2017/16	% change 2016/15
	audited	*audited*	*audited*			*audited*	*audited*	*audited*		
	(EUR thousands)					*(EUR thousands)*				
Impairment charge	38,008	(64,433)	(93,114)	–	(31)%	34,781	(56,288)	(83,801)	–	(33)%
Gains less losses from investments in associates and joint ventures (accounted for using the equity method)	58,171	28,915	13,747	–	–	3,852	5,006	4,312	(23)%	16%
Gains less losses from non-current assets held for sale	451	(220)	(567)	–	(61)%	(1,756)	(432)	(690)	–	(37)%
PROFIT BEFORE INCOME TAX	**184,875**	**67,708**	**51,849**	**–**	**31%**	**237,311**	**130,600**	**106,758**	**82%**	**22%**
Income tax	4,219	(3,925)	(7,968)	–	(51)%	(3,997)	(14,975)	(11,380)	(73)%	32%
PROFIT FOR THE YEAR	**189,094**	**63,783**	**43,881**	**–**	**45%**	**233,314**	**115,625**	**95,378**	**–**	**21%**
Attributable to owners of the parent	189,094	63,783	43,881	–	45%	225,069	110,017	91,914	–	20%
Attributable to non-controlling interests	–	–	–	–	–	8,245	5,608	3,464	47%	62%
Earnings per share/diluted earnings per share (in EUR per share)	9.5	3.2	2.2	–	45%	11.3	5.5	4.6	–	20%

(1) Profit before income tax for the NLB Group for the year ended 31 December 2016 would have been EUR 160.5 million when adjusted for the impact of the 2016 NPL Sale as a result of an increase of EUR 29.9 million in additional impairments and provisions.

The following table sets out KPIs for NLB and the NLB Group for the years indicated:

	NLB			NLB Group		
	2017	2016	2015	2017	2016	2015
(a) Capital						
Capital adequacy ratio	21.8%	23.4%	22.6%	15.9%	17.0%	16.2%
Tier 1 ratio	21.8%	23.4%	22.6%	15.9%	17.0%	16.2%
CET1 ratio	21.8%	23.4%	22.6%	15.9%	17.0%	16.2%
(b) Asset quality						
Gross NPLs (in EUR million)	478	753	1,101	844	1,299	1,896
Coverage ratio of NPLs with impairments on all loans[(1)]	67.8%	71.7%	67.9%	77.5%	76.1%	72.2%
Net NPLs/net total loans[(2)]	3.8%	5.1%	7.6%	3.8%	5.4%	8.3%
(c) Profitability						
Interest margin[(3)]	1.9%	2.0%	2.3%	2.6%	2.6%	2.8%
Financial intermediation margin	3.8%	3.6%	3.8%	4.1%	4.0%	4.1%
Return on equity before tax (ROE b.t.)	14.1%	5.3%	4.2%	14.8%	8.6%	7.6%
Return on assets before tax (ROA b.t.)	2.1%	0.8%	0.6%	2.0%	1.1%	0.9%
Return on equity after tax (ROE a.t.)	14.4%	5.0%	3.6%	14.4%	7.4%	6.6%
Return on assets after tax (ROA a.t.)	2.2%	0.7%	0.5%	1.9%	0.9%	0.8%
(d) Business costs						
Operating costs / average total assets	2.0%	2.1%	2.2%	2.4%	2.4%	2.5%
Costs / net income (CIR)	53.3%	57.9%	57.2%	58.3%	60.9%	61.6%
(e) Liquidity						
Liquidity assets/short-term financial liabilities to non-banking sector[(4)]	61.6%	63.3%	61.0%	54.5%	55.7%	57.3%
Liquidity assets/average total assets[(5)]	46.6%	45.6%	41.4%	41.4%	40.7%	39.3%
(f) Other						
Market share of total assets	23.0%	23.7%	23.3%	–	–	–
Loans to non-banking sector / deposits from non-banking sector (LTD)[(6)]	68.6%	74.5%	78.0%	70.8%	74.1%	75.1%
Cost of risk (bps)[(7)]	(86)	32	57	(62)	38	75

(1) Impairments on all loans / gross non-performing loans (Gross NPLs).
(2) (Gross non-performing loans – Impairments on NPLs) / (Gross total loans– impairments on all loans).
(3) Calculated on the basis of interest bearing assets (Net interest income / Interest bearing assets).
(4) Unencumbered liquidity reserves / Financial liabilities to non-banking sector with remaining maturity less than 1 year.
(5) Unencumbered liquidity reserves / average total assets / balance sheet (for the year 2018 and 2017).
(6) Excluding BAMC bond.
(7) Credit impairments and provisions from income statement / Average net loans to customers.

Net interest income

Interest and similar income

The following table sets out the principal components of NLB's and the NLB Group's interest and similar income for the years indicated:

	NLB			NLB Group		
	2017	2016	2015	2017	2016	2015
	(EUR thousands)					
Interest and similar income						
Loans and advances to customers	148,229	166,718	211,250	311,581	327,055	372,604
Held-to-maturity financial assets	16,446	17,997	21,656	16,446	17,997	21,656
Available-for-sale financial assets	14,045	17,881	19,692	26,476	31,426	33,232
Financial assets held for trading	6,801	9,273	11,792	6,801	9,180	11,663

	NLB			NLB Group		
	2017	2016	2015	2017	2016	2015
			(EUR thousands)			
Loans and advances to banks and central banks	2,304	2,407	2,437	1,548	1,249	1,302
Derivatives - hedge accounting	–	831	1,487	–	831	1,487
Deposits with banks and central banks	430	442	642	881	755	1,215
Other assets	–	1	44	–	1	44
Total	**188,255**	**215,550**	**269,000**	**363,733**	**388,494**[(1)]	**443,203**

(1) Total interest income for the NLB Group for the year ended 31 December 2016 would have been EUR 393 million when adjusted for the impact of the 2016 NPL Sale as a result of an increase of EUR 4.1 million in additional impairments and provisions.

For the year ended 31 December 2017, total interest income decreased by 6.4 per cent., to EUR 363.7 million from EUR 388.5 million for the year ended 31 December 2016. This decrease was primarily due to the low levels of interest rates, low returns of debt securities and maturity of higher yielding securities received from the BAMC (EUR 309 million expiring at the end of 2016).

For the year ended 31 December 2016, total interest income decreased by 12.3 per cent., to EUR 388.5 million from EUR 443.2 million for the year ended 31 December 2015. This decrease was primarily due to the low levels of interest rates, low returns of debt securities, the maturity of the high-yield BAMC bonds in December 2015, excessive liquidity and additional impairments of interest related to the 2016 NPL Sale.

Interest and similar expenses

The following table sets out the principal components of NLB's and the NLB Group's interest and similar expenses for the years indicated:

	NLB			NLB Group		
	2017	2016	2015	2017	2016	2015
			(EUR thousands)			
Interest and similar expenses						
Due to customers	8,852	15,281	29,426	29,476	40,797	65,425
Debt securities in issue	4,357	9,376	10,454	4,357	9,376	10,454
Financial liabilities held for trading	5,896	5,923	8,420	5,896	5,923	8,420
Derivatives - hedge accounting	6,249	5,688	5,952	6,249	5,688	5,952
Borrowings from banks and central banks	1,670	2,713	5,546	2,243	3,699	7,501
Provisions for defined employee benefits	110	205	550	242	357	751
Subordinated liabilities	–	–	–	1,593	1,840	1,548
Borrowings from other customers	–	10	109	1,561	1,857	2,271
Deposits from banks and central banks	166	70	39	220	75	105
Negative interest	2,115	1,307	361	2,436	1,429	381
Other financial liabilities	51	99	136	144	148	193
Total	**29,466**	**40,672**	**60,993**	**54,417**	**71,189**	**103,001**
Net Interest	**158,789**	**174,878**	**208,007**	**309,316**	**317,305**	**340,202**

For the year ended 31 December 2017, the NLB Group's total interest expense decreased by 23.6 per cent. to EUR 54.4 million from EUR 71.2 million for the year ended 31 December 2016. This decrease was primarily due to the declining interest rates on long term deposits, the increasing share of demand deposits where cost of funding is lower compared to term deposits, maturity of the NLB Group's bond in July 2017 (bond in the amount of EUR 300 million issued in July 2014) and some repayments of the NLB Group's liabilities in 2017.

For the year ended 31 December 2016, the NLB Group's total interest expense decreased by 30.9 per cent. to EUR 71.2 million from EUR 103.0 million for the year ended 31 December 2015. This decrease was primarily due to the declining interest rates primarily on long term deposits, the increasing share of demand deposits where cost of funding is lower compared to term deposits and both regular and early repayments of liabilities. The prepayments were made due to current and projected excess of liquidity and in order to optimise cost of funding.

Net interest income and margin

The NLB Group's net interest income decreased by 2.5 per cent. in 2017 to EUR 309.3 million as compared to EUR 317.3 million for the year ended 31 December 2016.

The NLB Group's net interest margin was 2.6 per cent. in 2017, 2.6 per cent. in 2016 and 2.8 per cent. for the year ended 31 December 2015.

Net fee and commission income

Fees and commission income

The following table sets out certain information on NLB's and the NLB Group's fee and commission income for the years indicated:

	NLB			NLB Group		
	2017	2016	2015	2017	2016	2015
			(EUR thousands)			
Fee and commission income						
Fee and commission income relating to financial instruments not at fair value through profit or loss						
Credit cards and ATMs	39,459	37,568	44,139	60,976	55,798	59,427
Customer transaction accounts	32,699	31,015	31,638	43,485	39,878	39,668
Other fee and commission income						
Payments	28,408	28,149	28,278	56,997	54,987	54,274
Guarantees	7,306	8,250	8,687	11,111	12,225	13,322
Investment funds	5,000	3,615	4,235	17,070	13,831	13,534
Agency of insurance products	4,060	3,302	2,873	4,073	3,321	2,873
Investment banking	6,917	6,716	5,859	8,386	8,323	7,111
Other assets	3,900	4,399	3,187	5,810	6,008	5,501
Total	**127,749**	**123,014**	**128,896**	**207,908**	**194,371**	**195,710**

Fee and commission expense

The following table sets out certain information on NLB's and the NLB Group's fee and commission expenses for the years indicated:

	NLB			NLB Group		
	2017	2016	2015	2017	2016	2015
			(EUR thousands)			
Fee and commission expenses						
Fee and commission expenses relating to financial instruments not at fair value through profit or loss						
Credit cards and ATMs	22,980	21,430	24,457	38,064	34,539	35,415
Other fee and commission expenses						
Insurance for holders of personal accounts and golden cards	983	1,427	1,449	1,465	2,108	1,757
Payments	812	775	788	5,675	5,363	4,970
Guarantees	170	290	541	231	354	592
Investment banking	3,085	2,445	2,573	4,164	3,304	3,361
Other services	1,210	1,361	1,020	2,891	3,038	2,545
Total	**29,240**	**27,728**	**30,828**	**52,490**	**48,706**	**48,640**
Net Fee and Commission Income	**98,509**	**95,286**	**98,068**	**155,418**	**145,665**	**147,070**

Net fee and commission income

In 2017, the NLB Group's net fees and commissions were the most important source of net non-interest income. In 2017, net fees and commission totalled EUR 155.4 million (2016: EUR 145.7 million). The increase is primarily a result of higher fees from customers transaction accounts, investment banking and cards and ATM operations.

Dividend income

The following table sets out certain information on NLB's and the NLB Group's dividend income for the years indicated:

	NLB			NLB Group		
	2017	2016	2015	2017	2016	2015
			(EUR thousands)			
Available-for-sale financial assets	50	1,144	1,264	179	1,238	1,346
Financial assets held for trading	–	–	–	–	–	–
Total	**50**	**1,144**	**1,264**	**179**	**1,238**	**1,346**

The dividend income represents the dividends from unrelated parties (parties in which NLB Group has no control nor significant influence). The dividend income from capital investments in subsidiaries, associates and joint ventures are included in item Gains less losses from capital investments in subsidiaries, associates and joint ventures.

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

The following table sets out certain information on NLB's and the NLB Group's gains less losses from financial assets and liabilities not classified at fair value through profit or loss for the years indicated:

	NLB			NLB Group		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
			(EUR thousands)			
Available-for-sale financial assets						
- *gains*	11,883	14,712	10,886	12,455	14,861	10,964
- *losses*	(172)	(33)	(21)	(213)	(33)	(125)
Held-to-maturity financial assets						
- *gains*		–	–	–	–	–
Financial liabilities measured at amortised cost						
- *gains*	–	–	54	–	–	54
- *losses*	–	(40)	(234)	–	(40)	(234)
Loans and receivables						
- *gains*	–	–	–	–	–	–
- *losses*	–	–	–	–	–	–
TOTAL	**11,711**	**14,639**	**10,685**	**12,242**	**14,788**	**10,659**

For 2017, the NLB Group's gains less losses from financial assets and liabilities not classified at fair value through profit or losses decreased by 17.2 per cent., to EUR 12.2 million from EUR 14.8 million for 2016, In 2017 the result includes positive effects from the sale of NLB's 3 per cent. participation in Petrol d.d., whereas 2016 result includes positive effects from the sale of a successful divestment of a non-strategic investment and realised gain on the disposal of investment in Visa Europe shares.

For 2016, the NLB Group's gains less losses from financial assets and liabilities not classified at fair value through profit or losses increased by 38.7 per cent., to EUR 14.8 million from EUR 10.7 million for 2015, primarily due to higher realised gains in 2016 from the available for sale financial assets due to the successful divestment of a non-strategic investment and realised gain on the disposal of investment in Visa Europe shares.

Gains less losses from financial assets and liabilities held for trading

The following table sets out certain information on NLB's and the NLB Group's gains less losses from financial assets and liabilities held for trading for the years indicated:

	NLB			NLB Group		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
			(EUR thousands)			
Equity instruments						
- *gains*	–	26	–	–	26	–
- *losses*	–	(26)	(12)	–	(26)	(12)
Foreign exchange trading						
- *gains*	11,243	15,767	25,935	19,469	23,023	34,009
- *losses*	(7,093)	(12,415)	(21,850)	(8,851)	(13,244)	(23,355)
Debt instruments						
- *gains*	1,093	4,474	2,005	1,093	4,474	2,008
- *losses*	(1,135)	(6,862)	(3,223)	(1,135)	(6,862)	(3,223)
Derivatives						
- *currency*	1,698	288	(6,844)	1,232	506	(7,083)
- *interest rate*	1,170	(1,178)	(4,428)	1,170	(1,238)	(4,334)
- *cross currency interest rate*	(77)	(29)	(16,794)	(77)	(29)	(16,794)
- *securities*	166	291	(93)	166	291	(93)
TOTAL	**7,065**	**336**	**(25,304)**	**13,067**	**6,921**	**(18,877)**

For 2017, the NLB Group's gains less losses from financial assets and liabilities held for trading increased by EUR 6.1 million to EUR 13.1 million from EUR 6.9 million for 2016, primarily due to interest rate and currency derivatives valuation which the NLB Group uses to hedge its exposure and positive effects from debt securities held for trading in 2017.

For 2016, the NLB Group's gains less losses from financial assets and liabilities held for trading increased by EUR 25.8 million to EUR 6.9 million from EUR (18.9) million for 2015, primarily due to negative currency and cross currency interest rate derivatives valuation in 2015.

The NLB Group uses currency derivatives to hedge its currency exposure and the effects should be considered in relation to the foreign exchange difference in the NLB Group's income statements.

Foreign exchange translation gains less losses

The following table sets out certain information on NLB's and the NLB Group's foreign exchange translation gains less losses for the years indicated:

	NLB			NLB Group		
	2017	2016	2015	2017	2016	2015
			(EUR thousands)			
Financial assets and liabilities not classified as at fair value through profit or loss	(892)	1,014	22,579	(381)	1,449	11,153
Disposal of a subsidiary	–	–	–	2,614	–	–
Financial assets designated at fair value through profit or loss	(177)	(246)	753	(177)	(246)	752
Other	62	(30)	(81)	93	(45)	(74)
TOTAL	**(1,007)**	**738**	**23,251**	**2,149**	**1,158**	**11,831**

In 2017, the NLB Group's foreign exchange translation gains less losses increased by EUR 1.0 million to EUR 2.1 million from EUR 1.2 million for 2016, due transfer of accumulated foreign exchange differences from equity to profit and loss at the disposal of Czech non-core subsidiary NLB Factoring in liquidation, partly compensated by negative foreign exchanges translation gains less losses on financial assets and liabilities not classified at fair value through profit or loss.

Other operating income

The following table sets out certain information on NLB's and the NLB Group's other operating income for the years indicated:

	NLB			NLB Group		
	2017	2016	2015	2017	2016	2015
			(EUR thousands)			
Income from non-banking services	8,255	9,911	11,061	12,099	14,552	15,657
- *IT services*	3,531	5,208	6,013	3,531	5,208	6,013
- *cash transportation*	3,617	3,608	3,823	3,617	3,608	3,823
- *operating leases of movable property*	439	484	508	2,798	3,132	3,477
- *other*	668	611	717	2,153	2,604	2,344
Sale of clients' assets management activity to NLB Skladi	–	–	–	–	–	–
Rental income from investment property	381	260	86	5,440	5,942	6,399
Sale of investment property	62	–	–	1,821	6	–
Revaluation of investment property to fair value	396	22	171	2,242	155	1,342
Other	3,078	2,074	1,916	4,822	3,787	3,931
TOTAL	**12,172**	**12,267**	**13,234**	**26,424**	**24,442**	**27,329**

For 2017, the NLB Group's other operating income increased by 8.1 per cent. to EUR 26.4 million from EUR 24.4 million for 2016, primarily due positive effects from the revaluation of investment property to fair value and realized effects at the sale of investment property.

For 2016, the NLB Group's other operating income decreased by 10.6 per cent. to EUR 24.4 million from EUR 27.3 million for 2015, primarily due to the decrease in income from non-banking services partially due to lower income from IT services in 2016 resulting from the gradual reduction of IT application support of individuals from Abanka d.d. (formerly Banka Celje d.d.) and the higher positive effects from revaluation of investment property to fair value in 2015.

Other operating expenses

The following table sets out certain information on NLB's and the NLB Group's other operating expenses for the years indicated:

	NLB			NLB Group		
	2017	2016	2015	2017	2016	2015
			(EUR thousands)			
Deposit guarantee	4,732	4,567	–	13,393	13,134	8,259
Expenses related to issued service guarantees	589	1,728	6,376	589	1,728	6,376
Single Resolution Fund	2,590	3,894	4,340	2,590	3,894	4,340
Balance sheet tax	–	–	–	–	–	–
Other taxes and compulsory public levies	1,093	1,026	1,001	2,993	3,055	2,327
Membership fees and similar fees	700	317	740	1,122	889	1,397

	NLB			NLB Group		
	2017	2016	2015	2017	2016	2015
			(EUR thousands)			
Expenses related to legal issues for Croatian savers	2,202	–	–	2,202	–	–
Revaluation of investment property to fair value	2,382	484	52	3,396	8,067	8,262
Other	961	1,160	2,624	3,126	2,437	4,122
TOTAL	**15,249**	**13,176**	**15,133**	**29,411**	**33,204**	**35,083**

For 2017, the NLB Group's other operating expenses decreased by 11.4 per cent., to EUR 29.4 million from EUR 33.2 million for 2016, primarily due to lower negative valuation effects of investment property to fair value in 2017, expenses related to legal issues for Croatian savers, lower expenses related to issued service guarantees and lower expenses for single resolution fund in 2017.

For 2016, the NLB Group's other operating expenses decreased by 5.4 per cent., to EUR 33.2 million from EUR 35.1 million for 2015, primarily due to lower expenses related to issued service guarantees, partly compensated with higher expenses to DGS for NLB, entered into force in 2016.

In accordance with a decision of the Bank of Slovenia, NLB paid a prior contribution into the SRF scheme for 2017, 2016 and 2015 in an amount of EUR 2.6 million, EUR 3.9 million and EUR 4.3 million, respectively. The amount of the contribution by NLB is calculated in consideration of the total liabilities of all banks, the risk profile of NLB and its size. NLB paid a contribution into the DGS scheme for 2017 in an amount of EUR 4.7 million (2016: EUR 4.2 million into the DGS and an additional EUR 359 thousand which relates to NLB's payment of guaranteed investors' claims at a brokerage company against which bankruptcy proceedings started). In April 2016, the law on the DGS entered into force in the Republic of Slovenia, according to which the Bank of Slovenia establishes and operates the DGS in the Republic of Slovenia. The target fund level is 0.8 per cent. of the sum of all guaranteed deposits in the Republic of Slovenia as at 31 December of the previous year and until the fund reaches this level, banks are obliged to pay regular annual contributions. In other banking members of the NLB Group, which operate outside the EU, similar schemes were already in place in previous years.

Administrative expenses

The following table sets out certain information on NLB's and the NLB Group's administrative expenses for the years indicated:

	NLB		NLB Group	
	2017	2016	2017	2016
		(EUR thousands)		
Employee costs				
- gross salaries, compensations and other short-term benefits	88,429	88,277	139,918	140,961
- defined contribution scheme	6,718	6,639	11,323	11,460
- social security contributions	5,503	5,441	9,195	9,028
- defined benefit expenses	3,046	2,843	4,049	3,930
- *post-employment benefits*	462	473	94	379
- other employee benefits	2,584	2,370	3,955	3,551
TOTAL	**103,696**	**103,200**	**164,485**	**165,379**
Other general and administrative expenses				
- material	2,488	2,679	5,413	5,865
- services	15,032	17,636	25,957	28,884
- *intellectual services*	5,660	8,258	10,317	12,505
- *cost of supervision*	1,176	1,031	2,542	2,337
- *cost of other services*	8,196	8,347	13,098	14,042
- business travel	419	387	1,189	1,101
- marketing	3,739	2,655	7,031	5,845
buildings and equipment	14,087	14,959	26,609	26,123
- *electricity*	2,117	2,224	4,124	4,201
- *rents and leases*	1,256	1,240	6,070	6,105
- *maintenance costs*	4,597	4,469	6,211	5,505
- *costs of security*	1,441	1,396	3,499	3,517
- *insurance for tangible assets*	1,722	1,510	2,725	2,661
- *other costs related to buildings and equipment*	2,954	4,120	3,980	4,134
- technology	10,873	12,493	15,492	16,897
- *maintenance of software and hardware*	5,493	5,154	8,355	8,268

	NLB		NLB Group	
	2017	2016	2017	2016
	(EUR thousands)			
- *licences*	2,560	3,817	2,950	4,005
- *data assets and subscription costs*	1,262	1,396	1,904	1,897
- *other technology costs*	1,558	2,126	2,283	2,727
- communications	6,055	6,685	8,505	9,192
- *postal services*	3,880	4,074	4,322	4,549
- *telecommunication and internet*	874	1,176	2,178	2,513
- *other communication costs*	1,301	1,435	2,005	2,130
- other general and administrative costs	1,488	1,389	2,226	1,874
TOTAL	**54,181**	**58,883**	**92,422**	**95,781**
TOTAL ADMINISTRATIVE EXPENSES	**157,877**	**162,083**	**256,907**	**261,160**
Number of employees	2,789	2,885	6,029	6,175

For 2017, the NLB Group's administrative expenses, which included restructuring costs in the amount of EUR 1.8 million, decreased by 1.6 per cent. to EUR 256.9 million from EUR 261.2 million for 2016, due to successful cost-optimization efforts as a consequence of significantly improved operational efficiency (focusing on the transition to STP processing via online channels with the consequent further rationalization of the traditional network, employee and other general administrative costs).

In 2016 presentation of general and administrative expenses was changed, therefore data among periods are not comparable.

	NLB	NLB Group
	2015	2015
	(EUR thousand)	
Employee costs		
- gross salaries, compensations and other short-term benefits	86,800	138,283
- defined contribution scheme	6,570	11,124
- social security contributions	5,592	9,093
- defined benefit expenses	2,813	4,683
- *post-employment benefits*	312	319
- other employee benefits	2,501	4,364
TOTAL	**101,775**	**163,183**
Other general and administrative expenses		
- other services	27,144	38,961
- maintenance	12,271	16,124
- intellectual services	9,689	16,635
- materials	5,729	11,031
- assets quality review (AQR)	–	–
- rents	2,876	7,790
- *property*	1,193	5,398
- *software*	1,403	1,773
- *movable property*	280	619
- advertising	2,700	5,288
- insurance	1,578	3,321
- education, scholarships and tuition fees	1,124	1,420
- travel costs	637	1,449
- other costs	290	782
TOTAL	**64,038**	**102,801**
TOTAL ADMINISTRATIVE EXPENSES	**165,813**	**265,984**
Number of employees	3,028	6,372

For 2016, the NLB Group's administrative expenses, which included restructuring costs in the amount of EUR 3.8 million, decreased by 1.8 per cent. to EUR 261.2 million from EUR 266.0 million for 2015, primarily due to ongoing activities related to space, capacity and cost optimisation of buildings, lower costs of card plastic, postal services and leased lines for data transfer.

Depreciation and amortisation

The following table sets out certain information on NLB's and the NLB Group's depreciation and amortisation amounts for the years indicated:

	NLB			NLB Group		
	2017	2016	2015	2017	2016	2015
			(EUR thousands)			
Amortisation of intangible assets	8,555	9,657	12,400	10,916	11,694	14,334
Depreciation of property and equipment	9,455	9,223	9,010	16,886	16,651	17,522
TOTAL	**18,010**	**18,880**	**21,410**	**27,802**	**28,345**	**31,856**

Provisions for other liabilities and charges

The following table sets out certain information on NLB's and the NLB Group's provisions for other liabilities and charges for the years indicated:

	NLB			NLB Group		
	2017	2016	2015	2017	2016	2015
			(EUR thousands)			
Guarantees and commitments	(2,296)	(9,897)	(11,219)	(3,460)	(10,432)	(10,847)
Restructuring provisions	8,400	9,377	(15)	8,588	10,644	4
Provisions for premiums from National Housing Savings Scheme	–	–	(106)	–	–	(106)
Provisions for legal issues	1,831	145	3,409	682	4,252	7,475
Other provisions	(591)	(107)	2,778	(559)	(107)	2,778
TOTAL	**7,344**	**(482)**	**(5,153)**	**5,251**	**4,357**	**(696)**

For 2017, the NLB Group's provisions for other liabilities and charges increased by EUR 0.9 million to EUR 5.2 million from EUR 4.4 million for 2016.

The NLB Group has adopted a new business strategy and initiated key strategic initiatives, aiming amongst other towards a leaner organisation, optimisation of processes, implementation of a new IT strategy with a focus on digitalisation and simplification, and adjustment of the organisational structure. These initiatives will result in a decreased number of employees in the coming years, and therefore the NLB Group has built restructuring provisions in the amount of EUR 8.6 million (NLB: EUR 8.4 million), which are expected to be used for redundancy payments in the next three years.

For 2016, the NLB Group's provisions for other liabilities and charges increased by EUR 5.1 million to EUR 4.4 million from EUR (0.7) million for 2015, primarily due to higher restructuring provisions.

Impairment charge

The following table sets out certain information on NLB's and the NLB Group's impairment charge for the years indicated:

	NLB			NLB Group		
	2017	2016	2015	2017	2016	2015
			(EUR thousands)			
Impairment of financial assets						
Available-for-sale financial assets	23	198	2,617	23	198	4,659
Held-to-maturity financial assets	(10)	83	–	(10)	83	–
Loans and advances to banks	–	(196)	67	187	74	2,557
Loans to government	(1,891)	(163)	1,359	(7,706)	(2,604)	1,285
Loans to financial organisations	(15,569)	(5,005)	15,446	(2,244)	(14,842)	7,780
Loans to individuals	2,968	10,245	10,583	8,916	12,800	14,766
Granted overdrafts	1,513	2,303	4,675	2,157	2,587	4,889
Loans for houses and flats	97	5,495	2,440	(1,072)	4,436	3,241
Consumer loans	(18)	1,930	2,305	4,408	3,261	3,016
Other loans	1,376	517	1,163	3,423	2,516	3,620
Loans to other customers	(25,289)	19,909	10,114	(40,284)	40,526	29,120
Loans to large corporate customers	(22,068)	5,065	(29,283)	(34,422)	(16,052)	(6,598)
Loans to SMEs	(3,221)	14,844	39,397	(5,862)	56,578	35,718
Other financial assets	587	356	1,721	1,130	625	6,220
TOTAL	**(39,181)**	**25,427**	**41,907**	**(39,988)**	**36,860**	**66,387**

	NLB			NLB Group		
	2017	2016	2015	2017	2016	2015
			(EUR thousands)			
Impairment of investments in subsidiaries, associates and joint ventures						
Investments in subsidiaries	674	25,334	50,271	–	–	–
Investments in associates and joint ventures	19	12,313	33	–	12,250	–
TOTAL	**693**	**37,647**	**50,304**	**–**	**12,250**	**–**
Impairment of other assets						
Property and equipment	390	1,127	344	717	3,307	1,122
Intangible assets	–	–	–	–	–	–
Other assets	90	232	559	4,490	3,871	16,292
TOTAL	**480**	**1,359**	**903**	**5,207**	**7,178**	**17,414**
TOTAL IMPAIRMENT	**(38,008)**	**64,433**	**93,114**	**(34,781)**	**56,288**	**83,801**

For 2017, the NLB Group released net impairments in amount of EUR 34.8 million, compared to 2016, when NLB Group build additional impairments in amount of EUR 56.3 million. In 2017 the Group released net impairments for financial assets in amount of 40.0 million which was the result of successful collection, the resolution of non-performing receivables, and improvement of the quality of the credit portfolio's structure with the release of pool provisions in amount of EUR 21 million principally in the corporate client segment.

For 2016, the NLB Group's impairment charge decreased by 32.8 per cent. to EUR 56.3 million from EUR 83.8 million for 2015, primarily due to prudent risk management principles with respect to the quality and diversification of new loan placements, further substantial reduction of NPL (including the sale of an NPL portfolio in the second quarter of 2016 which accounts for a 12 per cent. of the overall reduction in the NLB Group's NPLs since the end of 2013) and in part the positive macroeconomic environment conditions.

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

The following table sets out certain information on NLB's and the NLB Group's gains less losses from capital investments in subsidiaries, associates and joint ventures for the years indicated:

	NLB			NLB Group		
	2017	2016	2015	2017	2016	2015
			(EUR thousands)			
Dividends from investments in subsidiaries, associates and joint ventures	58,012	28,915	13,747	–	–	–
Gains less losses on derecognition of subsidiaries	159	–	–	(930)	(153)	(173)
Share of net gains less losses of associates and joint ventures accounted for using the equity method	–	–	–	4,782	5,159	4,485
TOTAL	**58,171**	**28,915**	**13,747**	**3,852**	**5,006**	**4,312**

Income tax

The following table sets out certain information on NLB's and the NLB Group's income tax for the years indicated:

	NLB			NLB Group		
	2017	2016	2015	2017	2016	2015
			(EUR thousands)			
Current income tax	2,945	7,008	8,260	12,688	14,758	12,767
Deferred tax	(7,164)	(3,083)	(292)	(8,691)	217	(1,387)
TOTAL	**(4,219)**	**3,925**	**7,968**	**3,997**	**14,975**	**11,380**

For 2017 the NLB Group's income tax decreased by 73.3 per cent., to EUR 4.0 million from EUR 15.0 million, primarily due to the recognition of the deferred tax assets based on the increased 5 years projected deferred tax utilization.

For 2016, the NLB Group's income tax increased by 31.6 per cent., to EUR 15.0 million from EUR 11.4 million for 2015, primarily due to the higher profit-before-tax in the year 2016.

8.8 Segment analysis for the Years Ended 31 December 2017, 2016 and 2015

For the year ended 31 December 2017, Corporate Banking in the Republic of Slovenia, Retail Banking in the Republic of Slovenia, Financial Markets in the Republic of Slovenia and Foreign Strategic Markets (which comprise its Core operations) contributed 16.4 per cent., 31.3 per cent., 8.8 per cent. and 42.6 per cent., respectively, of the NLB Group's total Core net income. This corresponded to a contribution to the NLB Group's Core profit-before-tax of 25.6 per cent., 20.2 per cent., 13.3 per cent. and 49.5 per cent. from Corporate Banking in the Republic of Slovenia, Retail Banking in the Republic of Slovenia, Financial Markets in the Republic of Slovenia and Foreign Strategic Markets, respectively, for the year ended 31 December 2017.

The following table sets out information on the financial results of the NLB Group's segments for the years ended 31 December 2017, 2016 and 2015:

Segmental analysis

(a) Business segments

2017

NLB Group 2017	Corporate banking Slovenia	Retail banking Slovenia	Financial markets Slovenia	Foreign strategic markets	Non-strategic markets and activities	Other activities	Unallocated	Total
Total net income	73,919	140,719	39,645	191,655	40,904	4,307		491,149
Net income from external customers	78,301	141,059	30,880	193,264	40,717	4,416	0	488,638
Intersegment net income	(4,383)	(340)	8,764	(1,609)	187	(109)	0	2,511
Net interest income	42,888	72,768	32,490	144,585	16,785	(201)	0	309,316
Net interest income from external customers	47,271	73,440	23,694	146,596	18,419	(103)	0	309,316
Intersegment net interest income	(4,383)	(672)	8,796	(2,011)	(1,633)	(98)	0	0
Administrative expenses	(39,287)	(90,455)	(11,414)	(87,881)	(20,447)	(9,933)	0	(259,418)
Depreciation and amortization	(4,295)	(10,310)	(999)	(9,322)	(1,280)	(1,595)	0	(27,802)
Reportable segment profit/(loss) before impairment and provision charge	30,337	39,954	27,232	94,452	19,177	(7,221)	0	203,929
Gains less losses from investments in subsidiaries, associates and joint ventures	0	4,621	159	0	(928)	0		3,852
Impairment and provisions charge	22,475	(2,923)	(55)	7,552	12,930	(10,449)	0	29,530
Profit/(loss) before Income tax	52,811	41,652	27,336	102,004	31,179	(17,670)	0	237,311
Owners of the parent	52,811	41,652	27,336	93,759	31,179	(17,670)	0	229,066
Non-controlling interests	0	0	0	8,245	0	0	0	8,245
Income tax					0		(3,997)	(3,997)
Profit/(loss) for the period	0	0	0	0	0	0	0	225,069
31 December 2017								
Reportable segment assets	2,055,734	2,204,045	3,508,467	3,851,214	391,308	183,212		12,193,980
Investments in associates and joint ventures	0	43,765	0	0	0	0		43,765
Reportable segment liabilities	1,122,742	5,542,818	501,609	3,264,781	19,287	98,346	0	10,549,582
Additions to non-current assets	5,357	12,768	778	8,722	1,357	1,627		30,609

2016

NLB Group 2016	Corporate banking Slovenia	Retail banking Slovenia	Financial markets Slovenia	Foreign strategic markets	Non-strategic markets and activities	Other activities	Unallocated	Total
Total net income	75,043	133,584	47,703	179,370	26,243	17,831		479,775
Net income from external customers	83,335	126,269	43,186	179,370	29,433	18,181	0	479,773
Intersegment net income	(8,292)	7,315	4,518	0	(3,190)	(351)	0	0
Net interest income	45,891	71,222	48,536	136,909	15,404	(656)	0	317,305
Net interest income from external customers	54,183	63,907	44,018	136,909	18,594	(306)	0	317,305
Intersegment net interest income	(8,292)	7,315	4,518	0	(3,190)	(351)	0	0
Administrative expenses	(40,159)	(90,794)	(11,118)	(87,477)	(21,884)	(13,758)	0	(265,191)
Depreciation and amortization	(4,394)	(10,350)	(1,035)	(8,013)	(2,290)	(2,262)	0	(28,345)
Reportable segment profit/(loss) before impairment and provision charge	30,490	32,440	35,550	83,880	2,069	1,812	0	186,239
Gains less losses from investments in subsidiaries, associates and joint ventures	0	5,159	0	0	(153)	0		5,006
Impairment and provisions charge	(2,680)	(10,245)	53	(16,290)	(20,857)	(10,626)	0	(60,645)
Profit/(loss) before Income tax	27,810	27,354	35,602	67,590	(18,941)	(8,815)	0	130,600
Owners of the parent	27,810	27,354	35,602	61,982	(18,941)	(8,815)	0	124,992
Non-controlling interests	0	0	0	5,608	0	0	0	5,608
Income tax					0		(14,975)	(14,975)
Profit/(loss) for the period	0	0	0	0	0	0	0	110,017
31 December 2016								
Reportable segment assets	2,338,698	2,074,736	3,375,667	3,540,474	502,610	163,577		11,995,763
Investments in associates and joint ventures	0	43,248	0	0	0	0		43,248
Reportable segment liabilities	1,198,058	5,229,761	907,159	3,038,921	57,935	81,518	0	10,513,351
Additions to non-current assets	2,305	7,286	363	7,882	2,928	463		21,227

2015

NLB Group 2015	Corporate banking Slovenia	Retail banking Slovenia	Financial markets Slovenia	Foreign strategic markets	Non-strategic markets and activities	Other activities	Unallocated	Total
Total net income	84,199	150,717	69,593	165,946	9,839	7,006		487,301
Net income from external customers	94,677	136,308	62,628	168,818	13,667	7,292	0	483,391
Intersegment net income	(10,478)	14,409	6,965	(2,872)	(3,828)	(286)	0	3,910
Net interest income	55,783	78,253	60,192	125,208	21,579	(813)	0	340,202
Net interest income from external customers	66,261	59,210	57,583	128,858	28,816	(527)	0	340,202
Intersegment net interest income	(10,478)	19,043	2,608	(3,650)	(7,237)	(286)	0	0
Administrative expenses	(39,211)	(94,817)	(11,068)	(85,396)	(26,404)	(12,998)	0	(269,894)

NLB Group 2015	Corporate banking Slovenia	Retail banking Slovenia	Financial markets Slovenia	Foreign strategic markets	Non-strategic markets and activities	Other activities	Unallocated	Total
Depreciation and amortization	(4,833)	(11,934)	(1,192)	(8,036)	(3,423)	(2,437)	0	(31,856)
Reportable segment profit/(loss) before impairment and provision charge	40,155	43,966	57,333	72,514	(19,988)	(8,429)	0	185,551
Gains less losses from investments in subsidiaries, associates and joint ventures	0	4,486	0	0	(174)			4,312
Impairment and provisions charge	10,351	(9,795)	218	(27,807)	(50,103)	(5,969)	0	(83,105)
Profit/(loss) before Income tax	50,506	38,658	57,551	44,707	(70,265)	(14,398)	0	106,758
Owners of the parent	50,506	38,658	57,551	41,243	(70,265)	(14,398)	0	103,294
Non-controlling interests	0	0	0	3,464		0	0	3,464
Income tax					0		(11,380)	(11,380)
Profit/(loss) for the period	0	0	0	0	0	0	0	91,914
31 December 2015								
Reportable segment assets	2,160,440	2,015,459	3,350,804	3,389,032	752,137	114,047		11,781,919
Investments in associates and joint ventures	0	39,696	0	0	0	0		39,696
Reportable segment liabilities	1,193,660	4,906,699	1,139,738	2,942,463	114,111	74,561	0	10,371,232
Additions to non-current assets	4,673	12,127	762	10,129	8,747	4,104		40,541

(1) Tax is not distributed on a segmented basis.

Retail banking in the Republic of Slovenia

The following table sets out information on the financial results of the retail banking in the Republic of Slovenia segment for the years ended 31 December 2017, 2016 and 2015:

	2017	2016	YoY	2015	YoY
			in 000 EUR		
Net interest income	72,768	71,222	2%	78,253	(9)%
Net non-interest income	67,951	62,362	9%	72,464	(14)%
Total net operating income	**140,719**	**133,584**	**5%**	**150,717**	**(11)%**
Total costs	(100,765)	(101,145)	0%	(106,751)	5%
Result before impairments and provisions	**39,954**	**32,440**	**23%**	**43,966**	**(26)%**
Impairments and provisions	(2,923)	(10,245)	71%	(9,795)	(5)%
Net gains from equity investments in subsidiaries, associates, and joint ventures	4,621	5,159	(10)%	4,486	15%
Result before tax	**41,652**	**27,354**	**52%**	**38,658**	**(29)%**

	31 December 2017	31 December 2016	YoY	31 December 2015	YoY
Segment assets	2,247,810	2,117,984	6%	2,055,154	3%
Segment liabilities	5,542,818	5,229,761	6%	4,906,699	7%

In 2017, the retail banking in the Republic of Slovenia segment result before tax increased by 52 per cent. to EUR 41.7 million from EUR 27.4 million in 2016. The results in 2017 are higher primarily due to growth in net non-interest income increase and improved cost of risk. Net interest income was still under pressure given the continued low interest environment, nevertheless it remained stable due to growth of retail loan portfolio. In 2017 costs were stable and the cost of risk remained low.

In 2016, net result before tax decreased by 29 per cent., primarily due to lower net interest income and non-interest income and higher established impairments and provisions due to realisation of the 2016 NPL Sale. Costs were reduced by EUR 5.6 million.

Corporate banking in the Republic of Slovenia

The following table sets out information on the financial results of the corporate banking in the Republic of Slovenia segment for the years ended 31 December 2017, 2016 and 2015:

	2017	2016	YoY	2015	YoY
			in 000 EUR		
Net interest income	42,888	45,891	(7)%	55,783	(18)%
Net non-interest income	31,030	29,152	6%	28,416	3%
Total net operating income	**73,919**	**75,043**	**(1)%**	**84,199**	**(11)%**
Total costs	(43,582)	(44,553)	2%	(44,044)	(1)%
Result before impairments and provisions	**30,337**	**30,490**	**(1)%**	**40,155**	**(24)%**
Impairments and provisions	22,475	(2,680)	939%	10,351	(126)%
Result before tax	**52,811**	**27,810**	**90%**	**50,506**	**(45)%**

	31 December 2017	31 December 2016	YoY	31 December 2015	YoY
Segment assets	2,055,734	2,338,698	(12)%	2,160,440	8%
Segment liabilities	1,122,742	1,198,058	(6)%	1,193,660	0%

In 2017, the corporate banking segment in the Republic of Slovenia realised a profit before tax in the amount of EUR 52.8 million, or 90% higher year-over-year, based on the higher release of credit impairments and the growth in income from fees and commissions. Nevertheless, the result was still affected by the low interest environment and the generally very high liquidity in the market.

In 2016, the corporate banking in the Republic of Slovenia segment result before tax decreased by EUR 22.7 million to EUR 27.8 million from EUR 50.5 million in 2015, primarily due to lower net interest income and higher established impairments and provisions due to the realisation of the 2016 NPL Sale.

The result of key business activities within the SME segment was positive in the amount of EUR 16.7 million in 2017.

Financial markets in the Republic of Slovenia

The following table sets out information on the financial results of the financial markets in the Republic of Slovenia segment for the years ended 31 December 2017, 2016 and 2015:

	2017	2016	YoY	2015	YoY
			in 000 EUR		
Net interest income	32,490	48,536	(33)%	60,192	(19)%
Net non-interest income	7,154	(832)	960%	9,402	(109)%
Total net operating income	**39,645**	**47,703**	**(17)%**	**69,593**	**(31)%**
Total costs	(12,413)	(12,154)	(2)%	(12,260)	1%
Result before impairments and provisions	**27,232**	**35,550**	**(23)%**	**57,333**	**(38)%**
Impairments and provisions	(55)	53	(204)%	218	(76)%
Result before tax	**27,336**	**35,602**	**(23)%**	**57,551**	**(38)%**

	31 December 2017	31 December 2016	YoY	31 December 2015	YoY
Segment assets	3,508,467	3,375,667	4%	3,350,804	1%
Segment liabilities	501,609	907,159	(45)%	1,139,738	(20)%

In 2017, the financial markets in the Republic of Slovenia segment result before tax decreased by 23 per cent. to EUR 27.3 million from EUR 35.6 million in 2016, as a result of a negative interest rate environment and low returns on the international bonds market, partially offset by strong growth of Treasury Sales in investment banking business.

In 2016, the financial markets in the Republic of Slovenia segment result before tax decreased by 38 per cent. to EUR 35.6 million from EUR 57.6 million in 2015. Operations in financial markets in 2016 reflect the pressures resulting from the downward trend in interest rates and lower return in international bond markets and the maturity of the high-yield BAMC bonds in December 2015.

Core foreign markets

The following table sets out information on the financial results of the core foreign markets segment for the years ended 31 December 2017, 2016 and 2015:

	2017	2016	YoY	2015	YoY
			in 000 EUR		
Net interest income	144,585	136,909	6%	125,208	9%
Net non-interest income	47,070	42,461	11%	40,738	4%
Total net operating income	**191,655**	**179,370**	**7%**	**165,946**	**8%**
Total costs	(97,203)	(95,490)	(2)%	(93,432)	(2)%
Result before impairments and provisions	**94,452**	**83,880**	**13%**	**72,514**	**16%**
Impairments and provisions	7,552	(16,290)	146%	(27,807)	41%
Result before tax	**102,004**	**67,590**	**51%**	**44,707**	**51%**
of which Result of minority shareholders	8,245	5,608	47%	3,464	62%

	31 December 2017	31 December 2016	YoY	31 December 2015	YoY
Segment assets	3,851,214	3,540,474	9%	3,389,032	4%
Segment liabilities	3,264,781	3,038,921	7%	2,942,463	3%

In 2017, the core foreign markets segment result before tax increased by 51 per cent. to EUR 102.0 million from EUR 67.6 million as a result of strong loan production, especially in the retail segment, improved cost efficiency, and favourable cost of risk developments. All core foreign banks continued strong loan production with an increase in gross loans of 8 per cent. (especially in Serbia, Macedonia, and Kosovo), as well as the exceptionally low risk results in all entities.

In 2016, the core foreign markets segment result before tax increased by EUR 22.9 million to EUR 67.6 million from EUR 44.7 million in 2015, primarily due to higher operating income and lower impairments and provisions.

Non-core markets and activities

The following table sets out information on the financial results of the non-core markets and activities segment for the years ended 31 December 2017, 2016 and 2015:

	2017	2016	YoY	2015	YoY
			in 000 EUR		
Net interest income	16,785	15,404	9%	21,579	(29)%
Net non-interest income	24,118	10,839	123%	(11,739)	192%
Total net operating income	40,904	26,243	56%	9,839	167%
Total costs	(21,727)	(24,174)	10%	(29,827)	19%
Result before impairments and provisions	**19,177**	**2,069**	**827%**	**(19,988)**	**110%**
Impairments and provisions	12,930	(20,857)	162%	(50,103)	58%
Result before tax	31,179	(18,941)	265%	(70,265)	73%

	31 December 2017	31 December 2016	YoY	31 December 2015	YoY
Segment assets	391,308	502,610	(22)%	752,137	(33)%
Segment liabilities	19,287	57,935	(67)%	114,111	(49)%

The non-core markets and activities segment result before tax ended 2017 with a profit of EUR 31.2 million, while 2016 ended with a loss of EUR 18.9 million, primarily due to successful collection of NPL, a gain from divesting an equity exposures and successful divestment of non-core subsidiaries. The volume of non-strategic segment operations has been decreasing, which is in line with the Restructuring plan and the strategy of non-core divestment.

The non-core markets and activities segment result before tax ended 2016 with a loss of EUR 18.9 million, while 2015 ended with a loss of EUR 70.3 million, primarily due to decreasing the volume of non-strategic segment operations and lower impairments due to the realisation of the 2016 NPL Sale.

8.9 Analysis of Financial Position

Analysis of Financial Position as at 30 June 2018

The following table sets out NLB's and the NLB Group's balance sheet as at the dates indicated:

	NLB				NLB Group			
	As at 30 June 2018	As at 1 January 2018	As at 31 December 2017	% change 30 June 2018 / 1 January 2018	As at 30 June 2018	As at 1 January 2018	As at 31 December 2017	% change 30 June 2018 / 1 January 2018
	unaudited	*unaudited* *(EUR thousands)*	*audited*		*unaudited*	*unaudited* *(EUR thousands)*	*audited*	
Cash, cash balances at central banks and other demand deposits at banks	660,851	569,943	570,010	16%	1,298,731	1,255,824	1,256,481	3%
Financial assets held for trading	67,459	72,180	72,180	(7)%	67,458	72,189	72,189	(7)%
Non-trading financial assets mandatorily at fair value through profit or loss	25,746	31,239	–	(18)%	25,752	31,404	–	(18)%
Financial assets designated at fair value through profit or loss	–	–	634	–	–	–	5,003	–
Financial assets measured at fair value through other comprehensive income	1,484,016	1,285,276	–	15%	1,876,219	1,656,365	–	13%
Financial assets measured at amortised cost								
- debt securities	1,129,743	1,178,088	–	(4)%	1,265,726	1,301,413	–	(3)%
- loans and advances to banks	448,569	461,830	–	(3)%	453,724	509,970	–	(11)%
- loans and advances to customers	4,522,241	4,594,286	–	(2)%	7,037,953	6,956,362	–	1%
- other financial assets	59,877	38,915	–	54%	62,783	67,046	–	(6)%
Available-for-sale financial assets	–	–	1,777,762	–	–	–	2,276,493	–
Loans and advances								
- debt securities	–	–	82,133	–	–	–	82,133	–
- loans and advances to banks	–	–	462,322	–	–	–	510,107	–
- loans and advances to customers	–	–	4,587,477	–	–	–	6,912,333	–
- other financial assets	–	–	38,389	–	–	–	66,077	–
Held-to-maturity financial assets	–	–	609,712	–	–	–	609,712	–
Derivatives - hedge accounting	695	1,188	1,188	(41)%	695	1,188	1,188	(41)%
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,669	719	719	132%	1,669	719	719	132%
Investments in subsidiaries	350,445	349,945	349,945	0%	–	–	–	–
Investments in associates and joint ventures	6,932	6,932	6,932	0%	42,331	43,765	43,765	(3)%

	NLB				NLB Group			
	As at 30 June 2018	**As at 1 January 2018**	**As at 31 December 2017**	**% change 30 June 2018 / 1 January 2018**	**As at 30 June 2018**	**As at 1 January 2018**	**As at 31 December 2017**	**% change 30 June 2018 / 1 January 2018**
	unaudited	*unaudited* *(EUR thousands)*	*audited*		*unaudited*	*unaudited* *(EUR thousands)*	*audited*	
Tangible assets								
Property and equipment	85,490	87,051	87,051	(2)%	184,643	188,355	188,355	(2)%
Investment property	9,266	9,257	9,257	0%	51,130	51,838	51,838	(1)%
Intangible assets	21,747	23,911	23,911	(9)%	32,674	34,974	34,974	(7)%
Current income tax assets	–	–	2,196	–	711	599	2,795	19%
Deferred income tax assets	21,017	20,318	19,758	3%	21,146	19,745	18,603	7%
Other assets	10,905	8,692	8,692	25%	88,614	93,349	93,349	(5)%
Non-current assets classified as held for sale	1,602	2,564	2,564	(38)%	4,227	11,631	11,631	(64)%
TOTAL ASSETS	**8,908,270**	**8,742,334**	**8,712,832**	**2%**	**12,516,186**	**12,296,736**	**12,237,745**	**2%**
Trading liabilities	11,505	9,398	9,398	22%	11,509	9,502	9,502	21%
Financial liabilities measured at fair value through profit or loss	9,152	5,166	635	77%	9,264	5,815	635	59%
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	55,480	72,072	72,072	(23)%	39,083	40,602	40,602	(4)%
- borrowings from banks and central banks	252,499	260,747	260,747	(3)%	268,543	279,616	279,616	(4)%
- due to customers	6,879,432	6,810,967	6,810,967	1%	10,018,043	9,878,378	9,878,378	1%
- borrowings from other customers	4,928	5,726	5,726	(14)%	65,037	74,286	74,286	(12)%
- subordinated liabilities	–	–	–	–	15,029	27,350	27,350	(45)%
- other financial liabilities	81,429	71,534	71,534	14%	119,438	111,019	111,019	8%
Derivatives-hedge accounting	26,132	25,529	25,529	2%	26,132	25,529	25,529	2%
Provisions	65,493	67,232	70,817	(3)%	87,187	93,989	88,639	(7)%
Liabilities of disposal group classified as held for sale	–	–	–	–	–	440	440	(100)%
Current income tax liabilities	6,489	1,014	–	540%	7,257	3,908	2,894	86%
Deferred income tax liabilities	–	–	–	–	2,746	2,558	1,096	7%
Other liabilities	6,914	4,057	4,181	70%	12,337	9,467	9,596	30%
TOTAL LIABILITIES	**7,399,453**	**7,333,442**	**7,331,606**	**1%**	**10,681,605**	**10,562,459**	**10,549,582**	**1%**
EQUITY AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT								
Share capital	200,000	200,000	200,000	0%	200,000	200,000	200,000	0%
Share premium	871,378	871,378	871,378	0%	871,378	871,378	871,378	0%
Accumulated other comprehensive income	21,234	24,688	25,699	(14)%	19,170	24,744	26,752	(23)%
Profit reserves	13,522	13,522	13,522	0%	13,522	13,522	13,522	0%
Retained earnings	402,683	299,304	270,627	35%	692,640	587,742	541,901	18%
	1,508,817	**1,408,892**	**1,381,226**	**7%**	**1,796,710**	**1,697,386**	**1,653,553**	**6%**
Non-controlling interests	–	–	–	–	37,871	36,891	34,610	3%
TOTAL EQUITY	**1,508,817**	**1,408,892**	**1,381,226**	**7%**	**1,834,581**	**1,734,277**	**1,688,163**	**6%**
TOTAL LIABILITIES AND EQUITY	**8,908,270**	**8,742,334**	**8,712,832**	**2%**	**12,516,186**	**12,296,736**	**12,237,745**	**2%**

The statements of financial position for the years ended 31 December 2017, 2016 and 2015 and six months ended 30 June 2017 reflect the classification and measurement in accordance with IAS 39, whereas the statement of financial position for the six months ended 30 June 2018 reflects the classification and measurement in accordance with IFRS 9.

An adjustment arising from the adoption of IFRS 9 was recognised in retained earnings and other comprehensive income as at 1 January 2018. Due to the transition to IFRS 9 requirements, the NLB Group's Shareholders equity increased by EUR 43.8 million and EUR 27.7 million for NLB.

Total assets

The NLB Group had total assets of EUR 12,516 million as at 30 June 2018 (of which EUR 12,171 million and EUR 345 million were contributed by core and non-core operations, respectively), as compared to total assets of EUR 12,238 million as at 31 December 2017 (of which EUR 11,846 million and EUR 391 million were contributed by core and non-core operations, respectively). The EUR 278.4 million, or 2.28 per cent., increase in total assets was primarily due to higher non-trading financial assets and due to higher volume in the cash and balances with banks and central banks.

Total liabilities

The NLB Group had total liabilities of EUR 10,682 million as at 30 June 2018, as compared to total liabilities of EUR 10,550 million as at 31 December 2017. This EUR 132.0 million increase was primarily due to higher Retail deposits.

Total equity

The NLB Group had total equity of EUR 1,834.6 million as at 30 June 2018, as compared to total equity of EUR 1,688.2 million as at 31 December 2017. This EUR 146.4 million, or 9 per cent., increase was primarily due to retained earnings.

Analysis of Financial Position as at 31 December 2017, 2016 and 2015

The following table sets out NLB's and the NLB Group's financial position as at the dates indicated:

	NLB					NLB Group				
	As at 31 December					As at 31 December				
	2017	2016	2015	% change 2017/16	% change 2016/15	2017	2016	2015	% change 2017/16	% change 2016/15
	audited	*audited* (*EUR thousands*)	*audited*			*audited*	*audited* (*EUR thousands*)	*audited*		
Cash, cash balances at central banks and other demand deposits at banks	570,010	617,039	496,806	(8)%	24%	1,256,481	1,299,014	1,161,983	(3)%	12%
Financial assets held for trading	72,180	87,693	267,880	(18)%	(67)%	72,189	87,699	267,413	(18)%	(67)%
Financial assets designated at fair value through profit or loss	634	2,011	4,913	(68)%	(59)%	5,003	6,694	7,595	(25)%	(12)%
Available-for-sale financial assets	1,777,762	1,594,094	1,248,359	12%	28%	2,276,493	2,072,153	1,737,191	10%	19%
Derivatives - hedge accounting	1,188	217	1,083	447%	(80)%	1,188	217	1,083	447%	(80)%
Loans and advances										
- debt securities	82,133	85,315	394,579	(4)%	(78)%	82,133	85,315	394,579	(4)%	(78)%
- loans and advances to banks	462,322	408,056	345,207	13%	18%	510,107	435,537	431,775	17%	1%
- loans and advances to customers	4,587,477	4,843,594	4,826,139	(5)%	0%	6,912,333	6,912,067	6,693,621	0%	3%
- other financial assets	38,389	36,151	48,944	6%	(26)%	66,077	61,014	69,521	8%	(12)%
Held-to-maturity financial assets	609,712	611,449	565,535	0%	8%	609,712	611,449	565,535	0%	8%
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	678	741	6%	(9)%	719	678	741	6%	(9)%
Non-current assets classified as held for sale	2,564	1,788	1,776	43%	1%	11,631	4,263	4,629	173%	(8)%
Property and equipment	87,051	90,496	94,570	(4)%	(4)%	188,355	196,849	207,730	(4)%	(5)%
Investment property	9,257	8,151	8,613	14%	(5)%	51,838	83,663	93,513	(38)%	(11)%
Intangible assets	23,911	23,345	29,627	2%	(21)%	34,974	33,970	39,327	3%	(14)%
Investments in subsidiaries	349,945	339,693	346,001	3%	(2)%		–	–	–	–
Investments in associates and joint ventures	6,932	7,031	7,094	(1)%	(1)%	43,765	43,248	39,696	1%	9%
Current income tax assets	2,196	2,124	–	3%	–	2,795	2,888	929	(3)%	211%
Deferred income tax	19,758	10,622	9,139	86%	16%	18,603	7,735	9,400	141%	(18)%
Other assets	8,692	8,419	9,779	3%	(14)%	93,349	94,558	95,354	(1)%	(1)%
TOTAL ASSETS	**8,712,832**	**8,777,966**	**8,706,785**	**(1)%**	**1%**	**12,237,745**	**12,039,011**	**11,821,615**	**2%**	**2%**
Trading liabilities	9,398	18,787	29,909	(50)%	(37)%	9,502	18,791	29,920	(49)%	(37)%
Financial liabilities designated at fair value through profit or loss	635	2,011	4,912	(68)%	(59)%	635	2,011	4,912	(68)%	(59)%
Derivatives-hedge accounting	25,529	29,024	33,842	(12)%	(14)%	25,529	29,024	33,842	(12)%	(14)%
Financial liabilities measured at amortised cost										
- deposits from banks and central banks	72,072	74,977	96,736	(4)%	(22)%	40,602	42,334	57,982	(4)%	(27)%
- borrowings from banks and central banks	260,747	338,467	519,926	(23)%	(35)%	279,616	371,769	571,029	(25)%	(35)%
- due to customers	6,810,967	6,615,390	6,293,339	3%	5%	9,878,378	9,437,147	9,020,666	5%	5%
- borrowings from other customers	5,726	4,274	16,168	34%	(74)%	74,286	83,619	100,267	(11)%	(17)%
- debt securities in issue	–	277,726	304,962	–	(9)%	–	277,726	304,962	–	(9)%
- subordinated liabilities	–	–	–	–	–	27,350	27,145	27,340	1%	(1)%
- other financial liabilities	71,534	68,784	47,346	4%	45%	111,019	110,295	75,307	1%	46%
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–	–	–	–	–	–	–	–	–	–
Liabilities of disposal group classified as held for sale	–	–	–	–	–	440	–	–	–	–
Provisions	70,817	79,546	105,137	(11)%	(24)%	88,639	100,914	122,639	(12)%	(18)%
Current income tax liabilities	–	–	6,681	–	–	2,894	3,146	7,514	(8)%	(58)%
Deferred income tax liabilities	–	–	–	–	–	1,096	727	313	51%	132%
Other liabilities	4,181	4,186	5,676	0%	(26)%	9,596	8,703	14,539	10%	(40)%
TOTAL LIABILITIES	**7,331,606**	**7,513,172**	**7,464,634**	**(2)%**	**1%**	**10,549,582**	**10,513,351**	**10,371,232**	**0%**	**1%**

	NLB					NLB Group				
	As at 31 December					As at 31 December				
	2017	2016	2015	% change 2017/16	% change 2016/15	2017	2016	2015	% change 2017/16	% change 2016/15
	audited	*audited* (*EUR thousands*)	*audited*			*audited*	*audited* (*EUR thousands*)	*audited*		
EQUITY AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT										
Share capital	200,000	200,000	200,000	0%	0%	200,000	200,000	200,000	0%	0%
Share premium	871,378	871,378	871,378	0%	0%	871,378	871,378	871,378	0%	0%
Accumulated other comprehensive income	25,699	34,581	31,841	(26)%	9%	26,752	29,969	23,603	(11)%	27%
Profit reserves	13,522	13,522	13,522	0%	0%	13,522	13,522	13,522	0%	0%
Retained earnings	270,627	145,313	125,410	86%	16%	541,901	380,444	314,307	42%	21%
	1,381,226	**1,264,794**	**1,242,151**	9%	2%	**1,653,553**	**1,495,313**	**1,422,810**	11%	5%
Non-controlling interests	–	–	–	–	–	34,610	30,347	27,573	14%	10%
TOTAL EQUITY	**1,381,226**	**1,264,794**	**1,242,151**	**9%**	**2%**	**1,688,163**	**1,525,660**	**1,450,383**	**11%**	**5%**
TOTAL LIABILITIES AND EQUITY	**8,712,832**	**8,777,966**	**8,706,785**	**(1)%**	**1%**	**12,237,745**	**12,039,011**	**11,821,615**	**2%**	**2%**

Total assets

The NLB Group had total assets of EUR 12,237.7 million as at 31 December 2017 (of which EUR 11,846 million and EUR 391 million were contributed by core and non-core operations, respectively), as compared to total assets of EUR 12,039.0 million as at 31 December 2016 (of which EUR 11,536 million and EUR 503 million were contributed by core and non-core operations, respectively).

The NLB Group had total assets of EUR 11,821.6 million as at 31 December 2015 (of which EUR 11,070 million and EUR 752 million were contributed by core and non-core operations, respectively). EUR 87.9 million, or 1 per cent., decrease in total assets was in line with the NLB Group's strategy, restructuring targets, the general trend of debt repayment and weak credit demand.

Total liabilities

The NLB Group had total liabilities of EUR 10,549.6 million as at 31 December 2017, as compared to total liabilities of EUR 10,513.4 million as at 31 December 2016. This increase was mainly due to an increase in deposits from customers, compensated by decrease of debt securities in issue.

The NLB Group had total liabilities of EUR 10,371.2 million as at 31 December 2015.

Total equity

The NLB Group had total equity of EUR 1,688.2 million as at 31 December 2017, as compared to total equity of EUR 1,525.7 million as at 31 December 2016. This EUR 162.5 million, or 11 per cent., increase was primarily due to higher retained earnings.

The NLB Group had total equity of EUR 1,450.4 million as at 31 December 2015.

8.10 Liquidity and Capital Resources

The Company is of the opinion that it has sufficient working capital for its present requirements, that is, for at least the 12 months following the date of publication of this Prospectus.

The principal source of funding for the NLB Group is non-banking sector deposits, with EUR 10,682 million of funding sources as at 30 June 2018. As at 30 June 2018, the NLB Group had non-banking sector deposits of EUR 10,018 million of which EUR 7,548 million and EUR 2,204 million corresponded to retail deposits and corporate deposits, respectively.

77 per cent. of non-banking sector deposits are payable on demand. The NLB Group also maintains some wholesale funding arrangements for the purposes of diversification and improvement of structural liquidity. In addition, the NLB Group generates cash flow from its various operating activities. Liquidity is monitored on an ongoing basis by the NLB Group, including the potential necessity of other outside sources of funding at any given time. The NLB Group's liquidity buffer is well diversified by instruments, issuers, countries and maturity structure in order to manage liquidity and interest rate risk. For further information, see "*10. Asset, Liability and Risk Management—Market Risk Management and Liquidity Risk Management*". The NLB Group's material sources of unused liquidity are a securities portfolio consisting of investment grade

assets and an ECB eligible loan portfolio. As a result of an increasing share of demand deposits, the NLB Group also maintains a relatively high cash position. The NLB Group expects that it will maintain these sources of unused liquidity in the mid-term based on the prevailing market expectations.

As at 31 December 2017, of the EUR 2.9 billion in securities in the banking book, 83 per cent. were investment grade, and 68 per cent. were government bonds. The EUR 199 million, or 2 per cent., increase in total assets was primarily due to higher volume of available for sale debt securities

Contractual maturity of financial liabilities as at 31 December 2017, 2016 and 2015

The following tables set forth the contractual maturity structure of the NLB Group's financial liabilities, as at the years indicated.

As at 31 December 2017	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
			(EUR thousands)			
Trading liabilities	9,502	–	–	–	–	9,502
Financial liabilities designated at fair value through profit or loss	–	–	635	–	–	635
Derivatives - hedge accounting	25,529	–	–	–	–	25,529
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	40,270	–	91	241	–	40,602
- borrowings from banks and central banks	1,655	1,012	23,474	82,015	171,460	279,616
- due to customers	7,729,809	406,897	1,069,764	613,155	58,753	9,878,378
- borrowings from other customers	863	2,917	8,395	39,665	22,446	74,286
- debt securities in issue	–	–	–	–	–	-
- subordinated liabilities	–	167	12,213	5,000	9,970	27,350
- other financial liabilities	96,322	4,367	10,330	–	–	111,019
Total Financial Liabilities	**7,903,950**	**415,360**	**1,124,902**	**740,076**	**262,629**	**10,446,917**

As at 31 December 2016	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
			(EUR thousands)			
Trading liabilities	18,791	–	–	–	–	18,791
Financial liabilities designated at fair value through profit or loss	–	–	1,457	554	–	2,011
Derivatives - hedge accounting	29,024	–	–	–	–	29,024
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	41,947	165	–	222	–	42,334
- borrowings from banks and central banks	4,855	6,920	171,008	133,715	55,271	371,769
- due to customers	6,909,677	456,725	1,331,996	681,072	57,677	9,437,147
- borrowings from other customers	1,298	2,987	9,868	41,616	27,850	83,619
- debt securities in issue	–	–	277,726	–	–	277,726
- subordinated liabilities	–	166	177	16,938	9,864	27,145
- other financial liabilities	98,829	3,522	7,668	276	–	110,295
Total Financial Liabilities	**7,104,421**	**470,485**	**1,799,900**	**874,393**	**150,662**	**10,399,861**

As at 31 December 2015	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
			(EUR thousands)			
Trading liabilities	29,920	–	–	–	–	29,920
Financial liabilities designated at fair value through profit or loss	–	1,390	1,460	2,062	–	4,912
Derivatives - hedge accounting	33,842	–	–	–	–	33,842
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	57,045	–	723	214	–	57,982
- borrowings from banks and central banks	3,050	21,047	163,144	303,381	80,407	571,029
- due to customers	6,194,532	584,268	1,497,562	690,395	53,909	9,020,666
- borrowings from other customers	1,303	3,020	21,124	46,828	27,992	100,267
- debt securities in issue	–	–	29,917	275,045	–	304,962

As at 31 December 2015	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
			(EUR thousands)			
- subordinated liabilities	–	212	33	12,184	14,911	27,340
- other financial liabilities	60,622	5,620	4,291	4,774	–	75,307
Total financial Liabilities	**6,380,314**	**615,557**	**1,718,254**	**1,334,883**	**177,219**	**10,226,227**

The following tables set forth the contractual maturity structure of NLB's financial liabilities, as at the periods indicated.

As at 31 December 2017	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
			(EUR thousands)			
Trading liabilities	9,398	–	–	–	–	9,398
Financial liabilities designated at fair value through profit or loss	–	–	635	–	–	635
Derivatives - hedge accounting	25,529	–	–	–	–	25,529
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	72,072	–	–	–	–	72,072
- borrowings from banks and central banks	85	666	17,312	71,687	170,997	260,747
- due to customers	5,797,927	256,230	568,109	136,144	52,557	6,810,967
- borrowings from other customers	–	–	2	5,716	8	5,726
- debt securities in issue	–	–	–	–	–	–
- other financial liabilities	67,530	3,703	301	–	–	71,534
Total financial liabilities	**5,972,541**	**260,599**	**586,359**	**213,547**	**223,562**	**7,256,608**

As at 31 December 2016	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
			(EUR thousands)			
Trading liabilities	18,787	–	–	–	–	18,787
Financial liabilities designated at fair value through profit or loss	–	–	1,457	554	–	2,011
Derivatives - hedge accounting	29,024	–	–	–	–	29,024
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	74,977	–	–	–	–	74,977
- borrowings from banks and central banks	3,167	5,140	160,295	115,212	54,653	338,467
- due to customers	5,204,618	313,155	776,673	266,779	54,165	6,615,390
- borrowings from other customers	–	–	–	4,265	9	4,274
- debt securities in issue	–	–	277,726	–	–	277,726
- other financial liabilities	65,854	2,930	–	–	–	68,784
Total financial liabilities	**5,396,427**	**321,225**	**1,216,151**	**386,810**	**108,827**	**7,429,440**

As at 31 December 2015	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
			(EUR thousands)			
Trading liabilities	29,909	–	–	–	–	29,909
Financial liabilities designated at fair value through profit or loss	–	1,390	1,460	2,062	–	4,912
Derivatives - hedge accounting	33,842	–	–	–	–	33,842
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	96,731	–	5	–	–	96,736
- borrowings from banks and central banks	166	19,194	148,818	272,736	79,012	519,926
- due to customers	4,639,535	410,150	904,687	292,564	46,403	6,293,339
- borrowings from other customers	–	–	10,009	6,149	10	16,168
- debt securities in issue	–	–	29,917	275,045	–	304,962

As at 31 December 2015	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
			(EUR thousands)			
- other financial liabilities	42,098	5,248	–	–	–	47,346
Total financial liabilities	**4,842,281**	**435,982**	**1,094,896**	**848,556**	**125,425**	**7,347,140**

8.11 Analysis of cash flows

Analysis of cash flow for the six months ended 30 June 2018 and 2017

The following table summarises NLB's and the NLB Group's selected statements of cash flows for the periods indicated:

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	unaudited	*unaudited*	*unaudited*	*unaudited*
	(EUR thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	116,571	115,492	203,809	198,948
Interest paid	(12,827)	(15,199)	(24,050)	(27,794)
Dividends received	40,469	27,417	1,809	4,348
Fee and commission receipts	65,078	62,174	106,637	100,674
Fee and commission payments	(15,267)	(14,248)	(28,195)	(26,596)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	462	11,574	716	11,976
Net (losses)/gains from financial assets and liabilities held for trading	1,189	(187)	4,394	2,315
Payments to employees and suppliers	(81,869)	(77,224)	(129,251)	(122,098)
Other income	6,428	7,348	11,756	14,654
Other expenses	(10,223)	(9,105)	(14,842)	(14,926)
Income tax paid	1,045	2,082	(5,377)	(3,834)
Cash flows from operating activities before changes in operating assets and liabilities	**111,056**	**110,124**	**127,406**	**137,667**
(Increases)/decreases in operating assets	**(141,490)**	**38,080**	**(281,254)**	**(54,863)**
Net (increase)/decrease in trading assets	6,392	(34,454)	6,392	(34,454)
Net (increase)/decrease in financial assets designated at fair value through profit or loss	–	–	–	946
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss	12,351	–	9,768	–
Net (increase)/decrease in financial assets at fair value through other comprehensive income	(211,502)	–	(233.629)	–
Net (increase)/decrease in available-for-sale financial assets	–	(46,071)	–	(53,673)
Net (increase)/decrease in loans and receivables at amortised cost	50,990	117,610	(71,570)	28,527
Net (increase)/decrease in other assets	279	995	7,785	3,791
Increase/(decreases) in operating liabilities	**54,883**	**16,231**	**133,573**	**20,342**
Net increase/(decrease) in financial liabilities designated at fair value through profit or loss	(691)	–	(691)	–
Net increase/(decrease) in deposits and borrowings measured at amortised cost	54,882	15,786	133,953	19,182
Net increase/(decrease) in other liabilities	692	445	311	1,160
Net cash used in operating activities	**24,449**	**164,435**	**(20,275)**	**103,146**
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts from investing activities	**171,441**	**55,972**	**181,853**	**57,184**

	NLB		NLB Group	
	Six months ended 30 June			
	2018	2017	2018	2017
	unaudited	*unaudited*	*unaudited*	*unaudited*
	(EUR thousands)			
Proceeds from sale of property and equipment and investment property	5	8	2,014	1,220
Proceeds from sale of subsidiaries and associates	10,268	238	18,671	238
Proceeds from disposals of debt securities measured at amortised cost	161,131	–	161,131	–
Proceeds from non-current assets held for sale	37	323	37	323
Proceeds from disposals of held-to-maturity financial assets	–	55,403	–	55,403
Payments from investing activities	**(136,785)**	**(59,861)**	**(140,328)**	**(52,365)**
Purchase of property and equipment and investment property	(6,344)	(2,146)	(8,916)	(4,136)
Purchase of intangible assets	(4,357)	(5,382)	(5,828)	(6,680)
Purchase of subsidiaries and increase in subsidiaries' equity	(500)	(10,784)	–	–
Purchase of debt securities measured at amortised cost	(125,584)	–	(125,584)	–
Purchase of held-to-maturity financial assets	–	(41,549)	–	(41,549)
Net cash flows used in investing activities	**34,656**	**(3,889)**	**41,525**	**4,819**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from financing activities	–	(63,780)	(15,094)	(67,430)
Dividends paid	–	(63,780)	(3,116)	(67,430)
Repayments of subordinated debt	–	–	(11,978)	–
Net cash from financing activities	–	(63,780)	**(15,094)**	**(67,430)**
Effects of exchange rate changes on cash and cash equivalents	(402)	(7,661)	(2,611)	(5,366)
Net increase/(decrease) in cash and cash equivalents	**59,105**	**96,766**	**6,156**	**40,535**
Cash and cash equivalents at beginning of period	**662,419**	**670,682**	**1,475,714**	**1,449,275**
Cash and cash equivalents at end of period	**721,122**	**759,787**	**1,479,259**	**1,484,444**

Net cash flow used in operating activities

For the six months ended 30 June 2018, the NLB Group's net cash outflow used in operating activities decreased to EUR (20.3) million compared to EUR 103.1 million for the same period for the six months ended 30 June 2017. This decrease was primarily due to a net decrease in financial assets at fair value through other comprehensive income.

Net cash flow used in investing activities

For the six months ended 30 June 2018, the NLB Group's net cash used in investing activities increased to EUR 41.5 million compared to EUR 4.8 million for the same period for the six months ended 30 June 2017. This increase was primarily due to the maturity of debt securities measured at amortised cost and sale of subsidiary.

Net cash flow used in financing activities

For the six months ended 30 June 2018, the NLB Group's net cash used in financing activities decreased to EUR 15.1 million compared to EUR 67.4 million for the same period for the six months ended 30 June 2017. This decrease was primarily due to dividends paid.

Analysis of cash flow for the years ended 31 December 2017, 2016 and 2015

The following table summarises NLB's and the NLB Group's selected statements of cash flows for the years indicated:

	NLB			NLB Group		
	Year ended 31 December					
	2017	2016	2015	2017	2016	2015
	audited	*audited*	*audited*	*audited*	*audited*	*audited*
	(EUR thousands)					
CASH FLOWS FROM OPERATING ACTIVITIES						
Interest received	210,292	240,789	294,113	383,615	413,337	467,091
Interest paid	(33,714)	(44,510)	(72,613)	(60,165)	(78,401)	(121,143)
Dividends received	50	1,139	1,264	179	1,233	1,346
Fee and commission receipts	125,760	119,296	126,371	206,100	192,295	194,133
Fee and commission payments	(29,385)	(27,056)	(30,993)	(56,855)	(51,996)	(48,713)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	11,883	13,147	10,886	12,455	13,296	10,964
Realised losses from financial assets and financial liabilities not at fair value through profit or loss	–	(40)	(234)	–	(40)	(234)
Net (losses)/gains from financial assets and liabilities held for trading	3,646	(2,785)	(28,335)	9,421	3,246	(23,110)
Payments to employees and suppliers	(160,484)	(165,579)	(174,051)	(254,877)	(262,202)	(271,456)
Other income	12,391	13,256	14,136	27,135	26,352	31,129
Other expenses	(15,075)	(14,857)	(16,487)	(28,775)	(26,132)	(28,935)
Income tax paid	(509)	(14,489)	(678)	(10,557)	(19,991)	(4,980)
Cash flows from operating activities before changes in operating assets and liabilities	**124,855**	**118,311**	**123,379**	**227,676**	**210,997**	**206,092**
(Increases)/decreases in operating assets	**45,391**	**30,540**	**(34,116)**	**(227,829)**	**(139,839)**	**(143,429)**
Net (increase)/decrease in trading assets	9,001	164,609	(135,235)	9,001	163,609	(135,235)
Net (increase)/decrease in financial assets designated at fair value through profit or loss	1,487	2,795	–	1,801	1,026	(880)
Net (increase)/decrease in available-for-sale financial assets	(216,235)	(353,677)	(88,304)	(228,936)	(344,588)	(45,544)
Net decrease in loans and advances	250,062	214,615	189,680	(18,524)	37,715	33,155
Net (increase)/decrease in other assets	1,076	2,198	(257)	8,829	2,399	5,075
Increase/(decrease) in operating liabilities	**(130,582)**	**101,342**	**(208,931)**	**86,953**	**197,351**	**(200,359)**
Net decrease in financial liabilities designated at fair value through profit or loss	(1,487)	(2,801)	–	(1,487)	(2,801)	–
Net increase/(decrease) in deposits and borrowings measured at amortised cost	145,241	130,815	(155,700)	361,928	227,842	(146,993)
Net (decrease)/increase in securities measured at amortised cost	(274,200)	(26,913)	(53,469)	(274,200)	(26,913)	(53,469)

	NLB			NLB Group		
	Year ended 31 December					
	2017	2016	2015	2017	2016	2015
	audited	*audited*	*audited*	*audited*	*audited*	*audited*
	(EUR thousands)					
Net increase/(decrease) in other liabilities	(136)	241	238	712	(777)	103
Net cash used in operating activities	**39,664**	**250,193**	**(119,668)**	**86,800**	**268,509**	**(137,696)**
CASH FLOWS FROM INVESTING ACTIVITIES						
Receipts from investing activities	**129,259**	**98,095**	**188,913**	**112,661**	**77,903**	**178,923**
Proceeds from sale of property and equipment and investment property	75	400	68	37,274	5,536	3,718
Proceeds from sale of subsidiaries	38	–	–	38	–	–
Proceeds from dividends from subsidiaries and associates	58,012	28,915	13,747	4,215	3,587	35
Proceeds from sale associates and joint ventures	238	–	–	238	–	–
Proceeds from non-current assets held for sale	493	128	98	493	128	170
Proceeds from disposals of held-to-maturity financial assets	70,403	68,652	175,000	70,403	68,652	175,000
Payments from investing activities	**(99,762)**	**(161,064)**	**(70,863)**	**96,991**	**(153,178)**	**(51,377)**
Purchase of property and equipment and investment property	(5,776)	(10,990)	(5,672)	(10,793)	(17,896)	(11,404)
Purchase of intangible assets	(7,605)	(4,466)	(5,577)	(10,801)	(6,981)	(7,685)
Purchase of subsidiaries and increase in subsidiaries' equity	(12,580)	(17,307)	(27,730)	(1,596)	–	(404)
Increase in associates and joint ventures' equity	–	(12,250)	–	–	(12,250)	–
Purchase of held-to-maturity financial assets	(73,801)	(116,051)	(31,884)	(73,801)	(116,051)	(31,884)
Net cash flows used in investing activities	**29,497**	**(62,969)**	**118,050**	**15,670**	**(75,275)**	**127,546**
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from financing activities	**–**	**–**	**–**	–	–	**9,900**
Issue of subordinated debt	–	–	–	**–**	**–**	9,900
Issue of ordinary shares and other equity instruments	–	–	–	–	–	–
Payments from financing activities	**(63,780)**	**(43,880)**	**–**	**(67,557)**	**(46,655)**	**(977)**
Dividends paid	(63,780)	(43,880)	–	(67,512)	(46,655)	(977)
Repayments of subordinated debt	–	–	–	–	–	–
Other payments related to financing activities	–	–	–	(45)	–	–
Net cash from financing activities	**(63,780)**	**(43,880)**	**–**	**(67,557)**	**(46,655)**	**8,923**
Effects of exchange rate changes on cash and cash equivalents	(13,644)	1,507	8,226	(8,474)	693	10,246
Net increase/(decrease) in cash and cash equivalents	**5,381**	**143,344**	**(1,618)**	**34,913**	**146,579**	**(1,227)**
Cash and cash equivalents at beginning of year	**670,682**	**525,831**	**519,223**	**1,449,275**	**1,302,003**	**1,292,984**
Cash and cash equivalents at end of year	**662,419**	**670,682**	**525,831**	**1,475,714**	**1,449,275**	**1,302,003**

Net cash flow used in operating activities

For 2017, the NLB Group's net cash outflow used in operating activities decreased, to EUR 86.8 million compared to EUR 268.5 million for the same period in 2016. This decrease was primarily due to maturity of issued securities at amortised cost.

For 2016, the NLB Group's net cash outflow used in operating activities increased, to EUR 268.5 million compared to EUR (137.7) million for the same period in 2015. This increase was primarily due to a net decrease in deposits and borrowings measured at amortised cost.

Net cash flow used in investing activities

For 2017, the NLB Group's net cash used in investing activities increased to EUR 15.7 million compared to EUR (75.3) million for the same period in 2016. This increase was primarily due to net sales of held-to-maturity financial assets.

For 2016, the NLB Group's net cash used in investing activities decreased to EUR (75.3) million compared to EUR 127.5 million for the same period in 2015. This decrease was primarily due to lower net sales of held-to-maturity financial assets.

Net cash flow used in financing activities

For 2017, the NLB Group's net cash flow used in financing activities decreased to EUR (67.6) million compared to EUR (46.7) million for the same period in 2016. This decrease was due to dividends paid.

For 2016, the NLB Group's net cash flow used in financing activities decreased to EUR (46.7) million compared to EUR 8.9 million for the same period in 2015. This decrease was due to dividends paid.

8.12 Off-balance sheet items

The NLB Group regularly assesses off-balance sheet liabilities and recognises related provisions where necessary. The NLB Group utilises off-balance sheet liability primarily for commitments to extend credit and for guarantees.

Contractual amounts of off-balance sheet financial instruments as at 30 June 2018

The following tables summarises NLB's and the NLB Group's off-balance sheet financial instruments for the periods indicated:

	NLB	NLB Group
	30 June 2018	
	(EUR thousands)	
Non-financial guarantees	331,048	425,271
Financial guarantees	223,562	351,430
Commitments to extend credit	881,147	1,115,200
Letters of credit	4,278	15,806
Other	12,408	15,299
Provisions	(30,018)	(38,314)
TOTAL	**1,422,425**	**1,884,692**

As at 30 June 2018, total amount of off-balance sheet financial instruments less provisions for the NLB Group increased by EUR 31.1 million to EUR 1,884.7 million from EUR 1,853.6 million as at 31 December 2017. This increase was mainly due to higher exposure in financial guarantees.

Contractual amounts of off-balance sheet financial instruments as at 31 December 2017, 2016 and 2015

The following tables summarises NLB's and the NLB Group's off-balance sheet financial instruments for the years indicated:

	NLB			NLB Group		
	31 December					
	2017	2016	2015	2017	2016	2015
	(EUR thousands)					
Short-term guarantees ..	109,885	87,957	97,543	188,104	162,535	190,705
- financial	50,978	49,611	50,844	105,420	109,412	124,080
- non-financial.............	58,907	38,346	46,699	82,684	53,123	66,625
Long-term guarantees ..	408,119	447,125	489,163	553,436	586,895	599,865
- financial	127,357	140,031	162,973	209,091	222,869	233,706
- non-financial.............	280,762	307,094	326,190	344,345	364,026	366,159
Commitments to extend credit	898,927	881,198	923,755	1,130,250	1,075,940	1,101,241
Letters of credit	375	3,761	3,567	14,614	17,485	19,402
Other............................	69	118	117	4,109	8,329	7,289
	1,417,375	1,420,159	1,514,145	1,890,513	1,851,184	1,918,502
Provisions.....................	(34,257)	(49,865)	(77,643)	(36,915)	(53,681)	(81,999)
TOTAL........................	**1,383,118**	**1,370,294**	**1,436,502**	**1,853,598**	**1,797,503**	**1,836,503**

In 2017, the total amount of off-balance sheet financial instruments less provisions for the NLB Group increased by 3.1 per cent., to EUR 1,854 million compared to EUR 1,798 million in 2016. This increase was primarily due to higher exposure to commitments to extent credit in 2017.

Analysis of derivative financial instruments by notional amounts as at 30 June 2018

	NLB		NLB Group	
	30 June 2018			
	Short-term	Long- term	Short-term	Long- term
	(EUR thousands)			
Swaps	76,472	1,730,949	76,472	1,730,949
- *currency swaps*	*76,472*	*61,486*	*76,472*	*61,486*
- *interest rate swaps*..	–	*1,669,463*	–	*1,669,463*
- *currency interest rate swaps*	–	–	–	–
Options	11,954	31,437	11,954	31,437
- *currency options*	–	–	–	–
- *interest rate options*	–	*31,437*	–	*31,437*
- *securities options*	*11,954*	–	*11,954*	–
Forward contracts...	112,665	34,248	112,431	34,248
- *currency forward*	*112,665*	*34,248*	*112,431*	*34,248*
Futures..	–	–	–	–
- *currency futures*	–	–	–	–
TOTAL..	**201,091**	**1,796,634**	**200,857**	**1,796,634**
	1,997,725		**1,997,491**	

Analysis of derivative financial instruments by notional amounts as at 31 December 2017, 2016 and 2015

	NLB						NLB Group					
	31 December											
	2017		2016		2015		2017		2016		2015	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
	(EUR thousands)											
Swaps	141,137	1,696,447	57,188	810,972	90,258	1,026,002	158,109	1,696,447	57,188	810,972	90,258	1,023,123
- *currency swaps*....	141,137	–	57,188	–	90,258	3,312	158,109	–	57,188	–	90,258	3,312
- *interest rate swaps*....	–	1,696,447	–	808,898	–	1,000,689	–	1,696,447	–	808,898	–	997,810
- *currency interest rate swaps*....		–		2,074	–	22,001	–	–	–	2,074	–	22,001
Options	11,262	26,125	10,703	1,495	15,085	4,763	11,262	26,125	10,703	1,495	15,085	4,763
- *currency options*..	–	–	–	–	7,093	–	–	–	–	–	7,093	–
- *interest rate options*..	–	26,125	–	1,495	–	4,763	–	26,125	–	1,495	–	4,763
- *securities options*	11,262	–	10,703	–	7,992	–	11,262	–	10,703	–	7,992	–
Forward contracts.....	67,329	29,927	191,280	7,468	114,393	12,188	67,918	29,927	192,950	7,468	114,030	12,188
- *currency forward*.	67,329	29,927	191,280	7,468	114,393	12,188	67,918	29,927	192,950	7,468	114,030	12,188
Futures	–	–	2,400	–	2,500	–	–	–	2,400	–	2,500	–

	NLB						NLB Group					
	31 December											
	2017		2016		2015		2017		2016		2015	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
	(EUR thousands)											
- *currency futures* ..	–	–	2,400	–	2,500	–	–	–	2,400	–	2,500	–
- *interest rate futures*	–	–	–	–	–	–	–	–	–	–	–	–
TOTAL...........	**219,728**	**1,752,499**	**261,571**	**819,935**	**222,236**	**1,042,953**	**237,289**	**1,752,499**	**263,241**	**819,935**	**221,873**	**1,040,074**
	1,972,227		**1,081,506**		**1,265,189**		**1,989,788**		**1,083,176**		**1,261,189**	

Since 2013, the NLB Group has steadily decreased the notional amounts of its derivative financial instruments. The amount of derivatives depends on the balance sheet structure, target exposure to different risks and trading and sales activities. In 2017, the total notional amount of derivative financial instruments held by the NLB Group increased by EUR 906.6 million, to EUR 1,989.8 million compared to EUR 1,083.2 million for the same period in 2016. As at 31 December 2017, of EUR 1,989.8 million notional amounts of derivatives, of which EUR 423 million relates to managing of interest rate risk and foreign currency risk of banking book. The remaining EUR 1,566.8 relates to transactions, entered into on behalf of NLB Group's customers, which are covered through back-to-back transactions involving third parties with an external investment-grade rating. In 2016, the total notional amount of derivative financial instruments held by the NLB Group decreased by EUR 178.0 million, to EUR 1,083.2 million from EUR 1,261.2 million in 2015.

8.13 Quantitative and Qualitative Disclosures about Market Risk

For a discussion of the NLB Group's risk management framework and principal market risks, see "*10. Asset, Liability and Risk Management*".

8.14 Critical Accounting Estimates and Judgements in applying Accounting Policies

The preparation of NLB Group's financial statements requires accounting policies, assumptions, estimates and management's judgement. The NLB Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with the IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and assumptions are evaluated on a continuing basis, and are based on past experience and other factors, including expectations with regard to future events. For additional information about the NLB Group's critical accounting estimates and judgements in applying accounting policies, see Note 2 to the Audited Financial Statements as of and for the year ended 31 December 2017 and information on IFRS 9 accounting policies in Condensed Interim Financial Statements of NLB Group and NLB as at 30 June 2018.

(a) ***Impairment for credit losses***

(i) Applicable to 2015, 2016 and 2017 only

The NLB Group monitors and checks the quality of the loan portfolio at the individual and portfolio levels to continuously estimate the necessary impairments. The NLB Group creates individual impairments for individually significant financial assets where objective evidence of impairment exists. Such evidence is based on information regarding the worsening of the debtor's ability to pay its obligations or other financial difficulties of the debtor and other important facts defined in Note 2.13 to the 2017 financial statements. Individual assessments are based on the expected discounted cash flows from operations and/or the assessed expected payment from collateral, as verified by the Credit Analyses and Control Division.

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

(ii) Applicable to 2018 only

The measurement of the ECL allowance for financial assets measured at amortized cost and at fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is explained in Note 2.2 of the Condensed Interim Financial Statements of NLB Group and NLB as at 30 June 2018.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Incorporation of forward-looking information in both the assessment if significant increase in credit risk and the measurement of ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

(b) ***Stress testing for credit risk by evaluating the influence of unfavourable macroeconomic conditions on the rate of default and loss***

Stress testing is structured to take into account a probable scenario and a stress scenario in the testing of each stress situation. It is assumed that the risk in the probable scenario is covered by regulatory capital, while the stress scenario assumes a deteriorating stress exceeding expectations. The stress scenario predicts a slowdown of economic conditions, which results in an increase of default rate as well as the loss rate. Based on the historic experience the connection between the macroeconomic factors and the risk factors is assessed and benchmarks are applied to the existing exposures to assess the additional impairments and provisions required to cover the risk. For the purpose of the Internal Capital Adequacy Process ("**ICAAP**") the scenario predicts two levels of severity – consequently there are results for the Baseline and Adverse scenario.

The difference between the two scenarios is the amount of additionally required impairments that must be created by NLB in the event of their realization. The assumption in these scenarios is that exposure does not change over one year.

(c) ***Fair value of financial instruments***

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

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

The fair values of derivative financial instruments are determined on the basis of market data (mark-to-market), in accordance with the NLB Group's methodology for the valuation of derivative financial instruments. The market exchange rates, interest rates, yield and volatility curves used in valuation are based on the market snapshot principle. Market data are saved daily at 4 p.m. and later used for the calculation of the fair values (market value, net present value (NPV)) of financial instruments. The NLB Group applies market yield curves for valuation, fair values are additionally adjusted for credit risk of the counterparty.

(d) ***Available-for-sale equity instruments (applicable to 2015, 2016 and 2017 only)***

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

(e) ***Held-to-maturity financial assets (applicable to 2015, 2016 and 2017 only)***

The NLB Group classifies non-derivative financial assets with fixed or determinable payments and a fixed maturity as held-to-maturity financial assets. Before making this classification, the NLB Group assesses its intention and ability to hold such investments to maturity. If the NLB Group is unable to hold these investments until maturity, it must reclassify the entire group as available-for-sale financial assets.

(f) ***Classification and measurement of debt financial assets (applicable to 2018 only)***

From a classification and measurement perspective, all debt financial assets need to be assessed on a combination of the Groups business model for managing the assets and the instruments' contractual cash flow characteristics. This assessment is the basis for classification into groups of financial assets and their initial and subsequent measurement.

(g) ***Impairment of investments in subsidiaries, associates and joint ventures***

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

- Future cash flows from individual investments present the estimated cash flow for periods for which adopted plans are available. For core members, estimated cash flows are based on a five-year business plan. For non-core members, estimated cash flows are based on a period in line with the strategy of divestment. The business plans of individual entities are based on an assessment of future economic conditions that will impact an individual member's business and the quality of the credit portfolio.

- The growth rate in cash flows for the period following the adopted business plan is between 1 per cent. and 1.5 per cent.

- A target capital adequacy ratio of an individual bank is between 13 per cent. and 17 per cent.

- The discount rate derived from the capital asset pricing model and used to discount future cash flows is based on the cost of equity allocated to an individual investment. The discount rate reflects the impact of a range of financial and economic variables, including the risk-free rate and market risk premium. The value of variables used is subject to fluctuations outside management's control. A discount rate is between 9.7 per cent. and 19.07 per cent. in year 2017.

(h) ***Goodwill***

In the consolidated financial statements goodwill is allocated to cash-generating units ("**CGUs**"), which represent the lowest level within the NLB Group at which these assets are monitored by management. Each NLB Group entity presents a separate CGU. The recoverable amount of each CGU is determined based on value-in-use calculations. The NLB Group performs a test for the impairment of goodwill at the end of the year. The NLB Group has recognised goodwill on only one of its subsidiaries for the last three years.

(i) ***Taxes***

The NLB Group operates in countries governed by different laws. The deferred tax assets recognised as at 31 December 2017 are based on profit forecasts (five years) and take the expected recovery of the assets into account, i.e. whether the value will be recovered through use, sale or liquidation. Due to some uncertainties regarding external factors, including the regulatory environment and market situation, a lower range of expected outcomes was considered for purposes of deferred tax assets calculation in 2017. Changes in assumptions regarding the likely manner of recovering assets can lead to the recognition of currently unrecognised deferred tax assets or derecognition of previously created deferred tax assets. The NLB Group will adjust deferred tax assets accordingly in the event of changes to assumptions regarding future operations.

(j) ***Classification of issued financial instruments as debt or equity***

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

9. SELECTED STATISTICAL AND OTHER INFORMATION

The following discussion sets out certain selected statistical information, ratios and other data that have been derived from the Financial Statements which appear elsewhere in this Prospectus and from the unaudited consolidated management accounts. Historical results may not indicate future performance. The forward-looking statements contained in this discussion are subject to a variety of factors that could cause actual results to differ materially from those contemplated by such statements. Factors that may cause such differences include, but are not limited to, those discussed in "Presentation of Financial Information—Cautionary Note Regarding Forward-Looking Statements" and "2. Risk Factors". The discussions and selected statistical information and other data set forth below should be read in conjunction with the Financial Statements, as well as the information set forth under the captions "8. Operating and Financial Review" and "Presentation of Financial Information", all included elsewhere in this Prospectus.

9.1 Average Balances and Rates and Volume and Rate Analysis

The following tables set out the average balances of the NLB Group's interest-earning assets and interest-bearing liabilities, and their related interest income and expense, respectively, and average rates, for the years indicated:

	Average balance			Interest income&exp.			Interest rates			Effect		
	Actual	Actual	Change	Actual	Actual	Change	Actual	Actual	Change			
	H1 2018	H1 2017	YoY	H1 2018	H1 2017	YoY	H1 2018	H1 2017	YoY	Spread	Volume	Total
						in EUR thousand						
Interest-earning assets												
Loans and advances from customers	7,538,637	7,867,353	(382,717)	149,182	151,466	(2,284)	4.0%	3.9%	0.1 p.p.	4,221	(6,505)	(2,284)
Balances due from credit institutions	522,538	677,609	(155,071)	1,523	913	610	0.6%	0.3%	0.3 p.p.	1,062	(452)	610
Balances due from central banks	1,000,521	830,938	169,583	(1,429)	(1,187)	(242)	(0.3)%	(0.3)%	0.0 p.p.	0	(242)	(242)
Non-trading securities	2,996,395	2,600,964	395,431	21,505	22,366	(861)	1.4%	1.7%	(0.3) p.p.	(3,699)	2,838	(861)
Held for trading securities	48,934	69,365	(20,431)	25	111	(86)	0.1%	0.3%	(0.2) p.p.	(76)	(10)	(86)
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Total interest-earning assets	**12,107,026**	**12,046,230**	**60,796**	**170,806**	**173,669**	**(2,863)**	**2.8%**	**2.9%**	**(0.1) p.p.**	**1,509**	**(4,372)**	**(2,863)**
Interest bearing liabilities												
Balances due to credit institutions and central banks	383,423	462,346	(78,923)	1,543	2,202	(659)	0.8%	1.0%	(0.1) p.p.	(341)	(318)	(659)
Deposits from customers	9,940,063	9,452,397	487,667	13,057	15,646	(2,589)	0.3%	0.3%	(0.1) p.p.	(3,230)	641	(2,589)
Financial liabilities designated at fair value through profit or loss												
Subordinated liabilities	25,664	27,432	(1,769)	787	814	(27)	6.1%	5.9%	0.2 p.p.	27	(54)	(27)
Issued debt securities	-	279,871	(279,871)	-	4,309	(4,309)	-	3.1%	(3.1) p.p.	-	(4,309)	(4,309)
Total interest-bearing liabilities	**10,349,149**	**10,222,046**	**127,104**	**15,387**	**22,971**	**(7,584)**	**0.3%**	**0.4%**	**(0.2) p.p.**	**(3,544)**	**(4,040)**	**(7,584)**
Difference A-L	1,757,876	1,824,184	(66,308)	155,419	150,698	4,721				5,052	(331)	4,721
Derivatives				(3,740)	(2,131)	(1,609)					(1,609)	(1,609)
NET INTEREST INCOME				**151,679**	**148,567**	**3,112**				**5,052**	**(1,940)**	**3,112**
NET INTEREST MARGIN in %				**2.5%**	**2.5%**	**0.00 p.p.**						

	Average balance			Interest income&exp.			Interest rates			Effect		
	Actual	Actual	Change	Actual	Actual	Change	Actual	Actual	Change			
	FY 2017	FY 2016	YoY	FY 2017	FY 2016	YoY	FY 2017	FY 2016	YoY	Spread	Volume	Total
						in EUR thousand						
Interest-earning assets												
Loans and advances from customers	7,822,951	8,204,482	(381,531)	311,786	327,130	(15,344)	4.0%	4.0%	0.0 p.p.	(138)	(15,206)	(15,344)
Balances due from credit institutions	688,262	739,225	(50,963)	2,099	1,788	311	0.3%	0.2%	0.1 p.p.	466	(155)	311
Balances due from central banks	773,976	717,983	55,993	(2,103)	(1,187)	(916)	(0.3)%	(0.2)%	(0.1) p.p.	(764)	(152)	(916)
Available for sale securities	2,065,315	1,734,371	330,944	26,476	31,426	(4,950)	1.3%	1.8%	(0.5) p.p.	(9,192)	4,242	(4,950)
Held to maturity securities	594,804	558,124	36,680	16,446	17,997	(1,551)	2.8%	3.2%	(0.5) p.p.	(2,565)	1,014	(1,551)
Held for trading securities	73,716	217,199	(143,483)	237	2,548	(2,311)	0.3%	1.2%	(0.9) p.p.	(1,850)	(461)	(2,311)
Financial assets designated at fair value through profit or loss	382	746	(364)	-	-	-	-	-	-	-	-	-
Total interest-earning assets	**12,019,405**	**12,172,130**	**(152,725)**	**354,941**	**379,702**	**(24,761)**	**3.0%**	**3.1%**	**(0.2) p.p.**	**(14,043)**	**(10,718)**	**(24,761)**
Interest bearing liabilities												
Balances due to credit institutions and central banks	441,798	618,481	(176,683)	4,232	5,731	(1,499)	1.0%	0.9%	0.0 p.p.	193	(1,692)	(1,499)
Deposits from customers	9,574,059	9,161,018	413,041	29,862	41,302	(11,440)	0.3%	0.5%	(0.1) p.p.	(12,728)	1,288	(11,440)
Financial liabilities designated at fair value through profit or loss	1,661	3,195	(1,534)	-	-	-	-	-	-	-	-	-
Subordinated liabilities	27,460	27,495	(35)	1,593	1,840	(247)	5.8%	6.7%	(0.9) p.p.	(245)	(2)	(247)

	Average balance			Interest income&exp.			Interest rates			Effect		
	Actual FY 2017	Actual FY 2016	Change YoY	Actual FY 2017	Actual FY 2016	Change YoY	Actual FY 2017	Actual FY 2016	Change YoY	Spread	Volume	Total
						in EUR thousand						
Issued debt securities	279,871	295,778	(15,907)	4,357	9,376	(5,019)	1.6%	3.2%	(1.6) p.p.	(4,771)	(248)	(5,019)
Total interest-bearing liabilities	**10,324,849**	**10,105,967**	**218,882**	**40,044**	**58,249**	**(18,205)**	**0.4%**	**0.6%**	**(0.2) p.p.**	**(17,551)**	**(654)**	**(18,205)**
Difference A-L	1,694,556	2,066,163	(371,607)	314,897	321,453	(6,556)				3,508	(10,064)	(6,556)
Derivatives				(5,581)	(4,148)	(1,433)					(1,433)	(1,433)
NET INTEREST INCOME				**309,316**	**317,305**	**(7,989)**				**3,508**	**(11,497)**	**(7,989)**
NET INTEREST MARGIN in %				**2.6%**	**2.6%**	**(0.03) b.p.**						

	Average balance			Interest income&exp.			Interest rates			Effect		
	Actual FY 2016	Actual FY 2015	Change YoY	Actual FY 2016	Actual FY 2015	Change YoY	Actual FY 2016	Actual FY 2015	Change YoY	Spread	Volume	Total
						in EUR thousand						
Interest-earning assets												
Loans and advances from customers	8,204,482	8,892,641	(688,159)	327,130	372,490	(45,360)	4.0%	4.2%	(0.2) p.p.	(17,922)	(27,438)	(45,360)
Balances due from credit institutions	739,225	731,243	7,983	1,788	2,098	(310)	0.2%	0.3%	-	(329)	19	(310)
Balances due from central banks	717,983	582,894	135,089	(1,187)	83	(1,270)	(0.2)%	-	(0.2) p.p.	(1,047)	(223)	(1,270)
Available for sale securities	1,734,371	1,549,145	185,226	31,426	33,232	(1,806)	1.8%	2.1%	(0.3) p.p.	(5,162)	3,356	(1,806)
Held to maturity securities	558,124	598,446	(40,322)	17,997	21,656	(3,659)	3.2%	3.6%	(0.4) p.p.	(2,359)	(1,300)	(3,659)
Held for trading securities	217,199	158,463	58,736	2,548	2,396	152	1.2%	1.5%	(0.3) p.p.	(537)	689	152
Financial assets designated at fair value through profit or loss	746	541	205	-	-	-	-	-	-	-	-	-
Total interest-earning assets	**12,172,130**	**12,513,373**	**(341,243)**	**379,702**	**431,955**	**(52,253)**	**3.1%**	**3.5%**	**(0.3) p.p.**	**(27,356)**	**(24,897)**	**(52,253)**
Interest bearing liabilities												
Balances due to credit institutions and central banks	618,481	819,444	(200,963)	5,731	9,764	(4,033)	0.9%	1.2%	(0.3) p.p.	(2,171)	(1,862)	(4,033)
Deposits from customers	9,161,018	8,899,739	261,279	41,302	66,369	(25,067)	0.5%	0.7%	(0.3) p.p.	(26,245)	1,178	(25,067)
Financial liabilities designated at fair value through profit or loss	3,195	5,105	(1,910)	-	-	-	-	-	-	-	-	-
Subordinated liabilities	27,495	22,865	4,630	1,840	1,548	292	6.7%	6.8%	(0.1) p.p.	(18)	310	292
Issued debt securities	295,778	328,402	(32,624)	9,376	10,454	(1,078)	3.2%	3.2%	0.0 p.p.	(44)	(1,034)	(1,078)
Total interest-bearing liabilities	**10,105,967**	**10,075,555**	**30,412**	**58,249**	**88,135**	**(29,886)**	**0.6%**	**0.9%**	**(0.3) p.p.**	**(28,477)**	**(1,409)**	**(29,886)**
Difference A-L	2,066,163	2,437,818	(371,655)	321,453	343,820	(22,367)				1,122	(23,489)	(22,367)
Derivatives				(4,148)	(3,618)	(530)				-	(530)	(530)
NET INTEREST INCOME				**317,305**	**340,202**	**(22,897)**				**1,122**	**(24,019)**	**(22,897)**
NET INTEREST MARGIN in %				**2.6%**	**2.7%**	**(0.1) p.p.**						

Average balances are calculated on a monthly basis.
Average balances represent gross average balances. Interest income for NPLs are included when realised.

9.2 Investment Portfolio

As of 31 December 2017, securities issued by the Republic of Slovenia (banking and trading book positions) held in the NLB Group's investment portfolio represented 55.6 per cent. of the NLB Group's equity (67.5 per cent. at the end of 2016).

The following tables set out the investment portfolio of NLB and the NLB Group for the years indicated thereto.

31 December 2017

NLB	Total	Non-interest-bearing	Interest-bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
				(EUR thousands)				
Financial Assets								
Cash, cash balances at central banks and other demand deposits at banks	570,010	143,725	426,285	426,285	-	-	-	-
Financial assets held for trading	72,180	13,016	59,164	-	55,060	5	2,438	1,661
Financial assets designated at fair value through profit or loss	634	634	-	-	-	-	-	-
Available-for-sale financial assets	1,777,762	46,848	1,730,914	18,190	50,856	384,130	663,277	614,461
Derivatives - hedge accounting	1,188	1,188	-	-	-	-	-	-
Loans and advances								
- debt securities	82,133	-	82,133	-	-	1,896	-	80,237
- loans and advances to banks	462,322	9	462,313	105,616	23,889	325,375	7,433	-
- loans and advances to customers	4,587,477	44,318	4,543,159	1,354,311	1,019,785	1,615,885	309,278	243,900
- other financial assets	38,389	38,389	-	-	-	-	-	-
Held-to-maturity financial assets	609,712	-	609,712	38,070	40,228	6,874	260,537	264,003
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	719	-	-	-	-	-	-
Total Financial Assets	**8,202,526**	**288,846**	**7,913,680**	**1,942,472**	**1,189,818**	**2,334,165**	**1,242,963**	**1,204,262**

31 December 2017

NLB Group	Total	Non-interest-bearing	Interest-bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
				(EUR thousands)				
Financial Assets								
Cash, cash and balances at central banks and other demand deposits at banks	1,256,481	531,414	725,067	725,067	-	-	-	-
Financial assets held for trading	72,189	13,025	59,164	-	55,060	5	2,438	1,661
Financial assets designated at fair value through profit or loss	5,003	4,901	102	-	-	102	-	-
Available-for-sale financial assets	2,276,493	53,184	2,223,309	100,425	143,970	538,822	818,030	622,062
Derivatives - hedge accounting	1,188	1,188	-	-	-	-	-	-
Loans and advances								
- debt securities	82,133	-	82,133	-	-	1,896	-	80,237
- loans and advances to banks	510,107	18	510,089	176,384	28,839	304,676	190	-
- loans and advances to customers	6,912,333	49,484	6,862,849	1,657,695	1,188,308	2,473,342	1,072,627	470,877
- other financial assets	66,077	66,077	-	-	-	-	-	-
Held-to-maturity financial assets	609,712	-	609,712	38,070	40,228	6,874	260,537	264,003
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	719	-	-	-	-	-	-
Total Financial Assets	**11,792,435**	**720,010**	**11,072,425**	**2,697,641**	**1,456,405**	**3,325,717**	**2,153,822**	**1,438,840**

31 December 2016

NLB	Total	Non-interest-bearing	Interest-bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
				(EUR thousands)				
Financial Assets								
Cash, cash balances at central banks and other demand deposits at banks	617,039	128,519	488,520	488,520	-	-	-	-
Financial assets held for trading	87,693	-	87,693	19,220	49,085	9,168	10,220	-
Financial assets designated at fair value through profit or loss	2,011	2,011	-	-	-	-	-	-
Available-for-sale financial assets	1,594,094	67,307	1,526,787	27,709	195,730	371,601	569,219	362,528
Derivatives - hedge accounting	217	217	-	-	-	-	-	-
Loans and advances								
- debt securities	85,315	-	85,315	-	-	1,891	-	83,424
- loans and advances to banks	408,056	7	408,049	77,061	28,596	302,392	-	-
- loans and advances to customers	4,843,594	43,021	4,800,573	1,422,972	1,316,675	1,682,375	227,870	150,681
- other financial assets	36,151	36,151	-	-	-	-	-	-
Held-to-maturity financial assets	611,449	-	611,449	37,691	63,047	16,866	264,360	229,485
Fair value changes of the hedged items in portfolio hedge of interest rate risk	678	678	-	-	-	-	-	-
Total Financial Assets	**8,286,297**	**277,911**	**8,008,386**	**2,073,173**	**1,653,133**	**2,384,293**	**1,071,669**	**826,118**

31 December 2016

NLB Group	Total	Non-interest-bearing	Interest-bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
				(EUR thousands)				
Financial Assets								
Cash and balances with banks and central banks	1,299,014	450,644	848,370	848,370	-	-	-	-
Financial assets held for trading	87,699	6	87,693	19,220	49,085	9,168	10,220	-
Financial assets designated at fair value through profit or loss	6,694	5,960	734	-	-	-	734	-
Available-for-sale financial assets	2,072,153	73,620	1,998,533	110,145	267,093	494,924	759,436	366,935
Derivatives - hedge accounting	217	217	-	-	-	-	-	-
Loans and advances								
- debt securities	85,315	-	85,315	-	-	1,891	-	83,424
- loans and advances to banks	435,537	7	435,530	114,962	42,138	276,794	1,636	-
- loans and advances to customers	6,912,067	54,612	6,857,455	1,816,432	1,387,083	2,524,693	840,204	289,043
- other financial assets	61,014	61,014	-	-	-	-	-	-
Held-to-maturity financial assets	611,449	-	611,449	37,691	63,047	16,866	264,360	229,485
Fair value changes of the hedged items in portfolio hedge of interest rate risk	678	678	-	-	-	-	-	-
Total Financial Assets	**11,571,837**	**646,758**	**10,925,079**	**2,946,820**	**1,808,446**	**3,324,336**	**1,876,590**	**968,887**

31 December 2015

NLB	Total	Non-interest-bearing	Interest-bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
				(EUR thousands)				
Financial Assets								
Cash and balances with banks and central banks	496,806	128,682	368,124	368,124	-	-	-	-
Financial assets held for trading	267,880	10	267,870	40,651	32,940	194,278	1	-
Financial assets designated at fair value through profit or loss	4,913	4,913	-	-	-	-	-	-
Available-for-sale financial assets	1,248,359	70,412	1,177,947	39,489	60,220	184,845	590,844	302,549
Derivatives – hedge accounting	1,083	1,083	-	-	-	-	-	-

NLB	Total	Non-interest-bearing	Interest-bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
				(EUR thousands)				
Loans and advances								
- debt securities	394,579	-	394,579	-	-	311,466	-	83,113
- loans and advances to banks	345,207	10	345,197	20,507	23,904	300,626	160	-
- loans and advances to customers	4,826,139	41,199	4,784,940	1,595,772	1,263,047	1,659,100	178,044	88,977
- other financial assets	48,944	48,944	-	-	-	-	-	-
Held-to-maturity financial assets	565,535	-	565,535	46,620	17,440	51,696	263,554	186,225
Fair value changes of the hedged items in portfolio hedge of interest rate risk	741	741	-	-	-	-	-	-
Total Financial Assets	**8,200,186**	**295,994**	**7,904,192**	**2,111,163**	**1,397,551**	**2,702,011**	**1,032,603**	**660,864**

31 December 2015

NLB Group	Total	Non-interest-bearing	Interest-bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
				(EUR thousands)				
Financial Assets								
Cash and balances with banks and central banks	1,161,983	505,720	656,263	656,263	-	-	-	-
Financial assets held for trading	267,413	10	267,403	40,184	32,940	194,278	1	-
Financial assets designated at fair value through profit or loss	7,595	4,913	2,682	1,929	-	-	753	-
Available-for-sale financial assets	1,737,191	75,462	1,661,729	140,587	110,575	293,237	809,994	307,336
Derivatives – hedge accounting	1,083	1,083	-	-	-	-	-	-
Loans and advances								
- debt securities	394,579	-	394,579	-	-	311,466	-	83,113
- loans and advances to banks	431,775	25	431,750	61,550	46,699	322,784	717	-
- loans and advances to customers	6,693,621	51,431	6,642,190	1,969,369	1,345,506	2,463,505	662,116	201,694
- other financial assets	69,521	69,521	-	-	-	-	-	-
Held-to-maturity financial assets	565,535	-	565,535	46,620	17,440	51,696	263,554	186,225
Fair value changes of the hedged items in portfolio hedge of interest rate risk	741	741	-	-	-	-	-	-
Total Financial Assets	**11,331,037**	**708,906**	**10,622,131**	**2,916,502**	**1,553,160**	**3,636,966**	**1,737,135**	**778,368**

Loans and Receivables

The following table sets out a breakdown of NLB's and the NLB Group's loans and receivables by category for the years indicated:

31 December 2017

NLB	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
				(EUR thousands)			
Cash and obligatory reserves with central banks and other demand deposits at banks	-	-	-	570,010	-	-	570,010
Securities	59,164	634	1,777,762	82,133	609,712	-	2,529,405
- Bonds	4,117	-	1,554,565	82,133	609,712	-	2,250,527

NLB	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
				(EUR thousands)			
- Shares	-	-	46,848	-	-	-	46,848
- Commercial bills	-	-	136,279	-	-	-	136,279
- Treasury bills	55,047	-	40,070	-	-	-	95,117
- Private equity fund	-	634	-	-	-	-	634
- Reverse-sell and repurchase agreements	-	-	-	-	-	-	-
Derivatives	13,016	-	-	-	-	1,188	14,204
Loans and receivables	-	-	-	5,049,799	-	-	5,049,799
- Loans to government	-	-	-	358,675	-	-	358,675
- Loans to banks	-	-	-	462,322	-	-	462,322
- Loans to financial organisations	-	-	-	268,184	-	-	268,184
- Loans to individuals	-	-	-	2,082,562	-	-	2,082,562
Granted overdrafts	-	-	-	*140,209*	-	-	*140,209*
Loans for houses and flats	-	-	-	*1,307,246*	-	-	*1,307,246*
Consumer loans	-	-	-	*519,213*	-	-	*519,213*
Other loans	-	-	-	*115,894*	-	-	*115,894*
- Loans to other customers	-	-	-	1,878,056	-	-	1,878,056
Loans to large corporate customers	-	-	-	*1,216,085*	-	-	*1,216,085*
Loans to SMEs	-	-	-	*661,971*	-	-	*661,971*
Other financial assets	-	-	-	38,389	-	-	38,389
Total Financial Assets	**71,180**	**634**	**1,777,762**	**5,740,331**	**609,712**	**1,188**	**8,201,807**

31 December 2017

NLB Group	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Financial leases	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
				(EUR thousands)				
Cash and obligatory reserves with central banks and other demand deposits at banks	-	-	-	1,256,481	-	-	-	1,256,481
Securities	59,164	5,003	2,280,283	82,133	-	609,712	-	3,036,295
- Bonds	4,117	102	1,809,040	82,133	-	609,712	-	2,505,104
- Shares	-	-	53,184	-	-	-	-	53,184
- Commercial bills	-	-	281,877	-	-	-	-	281,877
- Cash certificates	-	-	-	-	-	-	-	-
- Treasury bills	55,047	-	136,182	-	-	-	-	191,229
- Private equity fund	-	634	-	-	-	-	-	634
- Reverse-sell and repurchase agreements	-	-	-	-	-	-	-	-
- Other investments	-	4,267	-	-	-	-	-	4,267
Derivatives	13,025	-	-	-	-	-	1,188	14,213
Loans and receivables	-	-	-	7,279,228	146,566	-	-	7,425,794
- Loans to government	-	-	-	448,198	8,882	-	-	457,080
- Loans to banks	-	-	-	513,461	-	-	-	513,461
- Loans to financial organisations	-	-	-	77,121	81	-	-	77,202
- Loans to individuals	-	-	-	3,295,336	76,610	-	-	3,371,946
Granted overdrafts	-	-	-	176,769	-	-	-	176,769
Loans for houses and flats	-	-	-	1,740,167	-	-	-	1,740,167
Consumer loans	-	-	-	1,217,349	-	-	-	1,217,349
Other loans	-	-	-	161,051	76,610	-	-	237,661
- Loans to other customers	-	-	-	2,945,112	60,993	-	-	3,006,105
Loans to large corporate customers	-	-	-	1,473,055	6,572	-	-	1,479,627
Loans to SMEs	-	-	-	1,472,057	54,421	-	-	1,526,478
Other financial assets	-	-	-	66,257	-	-	-	66,257
Total Financial Assets	**72,189**	**5,003**	**2,280,283**	**8,684,099**	**146,566**	**609,712**	**1,188**	**11,799,040**

31 December 2016

NLB	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
				(EUR thousands)			
Cash and obligatory reserves with central banks and other demand deposits at banks	-	-	-	617,039	-	-	617,039
Securities	68,757	2,011	1,594,094	85,340	611,449	-	2,361,651
- Bonds	19,735	-	1,262,363	85,315	611,449	-	1,978,862
- Shares	-	-	67,307	-	-	-	67,307
- Commercial bills	19,010	-	209,331	-	-	-	228,341
- Treasury bills	30,012	-	55,093	-	-	-	85,105
- Private equity fund	-	2,011	-	-	-	-	2,011
- Reverse-sell and repurchase agreements	-	-	-	25	-	-	25
Derivatives	18,936	-	-	-	-	217	19,153
Loans and receivables	-	-	-	5,251,625	-	-	5,251,625
- Loans to government	-	-	-	668,300	-	-	668,300
- Loans to banks	-	-	-	408,056	-	-	408,056
- Loans to financial organisations	-	-	-	273,285	-	-	273,285
- Loans to individuals	-	-	-	1,951,115	-	-	1,951,115
Granted overdrafts	-	-	-	*147,779*	-	-	*147,779*
Loans for houses and flats	-	-	-	*1,208,996*	-	-	*1,208,996*
Consumer loans	-	-	-	*480,626*	-	-	*480,626*
Other loans	-	-	-	*113,714*	-	-	*113,714*
- Loans to other customers	-	-	-	1,950,869	-	-	1,950,869
Loans to large corporate customers	-	-	-	*1,296,126*	-	-	*1,296,126*
Loans to SMEs	-	-	-	*654,743*	-	-	*654,743*
Other financial assets	-	-	-	36,151	-	-	36,151
Total Financial Assets	**87,693**	**2,011**	**1,594,094**	**5,990,155**	**611,449**	**217**	**8,285,619**

31 December 2016

NLB Group	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Financial leases	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
				(EUR thousands)				
Cash and obligatory reserves with central banks and other demand deposits at banks	-	-	-	1,299,014	-	-	-	1,299,014
Securities	68,757	6,694	2,072,153	85,340	-	611,449	-	2,844,393
- Bonds	19,735	734	1,619,228	85,315	-	611,449	-	2,336,461
- Shares	-	-	73,620	-	-	-	-	73,620
- Commercial bills	19,010	-	274,489	-	-	-	-	293,499
- Cash certificates	-	-	199	-	-	-	-	199
- Treasury bills	30,012	-	104,617	-	-	-	-	134,629
- Private equity fund	-	2,011	-	-	-	-	-	2,011
- Reverse-sell and repurchase agreements	-	-	-	25	-	-	-	25
- Other investments	-	3,949	-	-	-	-	-	3,949
Derivatives	18,942	-	-	-	-	-	217	19,159
Loans and receivables	-	-	-	7,197,167	150,412	-	-	7,347,579
- Loans to government	-	-	-	765,154	10,832	-	-	775,986
- Loans to banks	-	-	-	435,537	-	-	-	435,537
- Loans to financial organisations	-	-	-	74,312	32	-	-	74,344
- Loans to individuals	-	-	-	3,027,652	63,856	-	-	3,091,508
Granted overdrafts	-	-	-	182,322	-	-	-	182,322
Loans for houses and flats	-	-	-	1,589,762	-	-	-	1,589,762
Consumer loans	-	-	-	1,090,120	-	-	-	1,090,120
Other loans	-	-	-	165,448	63,856	-	-	229,304
- Loans to other customers	-	-	-	2,894,512	75,692	-	-	2,970,204
Loans to large corporate customers	-	-	-	1,530,194	4,409	-	-	1,534,603
Loans to SMEs	-	-	-	1,364,318	71,283	-	-	1,435,601
Other financial assets	-	-	-	61,014	-	-	-	61,014
Total Financial Assets	**87,699**	**6,694**	**2,072,153**	**8,642,535**	**150,412**	**611,449**	**217**	**11,571,159**

31 December 2015

NLB	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
				(EUR thousands)			
Cash and obligatory reserves with central banks and other demand deposits at banks	-	-	-	496,806	-	-	496,806
Securities	237,372	4,913	1,248,359	394,604	565,535	-	2,450,783
- Bonds	43,555	-	999,781	394,579	545,561	-	1,983,476
- Shares	10	-	70,412	-	-	-	70,422
- Commercial bills	151,171	-	151,168	-	-	-	302,339
- Treasury bills	42,636	-	26,998	-	19,974	-	89,608
- Private equity fund	-	4,913	-	-	-	-	4,913
- Reverse-sell and repurchase agreements	-	-	-	25	-	-	25
Derivatives	30,508	-	-	-	-	1,083	31,591
Loans and receivables	-	-	-	5,171,321	-	-	5,171,321
- Loans to government	-	-	-	578,184	-	-	578,184
- Loans to banks	-	-	-	345,207	-	-	345,207
- Loans to financial organisations	-	-	-	391,911	-	-	391,911
- Loans to individuals	-	-	-	1,889,683	-	-	1,889,683
Granted overdrafts	-	-	-	*152,042*	-	-	*152,042*
Loans for houses and flats	-	-	-	*1,165,800*	-	-	*1,165,800*
Consumer loans	-	-	-	*471,889*	-	-	*471,889*
Other loans	-	-	-	*99,952*	-	-	*99,952*
- Loans to other customers	-	-	-	1,966,336	-	-	1,966,336
Loans to large corporate customers	-	-	-	*1,263,030*	-	-	*1,263,030*
Loans to SMEs	-	-	-	*703,306*	-	-	*703,306*
Other financial assets	-	-	-	48,944	-	-	48,944
Total Financial Assets	**267,880**	**4,913**	**1,248,359**	**6,111,675**	**565,535**	**1,083**	**8,199,445**

31 December 2015

NLB Group	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Financial leases	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
				(EUR thousands)				
Cash and obligatory reserves with central banks and other demand deposits at banks	-	-	-	1,161,983	-	-	-	1,161,983
Securities	237,372	7,595	1,737,191	394,604	-	565,535	-	2,942,297
- Bonds	43,555	753	1,350,942	394,579	-	545,561	-	2,335,390
- Shares	10	-	75,462	-	-	-	-	75,472
- Commercial bills	151,171	-	151,168	-	-	-	-	302,339
- Cash certificates	-	-	77,939	-	-	-	-	77,939
- Treasury bills	42,636	-	81,680	-	-	19,974	-	144,290
- Private equity fund	-	4,913	-	-	-	-	-	4,913
- Reverse-sell and repurchase agreements	-	-	-	25	-	-	-	25
- Other investments	-	1,929	-	-	-	-	-	1,929
Derivatives	30,041	-	-	-	-	-	1,083	31,124
Loans and receivables	-	-	-	6,947,552	177,819	-	-	7,125,371
- Loans to government	-	-	-	675,094	13,380	-	-	688,474
- Loans to banks	-	-	-	431,775	-	-	-	431,775
- Loans to financial organisations	-	-	-	139,559	293	-	-	139,852
- Loans to individuals	-	-	-	2,843,107	64,884	-	-	2,907,991
Granted overdrafts	-	-	-	*185,912*	-	-	-	*185,912*
Loans for houses and flats	-	-	-	*1,503,814*	-	-	-	*1,503,814*
Consumer loans	-	-	-	*962,884*	-	-	-	*962,884*
Other loans	-	-	-	*190,497*	*64,884*	-	-	*255,381*
- Loans to other customers	-	-	-	2,858,017	99,262	-	-	2,957,279
Loans to large corporate customers	-	-	-	*1,615,919*	*29,225*	-	-	*1,645,144*
Loans to SMEs	-	-	-	*1,242,098*	*70,037*	-	-	*1,312,135*
Other financial assets	-	-	-	69,521	-	-	-	69,521
Total Financial Assets	**267,413**	**7,595**	**1,737,191**	**8,573,660**	**177,819**	**565,535**	**1,083**	**11,330,296**

31 December 2014

NLB	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
				(EUR thousands)			
Cash and obligatory reserves with central banks and other demand deposits at banks	-	-	-	434,438	-	-	434,438
Securities	98,162	4,702	1,182,748	706,810	711,648	-	2,704,070
- Bonds	57,876	-	999,148	706,785	691,765	-	2,455,574
- Shares	22	-	29,815	-	-	-	29,837
- Commercial bills	-	-	78,973	-	-	-	78,973
- Treasury bills	40,264	-	74,812	-	19,883	-	134,959
- Private equity fund	-	4,702	-	-	-	-	4,702
- Reverse-sell and repurchase agreements	-	-	-	25	-	-	25
Derivatives	40,646	-	-	-	-	2,966	43,612
Loans and receivables	-	-	-	5,152,315	-	-	5,152,315
- Loans to government	-	-	-	387,378	-	-	387,378
- Loans to banks	-	-	-	159,300	-	-	159,300
- Loans to financial organisations	-	-	-	548,731	-	-	548,731
- Loans to individuals	-	-	-	1,884,000	-	-	1,884,000
Granted overdrafts	-	-	-	*159,967*	-	-	*159,967*
Loans for houses and flats	-	-	-	*1,143,952*	-	-	*1,143,952*
Consumer loans	-	-	-	*472,792*	-	-	*472,792*
Other loans	-	-	-	*107,289*	-	-	*107,289*
- Loans to other customers	-	-	-	2,172,906	-	-	2,172,906
Loans to large corporate customers	-	-	-	*1,418,469*	-	-	*1,418,469*
Loans to SMEs	-	-	-	*754,437*	-	-	*754,437*
Other financial assets	-	-	-	47,836	-	-	47,836
Total Financial Assets	**138,808**	**4,702**	**1,182,748**	**6,341,399**	**711,648**	**2,966**	**8,382,271**

31 December 2014

NLB Group	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Financial leases	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
				(EUR thousands)				
Cash and obligatory reserves with central banks and other demand deposits at banks	-	-	-	1,127,527	-	-	-	1,127,527
Securities	98,162	6,510	1,672,952	706,810	-	711,648	-	3,196,082
- Bonds	57,876	885	1,317,574	706,785	-	691,765	-	2,774,885
- Shares	22	-	32,861	-	-	-	-	32,883
- Commercial bills	-	-	78,973	-	-	-	-	78,973
- Certificates of deposits	-	-	35,521	-	-	-	-	35,521
- Treasury bills	40,264	-	208,023	-	-	19,883	-	268,170
- Private equity fund	-	4,702	-	-	-	-	-	4,702
- Reverse-sell and repurchase agreements	-	-	-	25	-	-	-	25
- Other investments	-	923	-	-	-	-	-	923
Derivatives	40,056	-	-	-	-	-	2,966	43,022
Loans and receivables	-	-	-	6,778,039	201,608	-	-	6,979,647
- Loans to government	-	-	-	500,069	15,246	-	-	515,315
- Loans to banks	-	-	-	271,340	-	-	-	271,340
- Loans to financial organisations	-	-	-	153,804	328	-	-	154,132
- Loans to individuals	-	-	-	2,734,012	69,290	-	-	2,803,302
Granted overdrafts	-	-	-	*192,738*	-	-	-	*192,738*
Loans for houses and flats	-	-	-	*1,442,022*	-	-	-	*1,442,022*
Consumer loans	-	-	-	*910,752*	-	-	-	*910,752*
Other loans	-	-	-	*188,500*	*69,290*	-	-	*257,790*
- Loans to other customers	-	-	-	3,118,814	116,744	-	-	3,235,558
Loans to large corporate customers	-	-	-	*1,780,232*	*39,106*	-	-	*1,819,338*
Loans to SMEs	-	-	-	*1,338,582*	*77,638*	-	-	*1,416,220*
Other financial assets	-	-	-	71,769	-	-	-	71,769
Total Financial Assets	**138,218**	**6,510**	**1,672,952**	**8,684,145**	**201,608**	**711,648**	**2,966**	**11,418,047**

31 December 2013

NLB	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
				(EUR thousands)			
Cash and obligatory reserves with central bank and other demand deposits at banks	-	-	-	590,645	-	-	590,645
Securities	72,347	3,801	1,155,412	707,432	864,259	-	2,803,251
- Bonds	17,544	-	985,129	702,791	728,308	-	2,433,772
- Shares	16,985	-	75,322	-	-	-	92,307
- Treasury bills	37,818	-	94,961	-	135,951	-	268,730
- Private equity fund	-	3,801	-	-	-	-	3,801
- Reverse-sell and repurchase agreements	-	-	-	4,641	-	-	4,641
Derivatives	32,432	-	-	-	-	5,426	37,858
Loans and receivables	-	-	-	5,582,057	-	-	5,582,057
- Loans to government	-	-	-	353,339	-	-	353,339
- Loans to banks	-	-	-	155,953	-	-	155,953
- Loans to financial organisations	-	-	-	655,236	-	-	655,236
- Loans to individuals	-	-	-	1,858,175	-	-	1,858,175
Granted overdrafts	-	-	-	*167,533*	-	-	*167,533*
Loans for houses and flats	-	-	-	*1,129,302*	-	-	*1,129,302*
Consumer loans	-	-	-	*503,147*	-	-	*503,147*
Other loans	-	-	-	*58,193*	-	-	*58,193*
- Loans to other customers	-	-	-	2,559,354	-	-	2,559,354
Loans to large corporate customers	-	-	-	*1,617,610*	-	-	*1,617,610*
Loans to SMEs	-	-	-	*941,744*	-	-	*941,744*
Other financial assets	-	-	-	41,337	-	-	41,337
Total Financial Assets	**104,779**	**3,801**	**1,155,412**	**6,921,471**	**864,259**	**5,426**	**9,055,148**

31 December 2013

NLB Group	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Financial leases	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
				(EUR thousands)				
Cash and obligatory reserves with central bank and other demand deposits at banks	–	–	–	1,250,600	–	–	–	1,250,600
Securities	72,347	6,615	1,675,117	707,432	–	864,259	–	3,325,770
- Bonds	17,544	895	1,212,950	702,791	–	728,308	–	2,662,488
- Shares	16,985	–	77,769	–	–	–	–	94,754
- Cash certificates	–	–	81,374	–	–	–	–	81,374
- Treasury bills	37,818	–	303,024	–	–	135,951	–	476,793
- Private equity fund	–	3,801	–	–	–	–	–	3,801
- Reverse-sell and repurchase agreements	–	–	–	4,641	–	–	–	4,641
- Other investments	–	1,919	–	–	–	–	–	1,919
Derivatives	31,988	-	–	–	–	–	5,426	37,414
Loans and receivables	–	–	–	7,021,339	240,040	–	–	7,261,379
- Loans to government	–	–	–	462,545	16,875	–	–	479,420
- Loans to banks	–	–	–	219,974	–	–	–	219,974
- Loans to financial organisations	–	–	–	169,027	394	–	–	169,421
- Loans to individuals	–	–	–	2,646,825	69,257	–	–	2,716,082
Granted overdrafts	–	–	–	*199,647*	–	–	–	*199,647*
Loans for houses and flats	–	–	–	*1,414,648*	–	–	–	*1,414,648*
Consumer loans	–	–	–	*892,455*	–	–	–	*892,455*
Other loans	–	–	–	*140,075*	*69,257*	–	–	*209,332*
- Loans to other customers	–	–	–	3,522,968	153,514	–	–	3,676,482
Loans to large corporate customers	–	–	–	*1,934,386*	*69,372*	–	–	*2,003,758*
Loans to SMEs	–	–	–	*1,588,582*	*84,142*	–	–	*1,672,724*
Other financial assets	–	–	–	63,919	–	–	–	63,919
Total Financial Assets	**104,335**	**6,615**	**1,675,117**	**9,043,290**	**240,040**	**864,259**	**5,426**	**11,939,082**

31 December 2012

NLB	Trading assets	Financial assets designated at fair value through profit or loss	Available for sale financial assets	Loans and receivables	Held to maturity financial assets	Derivatives from hedge accounting	Total
				(EUR thousands)			
Cash and obligatory reserves with central bank and other demand deposits at banks	–	–	–	528,131	–	–	528,131
Securities	32,718	3,161	897,865	98,996	1,041,105	–	2,073,845
- Bonds	14,022	–	717,676	88,617	765,699	–	1,586,014
- Shares	18,696	–	109,614	–	–	–	128,310
- Commercial bills	–	–	–	–	–	–	–
- Treasury bills	–	–	70,575	–	275,406	–	345,981
- Certificates of deposits	–	–	–	–	–	–	–
- Private equity fund	–	3,161	–	–	–	–	3,161
- Reverse-sell and repurchase agreements	–	–	–	10,379	–	–	10,379
- Other investments	–	–	–	–	–	–	–
Derivatives	76,454	–	–	–	–	10,909	87,363
Debt securities	–	–	–	–	–	–	–
Loans and receivables	–	–	–	7,941,767	–	–	7,941,767
- Loans to government	–	–	–	402,926	–	–	402,926
- Loans to banks	–	–	–	194,820	–	–	194,820
- Loans to financial organisations	–	–	–	1,011,199	–	–	1,011,199
- Loans to individuals	–	–	–	1,896,663	–	–	1,896,663
Granted overdrafts	–	–	–	*177,642*	–	–	177,642
Loans for houses and flats	–	–	–	*1,110,490*	–	–	1,110,490
Consumer loans	–	–	–	*553,925*	–	–	553,925
Other loans	–	–	–	*54,606*	–	–	54,606
- Loans to other customers	–	–	–	4,436,159	–	–	4,436,159
Loans to large corporate customers	–	–	–	*2,538,060*	–	–	2,538,060
Loans to SMEs	–	–	–	*1,898,099*	–	–	1,898,099
Other financial assets	–	–	–	40,975	–	–	40,975
Total Financial Assets	**109,172**	**3,161**	**897,865**	**8,609,869**	**1,041,105**	**10,909**	**10,672,081**

31 December 2012

NLB Group	Trading assets	Financial assets designated at fair value through profit or loss	Available for sale financial assets	Loans and receivables	Financial leases	Held to maturity financial assets	Derivatives from hedge accounting	Total
				(EUR thousands)				
Cash and obligatory reserves with central bank and other demand deposits at banks	–	–	–	1,203,818	–	–	–	1,203,818
Securities	32,718	5,176	1,345,091	98,996	–	1,041,105	–	2,523,086
- Bonds	14,022	207	868,957	88,617	–	765,699	–	1,737,502
- Shares	18,696	–	111,809	–	–	–	–	130,505
- Commercial bills	–	–	68,200	–	–	–	–	68,200
- Treasury bills	–	–	296,125	–	–	275,406	–	571,531
- Certificates of deposits	–	–	–	–	–	–	–	–
- Private equity fund	–	3,382	–	–	–	–	–	3,382
- Reverse-sell and repurchase agreements	–	–	–	10,379	–	–	–	10,379
- Other investments	–	1,587	–	–	–	–	–	1,587
Derivatives	75,615	–	–	–	–	–	10,909	86,524
Debt securities	–	–	–	–	–	–	–	–
Loans and receivables	–	–	–	9,302,078	334,785	–	–	9,636,863
- Loans to government	–	–	–	494,033	18,752	–	–	512,785
- Loans to banks	–	–	–	169,534	–	–	–	169,534
- Loans to financial organisations	–	–	–	268,143	–	–	–	268,143
- Loans to individuals	–	–	–	2,665,506	74,095	–	–	2,739,601
Granted overdrafts	–	–	–	*202,887*	–	–	–	202,887
Loans for houses and flats	–	–	–	*1,421,303*	–	–	–	1,421,303
Consumer loans	–	–	–	*884,639*	–	–	–	884,639
Other loans	–	–	–	*156,677*	*74,095*	–	–	230,772
- Loans to other customers	–	–	–	5,704,862	241,938	–	–	5,946,800
Loans to large corporate customers	–	–	–	*2,913,006*	*60,479*	–	–	2,973,485
Loans to SMEs	–	–	–	*2,791,856*	*181,459*	–	–	2,973,315

NLB Group	Trading assets	Financial assets designated at fair value through profit or loss	Available for sale financial assets	Loans and receivables	Financial leases	Held to maturity financial assets	Derivatives from hedge accounting	Total
				(EUR thousands)				
Other financial assets	–	–	–	67,069	–	–	–	67,069
Total Financial Assets	**108,333**	**5,176**	**1,345,091**	**10,671,961**	**334,785**	**1,041,105**	**10,909**	**13,517,360**

The following table sets out a breakdown of NLB's and the NLB Group's loans by industry sector for the years indicated:

	NLB											
	31 December 2017				31 December 2016				31 December 2015			
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
		(EUR thousands)				*(EUR thousands)*				*(EUR thousands)*		
Banks	462,322	-	462,322	8.94	408,056	-	408,056	7.59	345,404	(197)	345,207	6.15
Finance	251,303	(9,150)	242,153	4.68	341,644	(45,910)	295,734	5.50	461,704	(48,575)	413,129	7.36
Electricity, gas and water	109,457	(3,948)	105,959	2.05	112,083	(6,279)	105,804	1.97	86,984	(16,559)	70,425	1.25
Construction industry	111,832	(41,618)	70,214	1.36	136,071	(71,294)	64,777	1.21	163,190	(91,144)	72,046	1.28
Heavy industry	551,816	(30,004)	521,812	10.09	569,022	(88,472)	480,550	8.94	652,104	(138,005)	514,099	9.16
Education	8,779	(33)	8,746	0.17	10,643	(54)	10,589	0.20	13,342	(402)	12,940	0.23
Agriculture, forestry and fishing	15,087	(958)	14,129	0.27	15,437	(1,223)	14,214	0.26	27,611	(10,492)	17,119	0.30
Public sector	199,650	(1,710)	197,940	3.83	248,993	(2,265)	246,728	4.59	301,481	(2,647)	298,834	5.32
Individuals	2,121,167	(38,605)	2,082,562	40.28	1,990,184	(39,069)	1,951,115	36.31	1,957,859	(68,176)	1,889,683	33.65
Mining	7,454	(626)	6,828	0.13	25,332	(5,297)	20,035	0.37	30,910	(5,860)	25,050	0.45
Entrepreneurs	50,923	(2,040)	48,883	0.95	46,148	(2,587)	43,561	0.81	64,181	(10,502)	53,679	0.96
Services	494,815	(74,158)	420,657	8.14	782,110	(91,419)	690,691	12.85	988,569	(144,690)	843,879	15.03
Transport and communications	747,971	(17,192)	730,779	14.13	777,964	(17,903)	760,061	14.15	756,836	(26,859)	729,977	13.00
Trade industry	304,589	(96,358)	208,231	4.03	366,587	(131,753)	234,834	4.37	393,574	(127,080)	266,494	4.75
Health care and social security	11,830	(1,113)	10,717	0.21	11,439	(1,223)	10,216	0.19	17,091	(3,727)	13,364	0.24
Other financial assets	41,580	(3,191)	38,389	0.74	39,922	(3,771)	36,151	0.67	54,067	(5,123)	48,944	0.87
Total	**5,490,575**	**(320,254)**	**5,170,321**	**100.00**	**5,881,635**	**(508,519)**	**5,373,116**	**100.00**	**6,314,907**	**(700,038)**	**5,614,869**	**100.00**

	NLB Group											
	31 December 2017				31 December 2016				31 December 2015			
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
		(EUR thousands)				*(EUR thousands)*				*(EUR thousands)*		
Banks	514,037	(576)	513,461	6.78	435,886	(349)	435,537	5.81	432,017	(242)	431,775	5.69
Finance	60,485	(3,065)	57,420	0.76	132,156	(27,863)	104,293	1.39	202,661	(38,300)	164,361	2.17
Electricity, gas and water	155,911	(8,846)	147,065	1.94	176,230	(19,754)	156,476	2.09	134,658	(29,576)	105,082	1.38
Construction industry	236,617	(69,045)	167,572	2.21	260,537	(109,189)	151,348	2.02	319,901	(164,532)	155,369	2.05
Heavy industry	819,887	(79,497)	740,390	9.78	852,257	(168,205)	684,052	9.13	911,548	(241,932)	669,616	8.82
Education	14,230	(872)	13,358	0.18	15,314	(696)	14,618	0.20	18,036	(1,263)	16,773	0.22
Agriculture, forestry and fishing	52,168	(8,264)	43,904	0.58	43,309	(9,515)	33,794	0.45	67,071	(24,400)	42,671	0.56
Public sector	314,481	(6,285)	308,196	4.07	364,764	(12,270)	352,494	4.70	424,955	(15,831)	409,124	5.39
Individuals	3,470,153	(98,207)	3,371,946	44.52	3,190,724	(99,216)	3,091,508	41,25	3,050,810	(142,819)	2,907,991	38.32
Mining	15,404	(1,675)	13,729	0.18	31,913	(6,300)	25,613	0.34	86,915	(14,202)	72,713	0.96
Entrepreneurs	128,534	(5,585)	122,949	1.62	99,715	(6,642)	93,073	1.24	103,205	(16,617)	86,588	1.14
Services	662,657	(123,226)	539,431	7.12	962,743	(156,285)	806,458	10.76	1,208,684	(246,164)	962,520	12.68
Transport and communications	839,171	(35,281)	803,890	10.61	869,779	(39,908)	829,871	11.07	829,706	(39,330)	790,376	10.41
Trade industry	840,189	(204,457)	635,732	8.39	873,406	(242,743)	630,663	8.42	964,366	(282,832)	681,534	8.98
Health care and social security	31,331	(2,447)	28,884	0.38	27,936	(4,815)	23,121	0.31	28,519	(5,037)	23,482	0.31
Other financial assets	77,962	(11,705)	66,257	0.87	76,467	(15,453)	61,014	0.81	96,599	(27,078)	69,521	0.92
Total	**8,233,217**	**(659,033)**	**7,574,184**	**100.00**	**8,413,136**	**(919,203)**	**7,493,933**	**100.00**	**8,879,651**	**(1,290,155)**	**7,589,496**	**100.00**

The following table sets out a breakdown of NLB's and the NLB Group's loans that are past due but not individually impaired for the years indicated:

31 December 2017

	NLB				NLB Group			
	Up to 30 days	**Up to 90 days**	**Over 90 days**	**Total**	**Up to 30 days**	**Up to 90 days**	**Over 90 days**	**Total**
				(EUR thousands)				
Loans to government	-	-	-	-	2,059	1,936	-	3,995
Loans to banks	-	-	-	-	20	-	-	20
Loans to financial organisations	6	-	-	6	15	-	-	15
Loans to individuals..................	16,447	5,242	8	21,697	27,979	16,180	827	44,986
Granted overdrafts................	2,033	1,044	-	3,077	2,284	1,079	31	3,394
Loans for houses and flats	4,346	1,800	-	6,146	6,777	4,076	410	11,263
Consumer loans	6,088	1,522	-	7,610	8,617	5,264	128	14,009
Other loans	3,980	876	8	4,864	10,301	5,761	258	16,320
Loans to other customers	1,451	242	10,730	12,423	33,298	10,309	15,287	58,894
Loans to large corporate customers	-	-	10,730	10,730	6,306	3,174	10,752	20,232
Loans to SMEs	1,451	242	-	1,693	26,992	7,135	4,535	38,662
Other financial assets	10	16	4	30	6,768	118	46	6,932
Total	**17,914**	**5,500**	**10,742**	**34,156**	**70,139**	**28,543**	**16,160**	**114,842**

31 December 2016

	NLB				NLB Group			
	Up to 30 days	**Up to 90 days**	**Over 90 days**	**Total**	**Up to 30 days**	**Up to 90 days**	**Over 90 days**	**Total**
				(EUR thousands)				
Loans to government	-	-	-	-	401	1,345	-	1,746
Loans to banks	-	-	-	-	19	-	-	19
Loans to financial organisations	-	-	-	-	207	-	2	209
Loans to individuals..................	21,758	4,229	-	25,987	56,097	10,782	1,216	68,095
Granted overdrafts................	2,204	1,057	-	3,261	3,856	1,141	26	5,023
Loans for houses and flats	4,889	1,115	-	6,004	10,040	2,212	174	12,426
Consumer loans	6,028	1,484	-	7,512	22,567	4,850	549	27,966
Other loans	8,637	573	-	9,210	19,634	2,579	467	22,680
Loans to other customers	2,378	106	24	2,508	40,889	8,203	5,600	54,692
Loans to large corporate customers	124	-	24	148	5,361	474	323	6,158
Loans to SMEs	2,254	106	-	2,360	35,528	7,729	5,277	48,534
Other financial assets	54	2	1	57	2,136	46	170	2,352
Total	**24,190**	**4,337**	**25**	**28,552**	**99,749**	**20,376**	**6,988**	**127,113**

31 December 2015

	NLB				NLB Group			
	Up to 30 days	**Up to 90 days**	**Over 90 days**	**Total**	**Up to 30 days**	**Up to 90 days**	**Over 90 days**	**Total**
				(EUR thousands)				
Loans to government	1	-	-	1	8,468	56	-	8,524
Loans to banks	-	-	275	275	29	-	-	29
Loans to financial organisations	-	-	33	33	79	28	34	141
Loans to individuals..................	28,005	1,867	-	29,872	203,459	14,770	1,957	220,186
Granted overdrafts................	*2,591*	*743*	-	*3,334*	*20,055*	*840*	*69*	*20,964*
Loans for houses and flats	*7,689*	*389*	-	*8,078*	*66,899*	*2,905*	*591*	*70,395*
Consumer loans	*9,452*	*133*	-	*9,585*	*64,930*	*1,725*	*413*	*67,068*
Other loans	*8,273*	*602*	-	*8,875*	*51,575*	*9,300*	*884*	*61,759*
Loans to other customers	1,508	177	1,888	3,573	149,789	13,698	13,464	176,951
Loans to large corporate customers	-	-	*24*	*24*	*40,384*	*1,842*	*2,179*	*44,405*
Loans to SMEs	*1,508*	*177*	*1,864*	*3,549*	*109,405*	*11,856*	*11,285*	*132,546*
Other financial assets	88	1	18	107	3,412	229	383	4,024
Total	**29,602**	**2,045**	**2,214**	**33,861**	**365,236**	**28,781**	**15,838**	**409,855**

The following table sets out a breakdown of NLB's and the NLB Group's loans and other financial assets that are individually impaired for the years indicated:

31 December 2017

	NLB			NLB Group		
	Gross value	**Impairment provision**	**Net value**	**Gross value**	**Impairment provision**	**Net value**
			(EUR thousands)			
Loans to government	6,107	(2,441)	3,666	8,652	(4,934)	3,718
Loans to banks	-	-	-	-	-	-
Loans to financial organisations	2,899	(2,807)	92	2,899	(2,807)	92
Loans to individuals	49,882	(23,690)	26,192	107,917	(66,478)	41,439
Granted overdrafts	7,416	(4,570)	2,846	9,134	(6,055)	3,079
Loans for houses and flats	32,562	(13,571)	18,991	46,904	(21,088)	25,816
Consumer loans	6,332	(3,369)	2,963	36,253	(26,708)	9,545
Other loans	3,572	(2,180)	1,392	15,626	(12,627)	2,999
Loans to other customers	397,123	(231,968)	165,155	695,443	(443,935)	251,508
Loans to large corporate customers	157,383	(89,909)	67,474	208,288	(125,256)	83,032
Loans to SMEs	239,740	(142,059)	97,681	487,155	(318,679)	168,476
Other financial assets	3,938	(2,562)	1,376	10,278	(8,220)	2,058
Total	**459,949**	**(263,468)**	**196,481**	**825,189**	**(526,374)**	**298,815**

31 December 2016

	NLB			NLB Group		
	Gross value	**Impairment provision**	**Net value**	**Gross value**	**Impairment provision**	**Net value**
			(EUR thousands)			
Loans to government	9,260	(3,137)	6,123	12,556	(5,814)	6,742
Loans to banks	-	-	-	-	-	-
Loans to financial organisations	26,229	(25,429)	800	26,261	(25,461)	800
Loans to individuals	52,059	(23,564)	28,495	113,027	(68,358)	44,669
Granted overdrafts	7,925	(4,941)	2,984	10,974	(7,768)	3,206
Loans for houses and flats	35,152	(13,785)	21,367	50,730	(22,423)	28,307
Consumer loans	7,484	(3,902)	3,582	35,351	(25,155)	10,196
Other loans	1,498	(936)	562	15,972	(13,012)	2,960
Loans to other customers	600,636	(370,629)	230,007	1,008,733	(655,285)	353,448
Loans to large corporate customers	252,848	(148,337)	104,511	323,493	(199,610)	123,883
Loans to SMEs	347,788	(222,292)	125,496	685,240	(455,675)	229,565
Other financial assets	4,746	(3,112)	1,634	14,225	(12,096)	2,129
Total	**692,930**	**(425,871)**	**267,059**	**1,174,802**	**(767,014)**	**407,788**

31 December 2015

	NLB			NLB Group		
	Gross value	**Impairment provision**	**Net value**	**Gross value**	**Impairment provision**	**Net value**
			(EUR thousands)			
Loans to government	12,754	(3,327)	9,427	16,836	(6,524)	10,312
Loans to banks	1,338	(197)	1,141	5,439	(241)	5,198
Loans to financial organisations	314,078	(45,488)	268,590	72,282	(36,948)	35,334
Loans to individuals	105,041	(51,682)	53,359	184,308	(112,559)	71,749
Granted overdrafts	*11,984*	*(7,609)*	*4,375*	*15,182*	*(10,611)*	*4,571*
Loans for houses and flats	*66,093*	*(27,672)*	*38,421*	*85,150*	*(39,594)*	*45,556*
Consumer loans	*24,940*	*(15,120)*	*9,820*	*62,339*	*(43,471)*	*18,868*
Other loans	*2,024*	*(1,281)*	*743*	*21,637*	*(18,883)*	*2,754*
Loans to other customers	895,611	(513,930)	381,681	1,475,971	(937,144)	538,827
Loans to large corporate customers	*285,868*	*(170,867)*	*115,001*	*438,867*	*(271,822)*	*167,045*
Loans to SMEs	*609,743*	*(343,063)*	*266,680*	*1,037,104*	*(665,322)*	*371,782*
Other financial assets	11,340	(4,492)	6,848	31,711	(26,144)	5,567
Total	**1,340,162**	**(619,116)**	**721,046**	**1,786,547**	**(1,119,560)**	**666,987**

The following table sets out a breakdown of NLB's and the NLB Group's net loans and other financial assets that are neither past due nor individually impaired for the years indicated:

31 December 2017

	NLB					NLB Group				
	A	B	C	D and E	Total	A	B	C	D and E	Total
					(EUR thousands)					
Debt securities	82,133	-	-	-	82,133	82,133	-	-	-	82,133
Loans to government	282,201	72,564	244	-	355,009	289,716	152,180	7,460	11	449,367
Loans to banks	341,512	120,559	251	-	462,322	397,689	115,001	751	-	513,441
Loans to financial organisations	40,522	180,631	46,933	-	268,086	45,448	17,955	13,692	-	77,095
Loans to individuals	2,019,919	2,446	12,308	-	2,034,673	3,219,833	38,474	27,055	159	3,285,521
Granted overdrafts	129,903	200	4,183	-	134,286	164,326	1,550	4,420	-	170,296
Loans for houses and flats	1,274,361	1,813	5,935	-	1,282,109	1,681,992	10,515	10,581	-	1,703,088
Consumer loans	507,963	76	601	-	508,640	1,163,595	22,310	7,853	37	1,193,795
Other loans	107,692	357	1,589	-	109,638	209,920	4,099	4,201	122	218,342
Loans to other customers	700,560	912,760	82,940	4,218	1,700,478	861,666	1,557,306	270,397	6,334	2,695,703
Loans to large corporate customers	596,106	506,763	34,279	733	1,137,881	614,105	664,577	95,488	2,193	1,376,363
Loans to SMEs	104,454	405,997	48,661	3,485	562,597	247,561	892,729	174,909	4,141	1,319,340
Other financial assets	26,432	9,740	810	1	36,983	42,706	13,147	1,342	72	57,267
Total	**3,493,279**	**1,298,700**	**143,486**	**4,219**	**4,939,684**	**4,939,191**	**1,894,063**	**320,697**	**6,576**	**7,160,527**

31 December 2016

	NLB					NLB Group				
	A	B	C	D and E	Total	A	B	C	D and E	Total
					(EUR thousands)					
Debt securities	85,315	-	-	-	85,315	85,315	-	-	-	85,315
Loans to government	541,763	117,206	3,208	-	662,177	566,017	186,441	15,020	20	767,498
Loans to banks	320,201	87,774	81	-	408,056	337,639	97,798	81	-	435,518
Loans to financial organisations	33,873	2,096	236,541	-	272,510	38,473	4,562	30,300	-	73,335
Loans to individuals	1,878,392	2,710	15,531	-	1,896,633	2,922,528	31,441	24,684	90	2,978,744
Granted overdrafts	137,655	221	3,658	-	141,534	168,673	1,576	3,844	-	174,093
Loans for houses and flats	1,169,230	2,003	10,392	-	1,181,625	1,529,074	7,563	12,389	3	1,549,029
Consumer loans	468,478	128	926	-	469,532	1,028,158	18,250	5,539	11	1,051,958
Other loans	103,029	358	555	-	103,942	196,624	4,052	2,912	76	203,664
Loans to other customers	689,070	850,513	148,625	30,146	1,718,354	853,188	1,433,753	241,794	33,353	2,562,089
Loans to large corporate customers	603,429	546,134	27,984	13,920	1,191,467	622,397	689,474	77,223	15,493	1,404,587
Loans to SMEs	85,641	304,379	120,641	16,226	526,887	230,792	744,279	164,571	17,860	1,157,502
Other financial assets	25,229	7,629	1,602	-	34,460	44,634	9,996	1,847	56	56,533
Total	**3,573,843**	**1,067,928**	**405,588**	**30,146**	**5,077,505**	**4,847,794**	**1,763,991**	**313,726**	**33,519**	**6,959,030**

31 December 2015

	NLB					NLB Group				
	A	B	C	D and E	Total	A	B	C	D and E	Total
					(EUR thousands)					
Debt securities	394,579	-	-	-	394,579	394,579	-	-	-	394,579
Loans to government	439,997	125,097	3,662	-	568,756	445,382	190,291	33,936	29	669,638
Loans to banks	202,097	141,694	-	-	343,791	300,464	126,084	-	-	426,548
Loans to financial organisations	23,629	189	99,422	48	123,288	27,101	1,889	75,339	48	104,377

	NLB					NLB Group				
	A	B	C	D and E	Total	A	B	C	D and E	Total
					(EUR thousands)					
Loans to individuals	1,781,889	5,230	19,333	-	1,806,452	2,575,773	14,822	25,400	61	2,616,056
Granted overdrafts	141,486	309	2,538	-	144,333	157,312	466	2,599	-	160,377
Loans for houses and flats	1,100,006	4,402	14,893	-	1,119,301	1,364,783	6,508	16,569	3	1,387,863
Consumer loans	450,740	192	1,552	-	452,484	864,481	7,163	5,246	58	876,948
Other loans	89,657	327	350	-	90,334	189,197	685	986	-	190,868
Loans to other customers	663,035	638,834	258,197	21,041	1,581,107	854,318	1,066,181	294,123	26,904	2,241,526
Loans to large corporate customers	595,135	415,879	121,089	15,927	1,148,030	681,411	574,717	158,243	19,348	1,433,719
Loans to SMEs	67,900	222,955	137,108	5,114	433,077	172,907	491,464	135,880	7,556	807,807
Other financial assets	38,455	2,371	1,162	1	41,989	55,480	3,142	1,287	21	59,930
Total	**3,543,681**	**913,415**	**381,776**	**21,090**	**4,859,962**	**4,653,097**	**1,402,409**	**430,085**	**27,063**	**6,512,654**

The following table sets out a breakdown of the NLB Group's net loans and advances by maturity:

31 December 2017

NLB	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
			(EUR thousands)			
Loans and advances						
- debt securities	-	-	1,896	-	80,237	82,133
- loans and advances to banks	105,585	23,902	314,626	7,257	10,952	462,322
- loans and advances to customers	404,586	199,815	638,382	1,947,576	1,397,118	4,587,477
- other financial assets	37,639	91	509	150	-	38,389

31 December 2017

NLB Group	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
			(EUR thousands)			
Loans and advances						
- debt securities	-	-	1,896	-	80,237	82,133
- loans and advances to banks	176,371	28,837	304,431	468	-	510,107
- loans and advances to customers	600,801	338,179	1,226,362	2,967,158	1,779,833	6,912,333
- other financial assets	64,608	91	1,160	218	-	66,077

31 December 2016

NLB	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
			(EUR thousands)			
Loans and advances						
- debt securities	-	-	1,891	-	83,424	85,315
- loans and advances to banks	76,786	28,708	289,795	1,816	10,951	408,056
- loans and advances to customers	481,337	177,014	832,452	2,080,704	1,272,087	4,843,594
- other financial assets	35,400	29	492	230	-	36,151

31 December 2016

NLB Group	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
			(EUR thousands)			
Loans and advances						
- debt securities	-	-	1,891	-	83,424	85,315
- loans and advances to banks	115,030	42,157	276,758	1,592	-	435,537
- loans and advances to customers	682,223	301,455	1,372,325	2,858,422	1,697,642	6,912,067
- other financial assets	58,801	281	1,460	472	-	61,014

31 December 2015

NLB	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
			(EUR thousands)			
Loans and advances						
- debt securities	-	-	311,466	-	83,113	394,579
- loans and advances to banks	19,645	21,290	283,551	9,790	10,931	345,207
- loans and advances to customers	677,932	195,689	726,807	2,057,805	1,167,906	4,826,139

NLB	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
			(EUR thousands)			
- other financial assets	33,764	45	5	15,130	-	48,944

31 December 2015

NLB Group	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
			(EUR thousands)			
Loans and advances						
- debt securities	-	-	311,466	-	83,113	394,579
- loans and advances to banks	61,556	45,394	322,216	2,609	-	431,775
- loans and advances to customers	900,979	305,796	1,159,058	2,691,095	1,636,693	6,693,621
- other financial assets	52,531	705	822	15,463	-	69,521

Impairment of loans and advances to legal entities

The following table sets out a breakdown of NLB's and the NLB Group's impairment allowances and changes in impairment allowances as at the period indicated:

NLB Group	Loans and advances to government	Loans and advances to banks	Loans and advances to financial organisations	Loans and advances to large corporate customers	Loans and advances to SMEs	Total
			(EUR thousands)			
Balance at 1 January 2017	16,676	349	29,833	242,499	515,177	804,534
Effects of translation of foreign operations to presentation currency	14	4	3	(465)	(249)	(693)
Impairment	(7,706)	187	(2,244)	(34,422)	(5,862)	(50,047)
Write-offs	(352)	-	(22,596)	(45,633)	(141,024)	(209,605)
Repayments of written-off receivables	318	36	22	2,659	10,842	13,877
Exchange differences	(10)	-	(22)	742	1,609	2,319
Disposal of subsidiary	-	-	-	(4,153)	(6,898)	(11,051)
Other	-	-	-	-	(213)	(213)
Balance at 31 December 2017	**8,940**	**576**	**4,996**	**161,227**	**373,382**	**549,121**
Balance at 1 January 2016	19,872	242	45,383	329,224	725,537	1,120,258
Effects of translation of foreign operations to presentation currency	(7)	(1)	-	(318)	(703)	(1,029)
Impairment	(2,604)	74	(14,842)	(16,052)	56,578	23,154
Write-offs	(690)	(1)	(710)	(72,990)	(273,891)	(348,282)
Repayments of written-off receivables	110	35	-	3,354	7,581	11,080
Exchange differences	-	-	4	(719)	241	(474)
Transfer to the BAMC	(5)	-	(2)	-	(166)	(173)
Balance at 31 December 2016	**16,676**	**349**	**29,833**	**242,499**	**515,177**	**804,534**
Balance at 1 January 2015	18,916	24,722	38,481	484,374	941,874	1,508,367
Effects of translation of foreign operations to presentation currency	14	2,932	1	8,712	10,943	22,602
Impairment	1,285	2,557	7,780	(6,598)	35,718	40,742
Write-offs	(371)	(28,957)	(754)	(151,230)	(264,221)	(445,533)
Repayments of written-off receivables	32	130	-	774	4,795	5,731
Exchange differences	1	(1,142)	1	(6,808)	(3,546)	(11,494)
Other	(5)	-	(126)	-	(26)	(157)
Balance at 31 December 2015	**19,872**	**242**	**45,383**	**329,224**	**725,537**	**1,120,258**

NLB	**Loans and advances to government**	**Loans and advances to banks**	**Loans and advances to financial organisation s**	**Loans and advances to large corporate customers**	**Loans and advances to SMEs**	**Total**
			(EUR thousands)			
Balance at 1 January 2017	6,057	-	50,797	167,142	241,683	465,679
Impairment	(1,891)	-	(15,569)	(22,068)	(3,221)	(42,749)
Write-offs	-	-	(23,522)	(40,580)	(84,507)	(148,609)
Repayments of written-off receivables	210	-	-	1,617	2,383	4,210
Exchange differences	-	-	(22)	(21)	(30)	(73)
Balance at 31 December 2017	**4,376**	**-**	**11,684**	**106,090**	**156,308**	**278,458**
Balance at 1 January 2016	6,799	197	56,231	200,000	363,512	626,739
Impairment	(163)	(196)	(5,005)	5,065	14,844	14,545
Write-offs	(689)	(1)	(446)	(39,415)	(138,831)	(179,382)
Repayments of written-off receivables	110	-	-	1,486	2,149	3,745
Transfer to the BAMC	-	-	-	-	-	-
Exchange differences	-	-	17	6	9	32

NLB	Loans and advances to government	Loans and advances to banks	Loans and advances to financial organisations	Loans and advances to large corporate customers	Loans and advances to SMEs	Total
			(EUR thousands)			
Other	-	-	-	-	-	-
Balance at 31 December 2016	**6,057**	**-**	**50,797**	**167,142**	**241,683**	**465,679**
Balance at 1 January 2015	5,779	682	164,213	308,658	444,926	924,258
Impairment	1,359	67	15,446	(29,283)	39,397	26,986
Write-offs	(371)	(737)	(126,379)	(80,757)	(123,313)	(331,557)
Repayments of written-off receivables	32	130	-	774	1,402	2,338
Exchange differences	-	55	2,951	608	1,100	4,714
Balance at 31 December 2015	**6,799**	**197**	**56,231**	**200,000**	**363,512**	**626,739**

Impairment of loans and advances to individuals

NLB Group	Granted overdrafts	Loans for houses and flats	Consumer loans	Other loans	Total
			(EUR thousands)		
Balance at 1 January 2017	16,138	31,867	36,366	14,845	99,216
Effects of translation of foreign operations to presentation currency	40	84	252	(413)	(37)
Impairment	2,157	(1,072)	4,408	3,423	8,916
Write-offs	(4,725)	(1,405)	(1,546)	(4,421)	(12,097)
Repayments of written-off receivables	823	210	235	750	2,018
Exchange differences	-	(236)	(3)	434	195
Other	-	-	-	(4)	(4)
Balance at 31 December 2017	**14,433**	**29,448**	**39,712**	**14,614**	**98,207**
Balance at 1 January 2016	18,556	49,351	53,401	21,511	142,819
Effects of translation of foreign operations to presentation currency	(32)	(49)	(123)	3	(201)
Impairment	2,587	4,436	3,261	2,516	12,800
Write-offs	(4,973)	(21,900)	(20,369)	(10,241)	(57,483)
Repayments of written-off receivables	-	-	199	1,143	1,342
Exchange differences	-	29	2	(87)	(56)
Other	-	-	(5)	-	(5)
Balance at 31 December 2016	**16,138**	**31,867**	**36,366**	**14,845**	**99,216**
Balance at 1 January 2015	19,468	47,191	59,151	28,849	154,659
Effects of translation of foreign operations to presentation currency	(2)	3	(2)	915	914
Impairment	4,889	3,241	3,016	3,620	14,766
Write-offs	(5,799)	(1,421)	(8,896)	(12,112)	(28,228)
Repayments of written-off receivables	-	-	139	487	626
Exchange differences	-	337	3	(216)	124
Other	-	-	(10)	(32)	(42)
Balance at 31 December 2015	**18,556**	**49,351**	**53,401**	**21,511**	**142,819**

NLB	Granted overdrafts	Loans for houses and flats	Consumer loans	Other loans	Total
			(EUR thousands)		
Balance at 1 January 2017	12,754	18,422	6,211	1,682	39,069
Impairment	1,513	97	(18)	1,376	2,968
Write-offs	(1,817)	(976)	(456)	(359)	(3,608)
Repayments of written-off receivables	-	20	-	354	374
Exchange differences	-	(198)	-	-	(198)
Balance at 31 December 2017	**12,450**	**17,365**	**5,737**	**3,053**	**38,605**
Balance at 1 January 2016	14,960	33,432	17,808	1,976	68,176
Impairment	2.303	5,495	1,930	517	10,245
Write-offs	(4,509)	(20,513)	(13,527)	(811)	(39,360)
Repayments of written-off receivables	-	-	-	-	-
Exchange differences	-	8	-	-	8
Balance at 31 December 2016	**12,754**	**18,422**	**6,211**	**1,682**	**39,069**
Balance at 1 January 2015	16,063	31,541	22,589	4,613	74,806
Impairment	4,675	2,440	2,305	1,163	10,583
Write-offs	(5,778)	(790)	(7,087)	(4,126)	(17,781)
Exchange differences	-	241	1	326	568
Balance at 31 December 2015	**14,960**	**33,432**	**17,808**	**1,976**	**68,176**

Non-Performing Loans – Segmented Data

The following tables sets out the NLB Group's risk exposure by type in accordance with, as well as a reconciliation to, IFRS:

IFRS/Risk data availability	As at 30 June 2018
(EUR millions)	
Gross loans	**9,090**
Banks	1,025
Corporate	3,871
State	605
Retail	3,589
Core Republic of Slovenia	5,285
Core International	3,402
Non-core Republic of Slovenia	186
Non-core	216
NPL total	**752**
Banks	0
Corporate	645
State	0
Retail	106
Core Republic of Slovenia	255
Core International	242
Non-core Republic of Slovenia	152
Non-core	102
Performing loans	**8,338**
Banks	1,025
Corporate	3,226
State	605
Retail	3,483
Core Republic of Slovenia	5,030
Core International	3,160
Non-core Republic of Slovenia	35
Non-core	114
90 days-past-due loans(1)	**440**
Banks	0
Corporate	375
State	0
Retail	65
Core Republic of Slovenia	62
Core International	188
Non-core Republic of Slovenia	126
Non-core	65
Unlikely-to-pay loans	**312**
Banks	0
Corporate	270
State	0
Retail	42
Core Republic of Slovenia	193
Core International	55
Non-core Republic of Slovenia	26
Non-core	37
Provisions	**554**
Banks	0
Corporate	469
State	1
Retail	83
Core Republic of Slovenia	157
Core International	230
Non-core Republic Slovenia	101
Non-core	66
NPE by EBA(3)	**822**
Total exposure by EBA	**14,152**
NPE by Risk(4)	**849**
Risk total exposure	**14,164**
Gross loans IFRS data	8,044
Gross loans risk methodology	9,090
Difference to IFRS data	**(1,046)**
Balances from hedge accounting	1
Gross/net presentation of loans mandatorily at fair value through P&L	(23)
Balances and obligatory reserves with central banks and demand deposits at banks	(1,024)
Total differences	**(1,046)**
Provisions for loans – IFRS data	531
Provisions for loans – Risk data	554
Difference to IFRS data	**(23)**
Gross/net presentation of loans mandatorily at fair value through P&L	(23)
Total difference	(23)

IFRS/Risk data availability	As at 31 December 2017	2016	2015
	(EUR millions)		
Gross loans	**9,130**	**9,444**	**9,829**
Banks	987	1,039	935
Corporate	3,980	4,559	5,137
State	692	654	698
Retail	3,471	3,192	3,059
Core Republic of Slovenia	5,365	5,606	5,687
Core International	3,322	3,087	2,992
Non-core Republic of Slovenia	188	380	544
Non-core	256	370	606
NPL total	**844**	**1,299**	**1,896**
Banks	0	0	0
Corporate	735	1,183	1,703
State	0	0	0
Retail	109	116	193
Core Republic of Slovenia	313	399	628
Core International	252	355	379
Non-core Republic of Slovenia	165	312	473
Non-core	115	234	415
Performing loans	**8,286**	**8,144**	**7,934**
Banks	987	1,039	935
Corporate	3,245	3,375	3,434
State	692	654	698
Retail	3,362	3,077	2,867
Core Republic of Slovenia	5,052	5,207	5,059
Core International	3,070	2,775	2,612
Non-core Republic of Slovenia	23	25	71
Non-core	141	137	192
90 days-past-due loans(1)	**479**	**799**	**1,324**
Banks	0	0	0
Corporate	411	725	1,182
State	0	0	0
Retail	67	73	142
Core Republic of Slovenia	72	94	319
Core International	195	239	303
Non-core Republic of Slovenia	134	281	347
Non-core	78	184	355
Unlikely-to-pay loans	**366**	**500**	**571**
Banks	0	0	0
Corporate	324	458	521
State	0	0	0
Retail	42	42	50
Core Republic of Slovenia	241	304	309
Core International	57	74	76
Non-core Republic of Slovenia	30	73	127
Non-core	37	49	59
Provisions	**655(2)**	**989(2)**	**1,368(2)**
Banks	1	0	0
Corporate	555	888	1,216
State	0	0	0
Retail	99	101	151
Core Republic of Slovenia	208	252	384
Core International	268	320	356
Non-core Republic Slovenia	107	261	346
Non-core	71	156	282
NPE by EBA(3)	933	1,400	2,010
Total exposure by EBA	**13,941**	**13,955**	**14,025**
NPE by Risk(4)	**939**	**1,446**	**2,084**
Risk total exposure	**11,709**	**11,989**	**12,420**
Gross loans IFRS data(5)	8,155	8,337	8,783
Gross loans risk methodology(6)	9,130	9,444	9,829
Difference to IFRS data	**(975)**	**(1,107)**	**(1,046)**
Different scope of consolidation(6)	4	(40)	(58)
Different approach in presentation of provisions for interest(7)	(8)	(48)	(73)
Balances from hedge accounting	16	19	19
Balances and obligatory reserves with central banks and demand deposits at banks(8)	(987)	(1,038)	(934)
Total differences	**(975)**	**(1,107)**	**(1,046)**
Provisions for loans – IFRS data(5)	647	904	1.263
Provisions for loans – Risk data	655	989	1.368
Difference to IFRS data	**(8)**	**(85)**	**(105)**
Different scope of consolidation(6)	-	(37)	(32)

IFRS/Risk data availability	As at 31 December 2017	2016	2015
	(EUR millions)		
Different approach in presentation of provisions for interest[7]	(8)	(48)	(73)
Total difference	**(8)**	**(85)**	**(105)**

1 Counting from the first day of missed payment.
2 Includes collective and specific loan provisions.
3 NPE by EBA is calculated as the sum of NPLs (equal to the sum of 90 days-past-due loans and unlikely-to-pay loans), other on-balance sheet items (including accounts receivable, other claims and assets and fees on other assets), off-balance sheet liabilities and other adjustments (EBA).
4 Difference between total exposure by EBA of EUR 14,152 million and loans exposure by risk of EUR 9,090 million are debt securities at amortised cost, debt securities at fair value through other comprehensive income, off-balance sheet exposure and presentation of instruments mandatorily at fair value through profit or loss.

The following table sets out a reconciliation of risk total exposure and total exposure by EBA as at 30 June 2018:

IFRS/Risk data availability	As at 30 June 2018
	(EUR millions)
Gross risk methodology	**9,090**
Off balance sheet items (see H1 2018 Note 5.20)	1,923
Debt securities at amortised cost (excluding balances for hedge accounting) (see H1 2018 Note 5.6.a)	1,254
Debt securities at fair value through other comprehensive income (see H1 2018 Note 5.4)	1,823
Other financial assets (see H1 2018 Note 5.6.d)	74
Risk total exposure	**14,164**
Different approach in presentation of instruments mandatorily at fair value through P&L	(32)
Balances from hedge accounting	15
Different approach in presentation of impairment of debt securities at fair value through other comprehensive income	5
Other	-
Total exposure by EBA	**14,152**

The presentation of the differences between IFRS and risk data for 30 June 2018 deferrers to the presentation for years ended 2017, 2016 and 2015 due to different classifications and measurement categories, implemented with IFRS 9 (as of 1 January 2018).

Difference between total exposure by EBA of EUR 13,941 million and loans exposure by risk EUR of 9,130 million are AFS debt securities, HTM debt securities, off-balance sheet exposure and presentation of provisions for interests. The following table sets out a reconciliation of risk total exposure and total exposure by EBA for years ended 2017, 2016 and 2015:

IFRS/Risk data availability	As at 31 December 2017	2016	2015
		(EUR millions)	
Gross risk methodology	9,130	9,444	9,829
Off balance sheet items (see Annual Report Note 7.1.d)	1,891	1,851	1,919
Held-to-maturity financial assets (see Annual Report Note 7.1.d)	610	611	566
Other financial assets (see Annual Report Note 7.1.d)	78	76	97
Different scope of consolidation	-	6	10
Risk total exposure	11,709	11,989	12,420
Available-for-sale financial assets (see Annual Report Note 7.1.d)	2,227	1,999	1,662
Financial assets designated at fair value through P&L (see Annual Report Note 7.1.d)	-	1	1
Balances from hedge accounting	16	19	19
Different approach in presentation of provisions for interest	(8)	(48)	(73)
Other	(3)	(5)	(3)
Total exposure by EBA	**13,941**	**13,955**	**14,025**

5 See Annual report Note 7.1.c
6 Pursuant to IFRS, Prvi faktor Group is included at equity method, while under prudential consolidation was until 2016 included at proportional method (with 2017 was excluded from prudential consolidation), pursuant to IFRS, NLB Macedonia Pension Insurance is included by full consolidation, while under prudential consolidation it is not consolidated. (the company was sold in 2018)
7 Pursuant to IFRS, provisions for interest are deducted from gross exposure, while under prudential consolidation provisions for interest are shown gross, included in gross exposure and in the amount of provisions.
8 See Annual report Note 5.1.

The following tables sets out the NLB Group's risk exposure by business:

30 June 2018

NLB GROUP	SEGMENT	Loan Exposure	NPL Exposure	There Of 90 DPD	There Of Other	PL Exposure	Provisions	NPL Provisions	PL Provisions	NPL Collateral	NPL ratio	NPL Cash Coverage	NPL Total Coverage
							(EUR millions)						
Core Slovenia		**5,285**	**255**	**62**	**193**	**5,030**	**157**	**132**	**25**	**176**	**4.8%**	**61.3%**	**130.1%**
	Corporate	1,355	98	9	89	1,256	51	43	8	74	7.3%	52.0%	127.0%
	SME	790	111	34	77	680	80	70	9	73	14.0%	71.9%	137.6%
	State	505	0	0	0	505	0	0	0	0	0.0%	0.0%	0.0%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	468	0	0	0	468	0	0	0	0	0.0%	100.0%	100.0%
	Retail mortgage	1,352	30	10	20	1,322	9	8	1	24	2.2%	31.8%	113.7%
	Retail consumer	816	17	9	8	799	16	10	6	5	2.0%	97.3%	124.8%
Non-core Slovenia		**186**	**152**	**126**	**26**	**35**	**101**	**101**	**0**	**122**	**81.4%**	**66.8%**	**147.4%**
	Corporate	76	59	43	16	18	38	38	0	42	76.8%	64.9%	136.9%
	SME	110	93	83	10	17	63	63	0	80	84.6%	67.9%	154.0%
	State	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Retail mortgage	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Retail consumer	0	0	0	0	0	0	0	0	0	100.0%	100.0%	100.0%
Core International		**3,402**	**242**	**188**	**55**	**3,160**	**230**	**183**	**47**	**147**	**7.1%**	**94.8%**	**155.5%**
	Corporate	307	33	22	11	274	33	25	8	22	10.7%	100.0%	168.1%
	SME	1,087	155	126	30	932	144	121	22	103	14.3%	92.4%	158.4%
	State	442	0	0	0	442	1	0	1	0	0.0%	100.0%	100.0%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	204	0	0	0	204	0	0	0	0	0.0%	100.0%	100.0%
	Retail mortgage	494	15	10	6	478	9	6	3	13	3.1%	60.2%	148.4%
	Retail consumer	869	39	30	8	830	43	30	12	9	4.4%	100.0%	122.9%
Non-core		**216**	**102**	**65**	**37**	**114**	**66**	**65**	**1**	**60**	**47.4%**	**64.7%**	**123.6%**
	Corporate	21	19	17	1	3	10	10	0	16	87.9%	54.0%	137.0%
	SME	124	77	41	36	47	50	50	0	42	62.3%	64.8%	118.7%
	State	3	0	0	0	3	0	0	0	0	0.0%	0.0%	0.0%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	8	0	0	0	8	0	0	0	0	0.0%	0.0%	0.0%
	Retail mortgage	1	0	0	0	1	0	0	0	0	0.0%	0.0%	0.0%
	Retail consumer	58	6	6	0	52	6	6	0	3	10.9%	95.3%	144.3%
NLB Slovenia		**5,472**	**407**	**187**	**219**	**5,065**	**258**	**233**	**25**	**298**	**7.4%**	**63.4%**	**136.5%**
NLB Group		**9,090**	**752**	**440**	**312**	**8,338**	**554**	**481**	**72**	**505**	**8.3%**	**73.7%**	**140.9%**

31 December 2017

NLB GROUP	SEGMENT	Loan Exposure	NPL Exposure	There Of 90 DPD	There Of Other	PL Exposure	Provisions	NPL Provisions	PL Provisions	NPL Collateral	NPL ratio	NPL Cash Coverage	NPL Total Coverage
							(EUR millions)						
Core Slovenia		**5,365**	**313**	**72**	**241**	**5,052**	**208**	**161**	**47**	**210**	**5.8%**	**66.5%**	**133.6%**
	Corporate	1,377	122	15	107	1,255	71	54	17	84	8.9%	58.0%	126.3%
	SME	912	140	34	106	771	98	83	15	97	15.4%	69.8%	139.1%
	State	474	0	0	0	474	0	0	0	0	0.0%	0.0%	0.0%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	480	0	0	0	480	0	0	0	0	0.0%	100.0%	100.0%
	Retail mortgage	1,325	33	12	21	1,292	18	14	4	25	2.5%	53.6%	129.2%
	Retail consumer	797	17	10	7	779	21	10	11	5	2.2%	100.0%	126.4%
Non-core Slovenia		**188**	**165**	**134**	**30**	**23**	**107**	**107**	**1**	**124**	**87.8%**	**65.2%**	**140.7%**
	Corporate	79	62	46	17	17	38	38	0	46	78.6%	61.9%	135.5%
	SME	108	103	89	14	6	69	69	0	78	94.6%	67.3%	143.8%
	State	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Retail mortgage	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Retail consumer	0	0	0	0	0	0	0	0	0	100.0%	60.0%	60.0%
Core International		**3,322**	**252**	**195**	**57**	**3,070**	**268**	**187**	**81**	**156**	**7.6%**	**100.0%**	**162.0%**
	Corporate	312	34	20	13	279	47	25	21	22	10.8%	100.0%	166.8%
	SME	1,020	166	135	31	854	167	125	42	112	16.3%	100.0%	167.5%
	State	507	0	0	0	507	0	0	0	0	0.1%	82.3%	82.3%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	207	0	0	0	207	1	0	1	0	0.0%	100.0%	100.0%
	Retail mortgage	444	15	9	6	430	12	8	5	13	3.3%	83.7%	171.7%
	Retail consumer	832	38	30	8	794	41	30	12	9	4.5%	100.0%	123.6%
Non-core		**256**	**115**	**78**	**37**	**141**	**71**	**70**	**1**	**72**	**44.9%**	**61.9%**	**124.1%**
	Corporate	24	19	17	1	6	10	10	0	16	77.3%	53.6%	136.7%
	SME	148	90	54	35	58	55	55	1	52	60.5%	61.5%	120.1%
	State	4	0	0	0	4	0	0	0	0	0.0%	0.0%	0.0%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	7	0	0	0	7	0	0	0	0	0.0%	0.0%	0.0%
	Retail mortgage	1	0	0	0	1	0	0	0	0	0.0%	0.0%	0.0%
	Retail consumer	72	7	6	0	65	6	6	0	3	9.2%	91.0%	142.1%
NLB Slovenia		**5,552**	**478**	**206**	**271**	**5,075**	**315**	**267**	**48**	**334**	**8.6%**	**66.0%**	**136.1%**
NLB Group		**9,130**	**844**	**479**	**366**	**8,286**	**655**	**525**	**130**	**562**	**9.2%**	**77.5%**	**144.1%**

30 June 2017

NLB GROUP	SEGMENT	Loan Exposure	NPL Exposure	There Of 90 DPD	There Of Other	PL Exposure	Provisions	NPL Provisions	PL Provisions	NPL Collateral	NPL ratio	NPL Cash Coverage	NPL Total Coverage
							(*EUR millions*)						
Core Slovenia		**5,557**	**384**	**106**	**278**	**5,174**	**238**	**192**	**46**	**265**	**6.9%**	**62.0%**	**131.1%**
	Corporate	1,413	129	9	120	1,284	69	51	18	90	9.1%	53.7%	123.3%
	SME	1,026	204	74	129	822	131	116	14	145	19.9%	64.1%	135.4%
	State	588	0	0	0	588	0	0	0	0	0.0%	0.0%	0.0%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%

NLB GROUP	SEGMENT	Loan Exposure	NPL Exposure	There Of 90 DPD	There Of Other	PL Exposure	Provisions	NPL Provisions	PL Provisions	NPL Collateral	NPL ratio	NPL Cash Coverage	NPL Total Coverage
	Institutions	481	0	0	0	481	0	0	0	0	0.0%	100.0%	100.0%
	Retail mortgage	1,295	34	14	21	1,261	18	14	4	26	2.6%	52.7%	127.5%
	Retail consumer	755	17	9	8	738	20	10	10	4	2.2%	100.0%	126.0%
Non-core Slovenia		**350**	**336**	**268**	**68**	**14**	**251**	**251**	**1**	**189**	**96.1%**	**74.9%**	**131.2%**
	Corporate	114	108	87	21	7	79	79	0	57	94.1%	73.2%	126.0%
	SME	235	228	181	47	7	173	172	0	132	97.0%	75.7%	133.6%
	State	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Retail mortgage	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Retail consumer	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
Core International		**3,129**	**295**	**234**	**61**	**2,834**	**302**	**222**	**80**	**177**	**9.4%**	**100.0%**	**160.1%**
	Corporate	299	49	33	16	250	60	39	21	34	16.4%	100.0%	168.7%
	SME	1,015	191	159	31	825	184	143	41	120	18.8%	96.8%	159.5%
	State	430	0	0	0	429	0	0	0	0	0.1%	82.5%	82.5%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	179	0	0	0	179	0	0	0	0	0.0%	100.0%	100.0%
	Retail mortgage	422	16	10	6	407	14	8	5	14	3.7%	89.2%	177.4%
	Retail consumer	784	39	31	8	745	43	31	12	10	5.0%	100.0%	126.2%
Non-core		**307**	**167**	**123**	**44**	**140**	**108**	**107**	**1**	**73**	**54.3%**	**64.6%**	**108.2%**
	Corporate	28	24	22	2	4	15	15	0	9	86.6%	60.7%	99.7%
	SME	196	136	94	42	60	87	86	0	63	69.5%	63.8%	110.1%
	State	5	0	0	0	5	0	0	0	0	0.0%	0.0%	0.0%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	6	0	0	0	6	0	0	0	0	0.0%	0.0%	0.0%
	Retail mortgage	1	0	0	0	1	0	0	0	0	0.0%	0.0%	0.0%
	Retail consumer	72	7	7	0	65	7	6	0	0	9.7%	93.4%	100.2%
NLB Slovenia		**5,907**	**719**	**374**	**346**	**5,188**	**489**	**443**	**47**	**454**	**12.2%**	**68.0%**	**131.1%**
NLB Group		**9,343**	**1,181**	**730**	**451**	**8,162**	**899**	**772**	**127**	**704**	**12.6%**	**76.1%**	**135.7%**

31 December 2016

NLB GROUP	SEGMENT	Loan Exposure	NPL Exposure	Thereof 90 days-past-due loans[(1)]	Thereof Other	PL Exposure	Provisions	NPL Provisions	PL Provisions	NPL Collateral	NPL ratio	NPL Cash Coverage	NPL Total Coverage
						(EUR millions)							
Core Republic of Slovenia		**5,606**	**399**	**94**	**304**	**5,207**	**252**	**200**	**52**	**281**	**7.1%**	**63.2%**	**133.6%**
	Corporate	1,505	159	2	157	1,347	95	74	21	112	10.5%	59.8%	130.6%
	SME	1,087	188	68	119	900	118	102	16	138	17.3%	62.8%	136.2%
	State	549	0	0	0	549	0	0	0	0	0.0%	0.0%	0.0%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	474	0	0	0	474	0	0	0	0	0.0%	100.0%	100.0%
	Retail Mortgage	1,228	35	15	21	1,192	19	14	5	25	2.9%	52.7%	124.8%
	Retail Consumer	763	17	10	7	746	21	10	11	5	2.2%	100.0%	130.1%
Non-core Republic of Slovenia		**380**	**355**	**281**	**73**	**25**	**261**	**258**	**3**	**191**	**93.3%**	**73.5%**	**127.2%**
	Corporate	135	119	95	24	16	86	85	2	61	88.4%	72.6%	124.0%
	SME	245	236	186	50	10	174	173	1	129	96.0%	73.9%	128.8%
	State	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Retail Mortgage	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Retail Consumer	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
Core International		**3,087**	**312**	**239**	**74**	**2,775**	**320**	**226**	**93**	**205**	**10.1%**	**100.0%**	**165.7%**
	Corporate	304	50	30	21	254	63	38	25	37	16.5%	100.0%	174.3%
	SME	994	207	168	39	787	202	149	53	142	20.8%	97.5%	166.0%
	State	441	0	0	0	441	0	0	0	0	0.0%	1.2%	1.2%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	219	0	0	0	219	0	0	0	0	0.0%	100.0%	100.0%
	Retail Mortgage	393	16	11	5	378	14	9	5	14	4.0%	85.7%	174.3%
	Retail Consumer	736	39	30	9	697	41	30	10	12	5,3%	100.0%	130.8%
Non-core		**370**	**234**	**184**	**49**	**137**	**156**	**155**	**1**	**81**	**63.1%**	**66.9%**	**101.4%**
	Corporate	39	36	35	2	3	26	26	0	8	92.0%	71.9%	95.1%
	SME	248	189	142	47	59	123	122	1	71	76.0%	65.1%	102.7%
	State	5	0	0	0	5	0	0	0	0	0.0%	0.0%	0.0%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	5	0	0	0	5	0	0	0	0	5.8%	5.9%	5.9%
	Retail Mortgage	1	0	0	0	1	0	0	0	0	0.0%	0.0%	0.0%
	Retail Consumer	71	8	8	0	63	7	7	0	1	11.7%	89.7%	100.7%
NLB Republic of Slovenia		**5,986**	**753**	**376**	**378**	**5,233**	**513**	**458**	**55**	**471**	**12.6%**	**68.1%**	**130.6%**
The NLB Group		**9,444**	**1,299**	**799**	**500**	**8,144**	**989[(2)]**	**839**	**149**	**757**	**13.8%**	**76.1%**	**134.4%**

[1] Counting from the first day of missed payment.
[2] Includes general loan provisions.

31 December 2015

NLB GROUP	SEGMENT	Loan Exposure	NPL Exposure	Thereof 90 Days-past-due Loans[(1)]	Thereof Other	PL Exposure	Provisions	NPL Provisions	PL Provisions	NPL Collateral	NPL Ratio	NPL Cash Coverage	NPL Total Coverage
						(EUR millions)							
Core Republic of Slovenia		**5,687**	**628**	**319**	**309**	**5,059**	**384**	**319**	**66**	**401**	**11.0%**	**61.2%**	**125.1%**
	Corporate	1,499	177	41	136	1,322	123	91	32	112	11.8%	69.3%	132.4%
	SME	1,012	341	205	137	671	189	171	17	231	33.7%	55.2%	122.8%
	State	376	0	0	0	376	0	0	0	0	0.0%	0.0%	0.0%
	BAMC	310	0	0	0	310	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	528	0	0	0	528	0	0	0	0	0.0%	100.0%	100.0%
	Retail Mortgage	1,201	68	42	27	1,133	35	30	6	49	5.7%	52.0%	123.6%
	Retail Consumer	761	41	32	9	720	37	26	11	10	5.4%	90.4%	114.4%
Non-core Republic of Slovenia		**544**	**473**	**347**	**127**	**71**	**346**	**332**	**13**	**272**	**87.0%**	**73.0%**	**130.6%**
	Corporate	176	152	83	69	25	103	97	7	89	86.0%	68.0%	126.4%
	SME	367	321	263	58	46	242	235	7	184	87.4%	75.5%	132.7%
	State	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Retail Mortgage	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Retail Consumer	1	1	1	0	0	0	0	0	0	100.0%	53.6%	53.6%
Core International		**2,992**	**379**	**303**	**76**	**2,612**	**356**	**259**	**97**	**256**	**12.7%**	**93.8%**	**161.4%**
	Corporate	290	64	44	20	226	71	49	22	44	22.0%	100.0%	168.9%
	SME	979	247	204	43	732	219	158	61	179	25.2%	88.6%	161.3%
	State	408	0	0	0	408	0	0	0	0	0.0%	100.0%	100.0%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	297	0	0	0	297	0	0	0	0	0.0%	0.0%	0.0%
	Retail Mortgage	347	19	14	5	328	16	12	4	16	5.4%	86.9%	174.6%
	Retail Consumer	671	50	41	9	621	50	40	10	17	7.5%	99.7%	132.9%
Non-core		**606**	**415**	**355**	**59**	**192**	**282**	**280**	**2**	**137**	**68.4%**	**68.0%**	**100.9%**
	Corporate	128	105	69	36	23	57	57	0	51	82.2%	54.5%	103.0%
	SME	376	296	273	23	80	213	211	1	83	78.7%	71.9%	100.0%

NLB GROUP	SEGMENT	Loan Exposure	NPL Exposure	Thereof 90 Days-past-due Loans[(1)]	Thereof Other	PL Exposure	Provisions	NPL Provisions	PL Provisions	NPL Collateral	NPL Ratio	NPL Cash Coverage	NPL Total Coverage
						(EUR millions)							
	State	8	0	0	0	8	0	0	0	0	0.7%	72.7%	72.7%
	BAMC	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%
	Institutions	17	0	0	0	16	0	0	0	0	1.7%	7.7%	7.7%
	Retail Mortgage	2	1	1	0	1	1	1	0	1	42.1%	59.4%	111.6%
	Retail Consumer	76	13	12	1	63	12	11	0	2	16.8%	90.0%	107.9%
NLB Republic of Slovenia		**6,231**	**1,101**	**666**	**435**	**5,130**	**730**	**651**	**79**	**673**	**17.7%**	**66.3%**	**127.4%**
NLB Group		**9,829**	**1,896**	**1,324**	**571**	**7,934**	**1,368**	**1,190**	**178**	**1,066**	**19.3%**	**72.2%**	**128.4%**

1 Counting from the first day of missed payment.

The following table sets out the largest 20 non performing large corporate and SME loans in the NLB Group portfolio as at 30 June 2018.

Top 20 NPLs in the NLB Group portfolio

#	Country	Sector	Amount (EURm)	% of NPLs	Provisions (EURm)	Cash coverage	Collateral capped (EURm)	Collateral coverage	Total coverage
Group 1	CROATIA[(1)]	Wholesale and retail trade	84.7	11.3%	34.4	40.6%	69.29	81.8%	122.5%
Group 2	SLOVENIA	Professional, scientific and technical activities	52.5	7.0%	37.4	71.3%	28.90	55.1%	126.4%
Group 3	MONTENEGRO	Wholesale and retail trade	34.9	4.6%	25.9	74.5%	19.79	56.8%	131.2%
Group 4	MONTENEGRO	Wholesale and retail trade	32.0	4.3%	26.5	82.8%	29.04	90.8%	173.6%
Group 5	SLOVENIA	Professional, scientific and technical activities	23.8	3.2%	18.6	78.2%	18.00	75.8%	153.9%
Group 6	NETHERLANDS	Wholesale and retail trade	14.1	1.9%	13.4	95.5%	0.00	0.0%	95.5%
Group 7	SLOVENIA	Transport and storage	12.6	1.7%	8.2	64.6%	12.64	100.0%	164.6%
Group 8	CROATIA	Construction industry	11.5	1.5%	10.2	88.6%	11.51	100.0%	188.6%
Group 9	SLOVENIA	Professional, scientific and technical activities	11.5	1.5%	7.3	63.4%	11.45	100.0%	163.4%
Group 10	MONTENEGRO	Accommodation and food service activities	10.4	1.4%	0.0	0.0%	10.40	100.0%	100.0%
Group 11	SLOVENIA	Construction industry	10.2	1.4%	3.9	38.0%	10.20	100.0%	138.0%
Group 12	SLOVENIA	Manufacturing	9.4	1.2%	8.2	88.1%	2.25	24.1%	112.1%
Group 13	SERBIA	Electricity, gas, steam and air conditioning	9.3	1.2%	3.2	34.8%	0.00	0.0%	34.8%
Group 14	MONTENEGRO	Real estate activities	9.0	1.2%	8.1	89.4%	3.17	35.2%	124.6%
Group 15	BOSNIA AND HERZEGOVINA	Wholesale and retail trade	8.5	1.1%	6.3	74.1%	8.47	100.0%	174.1%
Group 16	CROATIA	Transport and storage	8.4	1.1%	7.2	86.3%	2.56	30.5%	116.8%
Group 17	SLOVENIA	Finance	7.9	1.1%	4.5	57.3%	6.80	85.7%	142.9%
Group 18	SLOVENIA	Wholesale and retail trade	7.2	1.0%	5.5	76.3%	4.09	56.8%	133.1%
Group 19	MONTENEGRO	Accommodation and food service activities	6.7	0.9%	0.4	6.0%	6.72	100.0%	106.0%
Group 20	CROATIA	Construction industry	6.6	0.9%	5.0	75.0%	5.21	78.6%	153.6%
Total 1-10			**287.8**	**38.3%**	**181.8**	**63.2%**	**211.03**	**73.3%**	**136.5%**
Total 11-20			**83.2**	**11.1%**	**52.3**	**62.9%**	**49.46**	**59.5%**	**122.4%**
Total Top 20			**371.0**	**49.4%**	**234.2**	**63.1%**	**260.49**	**70.2%**	**133.3%**
Group NPLs			**751.6**	**-**	**553.7[(2)]**	**73.7%**	**505.13**	**67.2%**	**140.9%**

(1) The majority of the exposure exists at the level of a Slovenian company owned by a Croatian company.

(2) Includes general loan provisions.

The following table sets out the largest 20 performing large corporate and SME loans in the NLB Group portfolio as at 30 June 2018.

Top 20 Performing Large Corporate and SME loans in the NLB Group portfolio

	Performing Large Corporate and SME loans	
	(EUR millions)	*%*
Top 5	731.26	23%
Top 10	909.42	28%
Top 20	1.084.75	34%
Total performing Corporate and SME loans	**3,225.32**	**100%**

9.3 Deposits

The amount of deposits for the NLB Group was EUR 9,919.6 million as of 31 December 2017, of which EUR 8,177.0 million had maturities within three months, EUR 1,070.5 million had maturities of more than three months but within one year and EUR 672.1 million had maturities of more than one year.

Total deposits by foreign depositors were EUR 3,078.3 million, EUR 2,824.4 million and EUR 2,737.1 million as of 31 December 2017, 2016 and 2015, respectively.

The following table includes the average deposit balance by category of deposit and the related average interest rate.

	2017		2016		2015	
	Average deposit	**Average rate**	**Average deposit**	**Average rate**	**Average deposit**	**Average rate**
			(Amounts in millions of EUR)			
Deposits by banks						
In domestic offices:						
Demand	27.1	(0.2)%	36.7	(0.1)%	51.9	0.0%
Time	3.3	(0.7)%	0.7	(0.7)%	2.7	(0.4)%
Other	1.7	0.0%	3.2	0.0%	5.1	0.0%
Total domestic offices	**32.1**		**40.6**		**59.7**	
In foreign offices:						
Demand	11.3	(0.4)%	12.7	(0.1)%	10.6	(0.5)%
Time	6.9	(1.3)%	5.1	(0.4)%	1.8	(1.2)%
Total foreign offices	**18.2**		**17.8**		**12.4**	
Total deposits by banks	**50.3**		**58.4**		**72.1**	
Customer accounts						
In domestic offices:						
Demand	5,094.1	0.0%	4,447.6	0.0%	3,804.0	0.0%
Time	1,588.7	(0.5)%	1.990.1	(0.7)%	2,408.9	(1.2)%
Total domestic offices	**6,682.8**		**6,437.7**		**6,212.9**	
In foreign offices:						
Demand	1,714.6	(0.1)%	1,502.9	0.0%	1,323.7	(0.1)%
Time	1,176.7	(1.7)%	1,220.5	(2.0)%	1,363.1	(2.5)%
Total foreign offices	**2,891.3**		**2, 723.4**		**2,686.8**	
Total customers' accounts	**9,574.1**		**9,161.1**		**8,899.7**	
Debt securities						
In domestic offices:						
Debentures	150.7	(2.9)%	295.8	(3.2)%	328.4	(3.2)%
Other	-	-	-	-	-	-
Total domestic offices	**150.7**		**295.8**		**328.4**	
In foreign offices:						
Debentures	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total foreign offices	-		-		-	
Total debt securities	**150.7**		**295.8**		**328.4**	

Average balances are calculated on a monthly basis.

On 31 December 2017, the maturity of deposits from banks and due to customers was:

	Deposits from banks and central banks	**%**	**Due to customers**	**%**
		(Amounts in millions of EUR)		
Three months or less	40.3	99.3%	8,136.7	82.4%
Over three months to one year	0.1	0.2%	1,070.4	10.8%
Over one year	0.2	0.5%	671.9	6.8%
Total	**40.6**	**100%**	**9,879.0**	**100%**

9.4 Patents, Licences and Material Contracts

In its activities, the NLB Group uses a number of trademarks. As at the date of this Prospectus, the Slovenian Intellectual Property Office (the "**SIPO**") had granted protective rights to 72 words, graphics and figurative trademarks to members of the NLB Group. Furthermore, as at the date of this Prospectus, the NLB Group had obtained protection for 48 trademarks from other Intellectual Property Offices. The basic signs identifying the NLB Group are NLB, NLB Banka and the NLB Group.

Moreover, the NLB Group holds several trademarks of significant importance, which include trademarks identifying member companies of the NLB Group and trademarks constituting the designation of products and services offered by the NLB Group. As at the date of this Prospectus, the NLB Group maintained over 40 internet domains.

NLB Group has over years invested into purchase of licenses and maintenance contracts for several software and hardware solutions by renown global and regional providers of banking software and IT equipment.

10. ASSET, LIABILITY AND RISK MANAGEMENT

10.1 General

One of the NLB Group's key strategies for supporting a sustainable and profitable business is to pursue, and incrementally improve upon, risk management policies that holistically and proactively monitor all relevant risk categories of the NLB Group. The NLB Group's risk management policy is consistently applied throughout the NLB Group's organisational structure and aims to ensure the prudent and efficient use of the NLB Group's capital and compliance with all legal, regulatory and best practice requirements.

The NLB Group's risk management policies are determined in accordance with the NLB Group's risk appetite and its risk strategy, which are regularly revised and adjusted. The NLB Group's strategy, risk strategy and risk appetite guidelines are approved by the Supervisory Board. Furthermore, the NLB Group Risk management standards include the NLB Group's guidelines, approaches and methodologies for monitoring, measuring and managing all types of risk.

The key risk management category for the NLB Group is the management of credit risk, which the NLB Group addressees through a focus on taking moderate risks and aiming for an optimal return relative to the risks assumed, while at the same time focusing on resolving the NPE in the NLB Group's legacy portfolio and moving closer to the average levels of the EU banking system. In regards to liquidity risk, the NLB Group's risk management policies are geared towards ensuring an appropriate level of short-term and long-term liquidity, while for market and operational risks the NLB Group is guided by the principle that such risks must not significantly impact its operations. The tolerance for other risk types is low, with a focus on minimising their possible impacts on the NLB Group's operations.

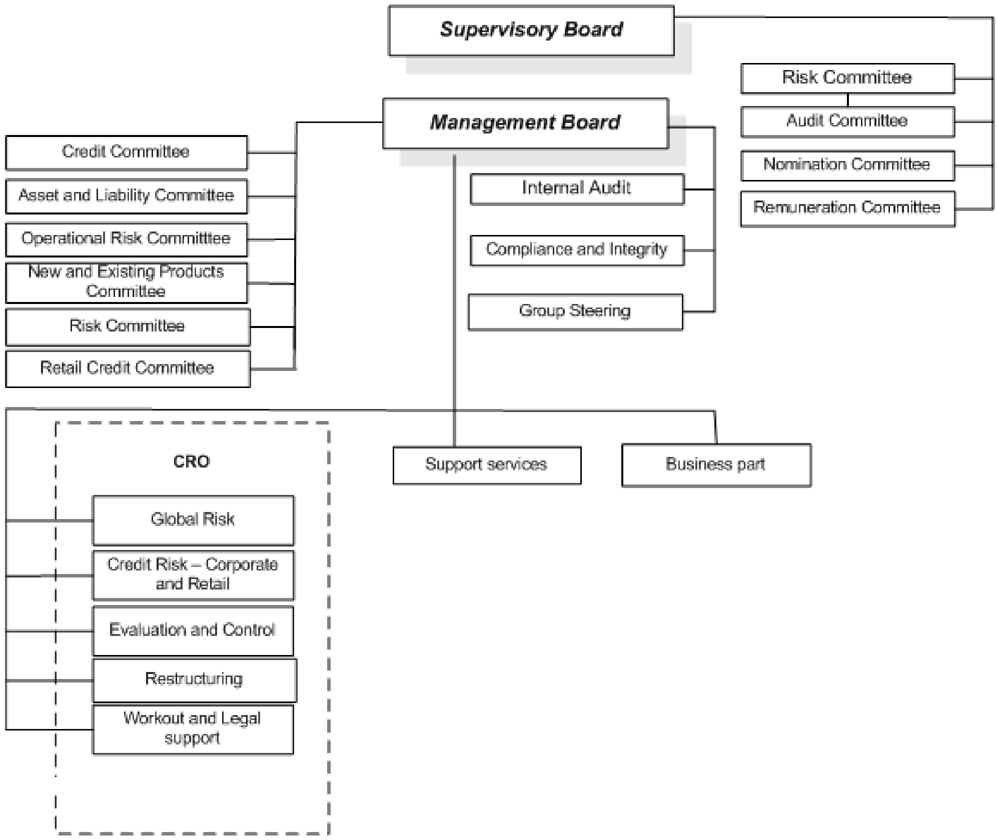
NLB regularly monitors its target risk appetite profile, both for NLB and the NLB Group. The target risk appetite profile is the key component of the risk mitigation process. Risk profiling enables detailed monitoring and proactive management of exposure to credit, market, interest, operational risk, while non-financial and other risks are managed within the ICAAP. The risk-profile limits, potential deviations from limits, and target values are reported regularly to the respective committees and/or the Management Board of NLB. A comprehensive risk report is reviewed quarterly by the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board. Additionally, the NLB Group has set up early warning systems in different risk areas with the intention to strengthen the existing internal controls and ensure timely responses when necessary.

For the purposes of an efficient risk mitigation process, the NLB Group applies a single set of standards to retail and corporate loan collateral, which is a secondary source of repayment, with the aim of efficient credit risk management and efficient use of capital. The NLB Group has a system for monitoring and reporting collateral at fair market value in accordance with the International Valuation Standards ("**IVS**"). When hedging market risks, the NLB Group follows the principle of natural hedging or by using derivatives in line with hedge accounting principles.

Each of the banking subsidiaries within the NLB Group have adapted a corresponding approach to their internal risk management policies, which are aligned with key NLB Group risk management guidelines and tailored for the Requirements arising from local regulations.

10.2 Risk management structure

Risk management structure within NLB



* *The tasks and responsibilities of Global Risk, Compliance and Integrity and Internal Audit are set out in accordance with the definitions of ZBan-2 and Regulation of on Internal Governance Arrangements, Management body and Internal Capital Adequacy Assessment Process (Internal control functions defined in Article 34), under which all such functions are independent and have direct access to Supervisory Board.*

** *According to the responsibilities of the Management Board members, the organisational unit falls under the member of the Management Board, responsible for risk (CRO).*

The NLB Group

Overall, the organisation and delineation of competencies in the NLB Group's risk management structure is designed to prevent conflicts of interest and ensure a transparent and documented decision-making process, subject to an appropriate upward and downward flow of information. Risk management in the NLB Group is centralised, within the Risk management business-line, which is a specialised business-line encompasses several professional areas, for which the Global Risk Department, the Corporate and the Retail Credit Analysis Department and Evaluation and Control Department which are responsible for Group level monitoring within NLB, and which reports to the NLB Group's Assets and Liabilities Committee (ALCO) and the Risk Committee of the Supervisory Board. The Risk management business line is in charge of formulating and controlling the risk management policies of the NLB Group, overseeing the harmonisation of risk management policies within the NLB Group, monitoring the NLB Group's risk exposures, and the preparation of external and internal reports.

All members of the NLB Group which are included in the financial statements of the NLB Group report their exposure to risks to the competent organisational units within the Risk management business line. These organisational units then report all relevant risk information to the NLB Group's Assets and Liabilities Committee ("**ALCO**").

Credit ratings of clients that are materially important to the NLB Group and the issuing of credit risk opinions are centralised via the Credit Committee of NLB. The process follows the co-decision principle, in which the credit committee of the respective group member first approves their decision, following which the Credit Committee of NLB gives their opinion. The resolution of the Credit Committee of NLB is made on the basis of all available documentation, including a non-binding rating opinion prepared by the underwriting department of NLB. This same principle and process is set also for the issuing of credit exposures for the materially important clients of the NLB Group.

The NLB Group members

The primary responsibility for managing the risks assumed by the NLB Group members within the framework of their business strategy lies with each NLB Group member's management, which, in accordance with the guidelines established at the NLB Group level, pursue the NLB Group's strategic goals, implement the NLB Group's planned business results and monitor and manage risks. In furtherance of this, the NLB Group members each adopt appropriate risk management policies approved by the supervisory board of the applicable member. The supervisory board of each NLB Group member also monitors the implementation of that member's risk management policies and assesses their effectiveness.

Risk monitoring in the NLB Group members is centralised within an independent and/or separate organisational unit. The centralised monitoring of risks aims to establish standardised and systemic approaches to risk management, and therefore, a comprehensive overview of the NLB Group's and of each member's statement of financial position. In compliance with the risk management policies of the NLB Group, risk monitoring in each NLB Group member is separated from its management and/or business function in order to maintain the objectivity required when assessing business decisions. The organisational unit for managing risks directly reports to the Management Board and its committees (Credit Committee, ALCO and Operational Risk Committee), which report to the Supervisory Board (Risk Committee of the Supervisory Board or Board of Directors).

Risk management business line

Risk management in the NLB Group is carried out by the Risk management business line, which includes several professional areas, encompassing several organisational units of NLB. This business line is in charge of formulating and controlling the risk management policies, coordinating activities related to the harmonisation of risk management in the NLB Group, monitoring the NLB Group's exposure to all types of business risk, and preparation of external and internal reports. Credit ratings of materially important clients and the issuing of credit risk opinions (credit advice as part of the co-decision principle) are centralised via the Credit Committee of NLB. All members of the NLB Group, which are included in the financial statements of the NLB Group, report their exposure to risks to the competent organisational units in NLB. These report all the relevant information to the NLB Group's ALCO, the Management Board and the Risk Committee of the Supervisory Board, which adopt the required measures or decisions. The "NLB Group Risk Management Standards" are guidelines which represent the basis for the establishment and organisation of risk management and associated activities at each NLB Group member. These guidelines and standards in the area of credit, market, liquidity, operational and other non-financial risk management represent the basis for the adaptation of the NLB Group members' business policies, organisational structures, work procedures and reporting systems. NLB prescribes the methodologies and procedures, and governs and controls the NLB Group in accordance with Slovenian law. At the same time, the NLB Group members must also fulfil the requirements set out in local legislation.

10.3 Risk measurement and reporting systems

As a systemic bank, NLB is subject to the SSM, which is supervised by the JST of the ECB and the Bank of Slovenia. Each NLB Group member complies ECB regulation while the NLB Group subsidiaries operating outside the Republic of Slovenia are compliant also with the rules set by the local regulators.

The NLB Group's measurement systems and the risk management principles are crucial elements of the risk management policies which, for the purpose of consolidated control, are aligned with all regulatory requirements of the Bank of Slovenia and the ECB, taking into account the provisions of the Directive (CRD), Decision (CRR) and EBA guidelines. With regard to capital adequacy, the NLB Group applies the standardised approach to credit and market risk and the basic approach (a simplified approach with less data granularity) to operational risks, with the exception of NLB which applies the standardised approach.

The NLB Group performs a uniform assessment and management of risks across the entire Group, taking into account the specifics of the markets in which each individual NLB Group member operates in line with the NLB Group's Risk management standards. For the purposes of measuring exposure to credit, market, interest, operational and non-financial risks, in addition to prescribed regulations, the NLB Group uses internal methodologies that enable more detailed monitoring and management of risks. These internal methodologies are aligned with the Basel and EBA guidelines, as well as best practices in banking methodologies.

As for risk reporting, the NLB Group's internal guidelines reflect, in addition to internal requirements, the substance and frequency of reporting required by the Bank of Slovenia and the ECB. In addition, each member of the NLB Group also complies with the requirements of its local regulations.

Risk reporting is carried out in the form of standardised reports, pursuant to risk management policies founded on reasonable methodologies for measuring and harmonising exposure to risks, appropriate databases and the automation of report preparation, which ensures the quality of reports and reduces the possibility of errors.

Credit Risk Management

In its operations, the NLB Group is exposed to credit risk, namely the risk of losses due to the failure of a debtor to settle its liabilities to the NLB Group. For this reason, the NLB Group proactively and comprehensively monitors and assesses credit risk and follows IFRS, Bank of Slovenia regulations and EBA guidelines. In addition, credit risk management is governed in detail by the NLB Group's internal methodologies and procedures, particularly those contained in its Risk Appetite, Risk Strategy and Credit Policy.

In order to ensure meaningfully uniform procedures at the NLB Group level, NLB ensures, through regular reviews of the business practices and the credit portfolios of the NLB Group members, that the credit risk management of the NLB Group members functions in accordance with the NLB Group's risk management standards.

The credit approval process in NLB Group is divided into three stages. The Credit Application is prepared by the Front Office, with Credit Risk – Corporate and Retail preparing the Credit Rating Proposal and Credit Advice individually for proposed transactions. NLB's Credit Risk – Corporate and Retail also prepares a Non-Binding Opinion for NLB Group members for transactions above EUR 5 million exposure. Transactions up to EUR 5 million exposure are within the competence of the Front Office and Credit Risk – Corporate and Retail, while transactions above EUR 5 million exposure must be authorised by the Sub-Credit Committee and transactions above EUR 15 million exposure must be authorised by the Credit Committee.

Monitoring

The NLB Group manages credit risk at two levels: at the client level and the overall portfolio level.

At the individual client level, appropriate procedures are followed in various phases of the client relationship, namely prior to, during and after the conclusion of a credit agreement. Prior to concluding a credit agreement, NLB or subsidiary banks assesses the client's performance, financial position and past cooperation with NLB or within the NLB Group. The NLB Group finances clients upon completion of appropriate identification measures and know your customer ("**KYC**") protocols and only to the extent that the NLB Group believes those clients are conducting legal and transparent operations. The NLB Group also only finances clients which it assess to have a sufficient level of anticipated free cash flow as the primary source of repayment. Furthermore, in addition to the evaluation of a potential clients' financial statements, the NLB Group undertakes a comprehensive analysis of industry specifics, the clients' future cash flow generation capabilities, the references and competences of owners and management bodies and a critical assessment of future financial plans. The client creditworthiness assessment does not take into account any collateral received. However, accepted collateral represents only a secondary source of repayment as a risk mitigation tool.

Once the credit agreement has been signed, the NLB Group monitors in particular the customer's ability to generate sufficient cash flows for the regular settlement of their liabilities and contractual obligations. In addition, the NLB Group relies on regular monitoring of clients within the Early Warning System, which is used to monitor new information about financial and other important client information. For the purpose of objectively and comprehensively assessing a client's operation, internal scoring models for particular client segments have been developed (see "*—Internal Rating System and Authorisations*" below). The next step of monitoring includes a Watch List or Intensive Care List, depending on the client's situation. Clients which are placed on the Intensive Care List are under authority of the Restructuring unit.

At the level of the overall portfolio of NLB and the NLB Group, the quality of the credit portfolio, including on-balance and off-balance sheet exposures, is actively monitored and analysed in terms of client segmentation (*i.e.* client type and size), credit rating structure, arrears and/or volume of non-performing/past due and restructured receivables, coverage with impairments and provisions, collateral received, concentrations arising from a group of related persons and concentrations within an industry, currency exposure and other indicators of risks in the credit portfolio. Regular monitoring includes an analysis of new deals and other changes or trends, with an emphasis on the early detection of increased risks and optimisation of these risks from the perspective of profitability. The NLB Group appropriately diversifies its portfolio to mitigate specific components of credit risk (*i.e.* the risk deriving from operations with a specific client, sector, positions in financial instruments or other factors vulnerable to specific events). Increasing emphasis is also placed on stress tests that forecast the effects of negative movements in the portfolio on the level of impairments and provisions, and on capital adequacy within the second pillar. Capital requirements for credit risk at the NLB Group level within the first pillar are calculated according to the standardised approach, while within the second pillar internal capital requirement and concentration risk add-on assessment are carried out.

Internal Rating System and Authorisations

The following tables set out the loans and advances and impairment provisions by internal rating for each of NLB and the NLB Group for the three years ended 2017, 2016 and 2015.

	2017			
NLB	**Gross loans and advances**	**Loans and advances**	**Impairment provisions**	**Impairment provisions**
	(EUR thousands)	*(%)*	*(EUR thousands)*	*(%)*
A	3,493,876	64.1	10,889	0.3
B	1,320,299	24.2	28,653	2.2
C	163,861	3.0	16,614	10.1
D and E	470,959	8.6	260,907	55.4
Total	**5,448,995**	**100.0**	**317,063**	**5.8**

	31 December							
	2016				**2015**			
NLB	**Gross loans and advances**	**Loans and advances**	**Impairment provisions**	**Impairment provisions**	**Gross loans and advances**	**Loans and advances**	**Impairment provisions**	**Impairment provisions**
	(*EUR thousands*)	(*%*)	(*EUR thousands*)	(*%*)	(*EUR thousands*)	(*%*)	(*EUR thousands*)	(*%*)
A	3,581,311	61.3	11,653	0.3	3,540,605	56.5	11,727	0.3
B	1,087,449	18.6	24,464	2.2	934,586	14.9	20,643	2.2
C	454,477	7.8	45,873	10.1	737,199	11.8	64,653	8.8
D and E	718,476	12.3	422,758	58.8	1,048,450	16.8	597,892	57.0
Total	**5,841,713**	**100.0**	**504,748**	**8.6**	**6,260,840**	**100.0**	**694,915**	**11.1**

Note: Other financial assets are not included.

	2017			
NLB Group	**Gross loans and advances**	**Loans and advances**	**Impairment provisions**	**Impairment provisions**
	(EUR thousands)	*(%)*	*(EUR thousands)*	*(%)*
A	4,952,528	60.7	24,149	0.5
B	1,972,025	24.2	57,310	2.9
C	393,247	4.8	47,711	12.1
D and E	837,455	10.3	518,158	61.9
Total	**8,155,255**	**100.0**	**647,328**	**7.9**

	31 December							
	2016				**2015**			
NLB Group	**Gross loans and advances**	**Loans and advances**	**Impairmen t provisions**	**Impairmen t provisions**	**Gross loans and advances**	**Loans and advances**	**Impairmen t provisions**	**Impairmen t provisions**
	(*EUR thousands*)	(*%*)	(*EUR thousands*)	(*%*)	(*EUR thousands*)	(*%*)	(*EUR thousands*)	(*%*)
A	4,872,072	58.4	23,763	0.5	4,816,101	54.8	22,773	0.5

NLB Group	31 December 2016 Gross loans and advances	2016 Loans and advances	2016 Impairment provisions	2016 Impairment provisions	2015 Gross loans and advances	2015 Loans and advances	2015 Impairment provisions	2015 Impairment provisions
	(*EUR thousands*)	(*%*)	(*EUR thousands*)	(*%*)	(*EUR thousands*)	(*%*)	(*EUR thousands*)	(*%*)
B	1,852,289	22.2	60,619	3.3	1,564,895	17.8	54,140	3.5
C	410,975	4.9	64,451	15.7	650,739	7.4	106,585	16.4
D and E	1,201,333	14.4	754,917	62.8	1,751,317	19.9	1,079,579	61.6
Total	**8,336,669**	**100.0**	**903,750**	**10.8**	**8,783,052**	**100.0**	**1,263,077**	**14.4**

Note: Other financial assets are not included.

The NLB Group's client credit rating classification is based on an internally developed methodology, drawing from internal statistical analyses, good banking practices as well as Bank of Slovenia regulations, ECB and EBA guidelines and requirements. The rating methodology was renewed in 2017 and is used across the entire NLB Group. Rating methodology includes a uniform credit grade scale of 12 rating classes, out of which 9 represents performing clients and 3 classes non performing clients.

Rating Group A (AAA to A rating classes) includes the best clients with a low degree of default probability, characterised by high capital adequacy and a high coverage of financial liabilities with free cash flow. Rating Group A is considered as investment grade classification.

Rating Group B (BBB to B rating classes) includes clients with a low credit risk, one class lower than A rating group clients. These clients show stable performance, acceptable financial ratios and qualitative elements and have a sufficient cash flow to settle their obligations, but some are more sensitive to changes in the industry or the economy. The Rating Group B includes classification in investment class BBB and in invest with care classes BB and B.

Rating Group C (CCC to C rating classes) includes clients who are exposed to a higher and above-average level of credit risk. Sometimes CCC rated clients are financed by the bank as support brings more positive effects, however, the Rating Group C is overall considered as substantial risk. The NLB Group reasonably restricts cooperation with such clients and decreases its exposure to them.

Rating Group D (D and DF rating classes) and E rating classes represents non-performing clients that are treated as defaulted.

D, DF and E rating classified clients are ordinarily under authority of the Restructuring unit (which performs business and financial restructuring with a goal of minimising losses and restoring the client to a performing status) or are transferred to Workout and Legal Support unit (with the goal of minimising losses due to default).

Authorisations, procedures and the detailed rating methodology, as well as the impairment of receivables are included in, amongst others:

- Criteria and Procedures for Granting Investments in NLB;
- Different types of rating methodologies (based on client segmentation);
- Rules on Authorisation;

Unit	Decision level	A, B and C rated clients	D and E rated clients
Large Corporates	Within its own authority	Up to EUR 200 thousand	Up to EUR 1 thousand
Mid Corporates	Credit Risk	Up to EUR 5 million	Up to EUR 2 million
Small Enterprises	Sub-Credit Committee	Between EUR 5 and 15 million	Between EUR 2 and 8 million
	Credit Committee	Above EUR 15 million	Above EUR 8 million
Restructuring	Within its own authority	Up to EUR 2 million	Up to EUR 2 million
Workout and Legal Support	Sub-Credit Committee	Between EUR 2 and 8 million	Between EUR 2 and 8 million
	Credit Committee	Above EUR 8 million	Above EUR 8 million
Financial Markets	Credit Risk	Up to EUR 5 million	Up to EUR 2 million
	Sub-Credit Committee	Between EUR 5 and 15 million	Between EUR 2 and 8 million

Unit	Decision level	A, B and C rated clients	D and E rated clients
	Credit Committee	Above EUR 15 million	Above EUR 8 million

A standard rating methodology, with the prescribed set of parameters (qualitative and quantitative) applies to all the NLB Group bank entities. Groups of connected clients are treated as materially important for the NLB Group whenever exposure exceeds EUR 5 million. Materially important clients are submitted to the NLB (Sub)Credit Committee.

Loss assessment

NLB and other NLB Group members assess the level of expected credit risk losses on an individual basis for material receivables and at the collective level for the rest of the portfolio.

The NLB Group follows the principles of IFRS when assessing individual impairments and provisions which lay down the estimation of the adequate level of individual impairments based on expected cash flows (from collateral liquidation, company's operations and other sources). In use are five scenarios to estimate cash flows for the assessment of individual impairments and provisions:

- Gone Concern - under "gone concern" scenario collateral is exercised and the operating cash flow of the debtor cease.
- Going Concern - under "going concern" scenario the operating cash flows continue and can be used to repay the financial debt to all creditors.
- Retail (Gone Concern) - for private individuals "gone concern" scenario is used
- Fair Value - financial assets measured at fair value through profit or loss (Solely payments of principal and interest, i.e. SPPI test not fulfilled).
- Expert assessment of individual impairments and provisions - In case of limited availability of information for execution of a "going concern" or "gone concern" approaches, Expert Assessment of individual impairments and provisions is used.

The selected approach depends on the client's position, sustainability of the business model and willingness of creditors to support appropriate restructuring of a debtor.

Individual impairments and provisions are assessed and formed in the following segments:

		Amount of exposure		
Client segment	**Credit rating**	**NLB**	**Core members**	**Non-core members**
Sovereigns	D, DF and E	Above EUR 500 thousand	Above EUR 50 thousand	Above EUR 20 thousand
Banks	D, DF and E	Above EUR 500 thousand	Above EUR 50 thousand	Above EUR 20 thousand
Legal entities (except banks)	D, DF and E	Above EUR 500 thousand	Above EUR 50 thousand	Above EUR 20 thousand
Private Individuals	D, DF and E	Above EUR 100 thousand	Above EUR 50 thousand	Above EUR 20 thousand

Collective impairments and provisions are calculated for A, B and C rated performing clients, whose financial assets and potential liabilities are classified into Stage 1 and Stage 2 in accordance with IFRS 9. In addition, collective impairments and provisions are calculated for D and E rated clients whose financial assets and potential liabilities are classified into Stage 3 and are not part of the individual assessment. Collective impairments and provisions are thus calculated for all performing and for NPE that fall below the thresholds set on the client level. The individual assessment threshold is determined by the absolute amount of exposure as shown in the table above. More detailed description of the collective impairment calculation is available in "*8.1. Key Factors Affecting the NLB Group's Financial Condition and Results of Operations—Impairment methodology*".

The following tables set out the maximum exposure to credit risk, disregarding collateral, for each of NLB and NLB Group for the three years ended 2017, 2016 and 2015.

Maximum exposure to credit risk	NLB			NLB Group		
	31 December					
	2017	2016	2015	2017	2016	2015
	(EUR thousands)					
Cash, cash balances central banks and other demand deposits at banks	570,010	617,039	496,806	1,256,481	1,299,014	1,161,983
Debt securities classified as loans and receivables	82,133	85,315	394,579	82,133	85,315	394,579
Loans to government	358,675	668,300	578,184	457,080	775,986	688,474
Loans to banks	462,322	408,056	345,207	513,461	435,537	431,775
Loans to financial organisations	268,184	273,310	391,911	77,202	74,344	139,852
Loans to individuals	2,082,562	1,951,115	1,889,683	3,371,946	3,091,508	2,907,991
Granted overdrafts	140,209	147,779	152,042	176,769	182,322	185,912
Loans for houses and flats	1,307,246	1,208,996	1,165,800	1,740,167	1,589,762	1,503,814
Consumer loans	519,213	480,626	471,889	1,217,349	1,090,120	962,884
Other loans	115,894	113,714	99,952	237,661	229,304	255,381
Loans to other customers	1,878,056	1,950,869	1,966,361	3,006,105	2,970,229	2,957,304
Loans to large corporate customers	1,216,085	1,296,126	1,263,055	1,479,627	1,534,628	1,645,169
Loans to SMEs	661,971	654,743	703,306	1,526,478	1,435,601	1,312,135
Other financial assets	38,389	36,151	48,944	66,257	61,014	69,521
Trading assets	72,180	87,693	267,870	72,189	87,699	267,403
Financial assets designated at fair value through profit or loss.	-	-	-	102	734	753
Available-for-sale financial assets	1,730,914	1,526,787	1,177,947	2,227,099	1,998,533	1,661,729
Held-to-maturity financial assets	609,712	611,449	565,535	609,712	611,449	565,535
Derivatives – hedge accounting	1,188	217	1,083	1,188	217	1,083
Total net financial assets	**8,154,325**	**8,216,301**	**8,124,110**	**11,740,955**	**11,491,579**	**11,247,229**
Guarantees	518,004	535,082	586,706	741,540	749,430	790,570
Financial guarantees	178,335	189,642	213,817	314,511	332,281	357,786
Non-financial guarantees	339,669	345,440	372,889	427,029	417,149	432,784
Loan commitments	898,927	881,198	923,755	1,130,250	1,075,940	1,101,241
Other potential liabilities	444	3,879	3,684	18,723	25,814	26,691
Total contingent liabilities	**1,417,375**	**1,420,159**	**1,514,145**	**1,890,513**	**1,851,184**	**1,918,502**
Total maximum exposure to credit risk	**9,571,700**	**9,636,460**	**9,638,255**	**13,631,468**	**13,342,763**	**13,165,731**

The Maximum exposure to credit risk in the table above is a presentation of the NLB Group's exposure to credit risk by individual types of financial assets and liabilities. Exposures stated in the above table are shown for the balance sheet items in their net book value as reported in the statement of financial position, and for off-balance sheet items in the amount of their nominal value.

Collateral

Collateral policy

The NLB Group applies a single set of standards to retail and corporate loan collateral, as developed by the NLB Group members in accordance with regulatory requirements (e.g. regarding the fair value of collateral, record keeping, reporting and other business rules) within the limits of local legislation applicable to the NLB Group members. The master document regulating loan collateral in the NLB Group is the "Collateral Policy for NLB and NLB Group", which has been adopted by the Management Board of NLB and by the supervisory bodies of respective members for other members of the NLB Group. The Collateral Policy and its supporting documents represents the basic principles that the NLB Group's employees must take into account when signing, evaluating, monitoring and reporting collateral, with the aim of reducing credit risk.

The NLB Group primarily accepts collateral complying with the Basel II requirements with the aim of improving credit risk management and utilising capital efficiently. In accordance with Basel II, collateral may consist of pledged deposits, government guarantees, bank guarantees, debt securities issued by central governments and central banks, bank debt securities and real-estate mortgages (the real estate must be located in the EEA for the effect on capital to be recognised).

Loans made to companies and sole proprietors may also be secured by other forms of collateral (for example, a lien on movable property, a pledge of an equity stake or pledged/assigned receivables) if it is determined that this collateral could generate a cash flow if it were needed as a secondary source of payment. If there is a lower probability that this type of collateral would generate a cash flow, the NLB Group takes a conservative approach and accepts the collateral while reporting its value as zero.

The main types of collateral taken by NLB

The NLB Group accepts different forms of asset-backed and personal security as loan collateral.

Asset-backed loan collateral gives the right in case of the debtor (borrower) defaulting on their contractual obligations to sell specific property to recover claims, keep specific non-cash property or cash, or reduce or offset the amount of exposure against the counterparty's debt to NLB.

The NLB Group accepts the following types of asset-backed loan collateral:

- collateral in the form of commercial and residential real estate;
- collateral in the form of movable property;
- cash receivable collateral;
- collateral by a pledge of financial assets (bank deposits or cash-like instruments, debt securities of different issuers, investment fund units, equity securities or convertible bonds);
- pledge of an equity stake;
- pledge or assignment of receivables as collateral; and
- other asset-backed forms of loan collateral (for examples, life insurance policies pledged to NLB).

Personal loan collateral is a method for reducing credit risk whereby a third party undertakes to pay the debt in case of the primary debtor (borrower) defaulting.

The NLB Group accepts the following types of personal loan collateral:

- joint and several guarantees by retail and corporate clients;
- bank guarantees;
- government guarantees (e.g. of the Republic of Slovenia);
- guarantees by national and regional development agencies; and
- other personal forms of loan collateral (for example, insurance with an insurance company).

Loans are very often secured by a combination of collateral types.

The general recommendations on loan collateral are specified in the internal instructions and include the elements specified below. The decision on the type of collateral and the coverage of loan by collateral depends on the client's creditworthiness (credit rating), loan maturity, and varies depending on whether the loan is granted to retail or a corporate client.

NLB has also created, in the area of real-estate loan collateral, an 'on-line' connection with the Surveying and Mapping Authority in the Republic of Slovenia which allows direct and immediate verification of the existence of property.

The NLB Group strives to ensure the best possible collateral for long-term loans, in particular mortgages where possible. As a result, the mortgaging of real estate is the most frequent form of loan collateral of corporate and retail clients. In corporate loans, the next most frequents forms of collateral are government and corporate guarantees, while in retail loans, it is insurance companies and guarantors.

The processes for valuing collateral

In compliance with relevant regulations, the NLB Group has established a system for monitoring and reporting collateral at fair (market) value.

The market value of real estate or movable property used as collateral is obtained from valuation reports of licensed appraisers not older than one year. The market value of financial instruments held by the NLB Group is obtained from the organised market – such as the stock exchange, for listed financial instruments or determined in accordance with the internal methodology for unlisted financial instruments (such collateral is used exceptionally and on a small scale in loans granted to companies and sole proprietors).

NLB has compiled a reference list of licensed appraisers for real estate. All appraisals must be made for the purpose of secured lending and in accordance with the international valuation standards (including IVS and RICS). Appraisals related to retail loans are generally ordered only from appraisers with whom NLB has a contract for real-estate valuations. For corporate loans, appraisals are usually submitted by the clients. If a client submits an appraisal that is not made by an appraiser included on the NLB's reference list, then NLB's expert department, which employs certified appraisers in construction with licences granted by the Slovenian Ministry of Justice and certified real-estate appraisers with licences granted by the Slovenian Institute of Auditors, will verify the appraisal. The expert department is also responsible for reviewing valuations of real estate serving as collateral for large exposures (above EUR 200,000 for retail clients and above EUR 500,000 for corporate clients).

Other NLB Group members obtain valuations of real estate from in-house appraisers and outsourced appraisers, all possessing the necessary licences. The NLB Group has compiled a reference list of appraisers for valuations of real estate located outside the Republic of Slovenia. Appraisals must be made in accordance with the international valuation standards, and for large exposures (above EUR 250,000), real-estate valuations must also be reviewed by an internal licensed appraiser with knowledge of the local real-estate market.

When internal appraisers in the NLB Group determine that an external valuation does not fall within an appropriate range (especially if such valuation appears to be too high) then the internal appraiser applies an evaluation adjustment to the external valuation. Therefore, NLB or the NLB Group uses adjusted value for the purpose of collateralised lending and as the basis for further decision making processes and reporting.

When assuring the collateral, the NLB Group follows its internal regulations which define the minimum security or pledge ratios. The NLB Group strives to obtain collateral with a higher value than the underlying exposure (depending on the borrower's rating, loan maturity etc.) with the aim of reducing negative consequences resulting from any major swings in market prices of the assets used as collateral.

If real estate, movable property and financial instruments serve as collateral, the NLB Group's lien on such assets should be top ranking. Exceptionally, where the value of the mortgaged real estate is large enough, the lien can have a different priority order.

The NLB Group monitors the value of the collateral during the loan repayment period in accordance with the mandatory periods and internal instructions. For example, the value of collateral using mortgaged real estate is monitored annually by either preparing individual assessments or using the internal methodology for preparing an own value appraisal of real estate (which applies to the Republic of Slovenia) based on public records and indexes of real-estate value published by the relevant government authorities (such as the Surveying and Mapping Authority in the Republic of Slovenia).

Evaluation risk of collateral

Client/counterparty credit risk is the key decision parameter when approving exposures. Collateral is only a secondary source of repayment, and therefore, NLB's decisions on approvals of exposures are not primarily based on the provided collateral (i.e. NLB does not approve loans solely on the basis of collateral). However, collateral is an important comfort element in the approval process and, depending on the credit rating of the client, a prerequisite. The NLB Group has prescribed the guidelines on the value of collateral and client rating. The ratios between collateral and credit rating are prescribed in the NLB's and the NLB Group's Lending Policy on Lending to Non-financial Companies.

Given market circumstances in recent years, the NLB Group pays particular attention to closely monitoring the fair value of collateral and to receive regular and independent revaluations by applying the international valuation standards. Through a detailed examination of collateral received, the NLB Group has ensured that only collateral is taken into account from which payment can be realistically expected if it is liquidated.

The NLB Group's largest concentration of collateral type is mortgages on real-estate, which is a comparatively reliable and high-quality type of collateral; however, due to, amongst other reasons, the falling real-estate market prices in recent history, the NLB Group closely monitors its real-estate collateral values and, where required, has established higher amounts of impairments and provisions for NPLs secured by real estate, based on estimated discounts of the real-estate value (specified in the methodology for calculation of haircuts for obtaining liquidation value of real estate, pledged as collateral) which are expected to be achieved in a sale (expected payment from collateral).

Collateral consisting of securities entails market risk, particularly the risk of changes in the prices of securities on capital markets. To limit such risks and restrict the possibility of the value of instruments received as collateral falling below approved limits, defined rules determine minimum pledge ratios for securing loans on the basis of pledged securities and equity shares. Any deviation from the Rules is subject to the prior approval of the respective decision bodies of NLB. The ratio between the loan amount and the securities' value is determined with regard to the securities' liquidity, maturity, correlation with changes in market indexes, that is, by considering the key features reflecting the level of volatility of market prices and the ability to sell the securities at the market price. For certain types of securities, the ratio is also determined by considering the issuer's credit rating, which reflects the credit risk entailed in collateral using securities. In the case of adverse changes in the capital markets, the loan-to-collateral ratio may fall below the prescribed limit; in such a case, the debtor will be asked to provide additional securities or another type of collateral.

Collateral consisting of sureties of corporate clients, sureties of private individuals, and bank guarantees entail the credit risk of the provider of the collateral. The NLB Group includes the amount of the guarantees received in the exposure limit of the guarantor, and guarantees are only taken into account as collateral if the guarantor has sufficient overall creditworthiness.

Workout and Restructuring units

Workout units in strategic NLB Group members are separated from the front office, centralised within Group members and managed within the risk area (CRO). Rules and guidance for the NPLs management are consistent throughout all the NLB Group members (taking into account specifics of local legislation).

The primary mission of the workout units is to actively manage NPL within each NLB Group member in order to ensure the highest possible recovery rates, minimising each entity's loss and reducing the share of NPLs within the NLB Group portfolio. The workout units utilise financial specialists and lawyers specialised in insolvency proceedings. Well-defined criteria for the transfer of receivables to specialised units enable prompt transfer to the appropriate unit.

The restructuring unit manages (i) corporate cases on intensive care list as determined by the Watch Loan Committee and (ii) private individuals with financial difficulties. The main objective is to restructure, cure and transfer the clients back to front office in the shortest time possible. Clients with positive viability assessment (it determines whether client has potential for restructuring and outlines further restructuring strategy) can enter the restructuring process were a set of short-term (e.g. stay on principal repayments) and long-term (e.g. extension of the tenor, reduction of interest, repossession of collaterals, etc.) restructuring tools are employed. While simple, standard tools are used in basic cases, more structured tools are used in moderate or complex cases. Final restructuring solution is assessed based on the NPV calculation, comparing NPV of restructuring versus alternative (e.g. liquidation) solution. Client is considered as cured after fulfilling strict criteria (e.g. improved credit quality, no overdue amounts, at least 12 months have passed after restructuring measures, etc.). Alternatively, if there are no viable restructuring solutions, the exposures are transferred to collection.

A workout of a case begins with the preparation of a strategy for customers and groups of related parties, which provides a comprehensive overview of events associated with customer history, collateral, etc., and enables a determination of the optimum approach and scheduling of the collection process until the final repayment of the receivable. The timeliness of response and individual approach for larger and more complex cases are crucial aspects for their successful resolution. One of the main factors of successful NPL management is flexibility, as time consuming court proceedings and reduction of collateral values can be prevented by proactive management and use of alternative collection measures.

Where possible, the collection process is centralised (e.g. collection activities for legal entities and private individuals take place in the same unit). Management of real estate collateral is incorporated in the GREAM policy, where all such collaterals are analysed in detail prior to potential transaction in court or out of court procedures. Based on individual investment analyses of real estate collateral, NLB proactively participates in public auctions to minimise the NPL loss and to prevent speculative purchases. Respective REAM companies act as NLB Group members' repossession agents who protect the value of collaterals and through proactive management of repossessed real estate aim to maximize the repayment of receivables. REAM companies repossess all real estate, which project a positive value or development potential in reference to their technical, commercial and legal potential or encumbrances.

The GREAM policy defines the rules and procedures for evaluation of every transaction related to the NLB Group collateral or owned real estate. Based on detailed investment analyses for every single property (above EUR 100,000 market value), the GREAM Committee issues a real estate transaction opinion with a defined threshold for repossession or sales. There are different levels of review depending on the market value of the real estate. The GREAM Committee consists of GREAM real estate experts, and for real estate market values above EUR 2 million members of the NLB Board are also members of the Committee. At the NLB Group level from 2015 through 2017, the GREAM Committee has opined on over 800 real estate matters followed by sales of EUR 97.4 million and repossession of EUR 80.1 million of real estate. In addition, through investment analyses and sales consultancy, GREAM has made indirect contributions to the NPL reduction of EUR 331 million in the same period. In 2018, GREAM plans to further wind down the NLB Group's real estate portfolio in an amount of EUR 28.8 million and repossess an additional EUR 6.6 million of real estate. The currently planned indirect contribution to NPL reduction in 2018 is EUR 53.7 million.

Market Risk Management and Liquidity Risk Management

(a) *Market risk*

NLB defines market risk as the risk of potential financial losses due to changes in interest rates and/or market prices (exchange rates, credit spreads and equity prices) or in parameters that affect prices (volatilities and correlations). Losses may impact profit or loss directly, for example in the case of trading book positions. However, in the context of the banking book positions such losses are reflected in the revaluation reserve. The exposure to the market risk is to a certain degree integrated into the banking industry and offers an opportunity to create financial results and value.

The Global Risk Department of NLB is independent from the trading activities and reports to the NLB Group's ALCO and monitors and manages exposure to the market risks separately for the banking and the trading book. Exposures and limits are monitored daily and reported to the ALCO committee on a regular basis.

The NLB Group uses a wide selection of the quantitative and qualitative tools for measuring, managing and reporting market risks such as value-at-risk (VaR), sensitivity analysis, stress testing, back-testing, scenarios, other market risk mitigants (concentration of exposures, gap limits, stop-loss limits, etc.), net interest income sensitivity, economic value of equity and economic capital. Stress testing provides an indication of the potential losses that could occur in severe market conditions.

In the area of currency risk, the NLB Group pursues the goal of low risk exposure. NLB monitors the open position of the NLB Group on an ongoing basis. The goal of the NLB Group in interest rate risk management is to prevent negative effects on the net revenues arising from changed market interest rates. In line with this, the tolerance for this risk is low. The conclusion of transactions involving derivatives at NLB is limited to the servicing of the clients' and hedging of the NLB Group's own open positions. In accordance with the provisions of the NLB Group's strategy on trading in financial instruments in the NLB Group, the trading activities in the other NLB Group members are very restricted. Thus, NLB is the only Group member with a trading book in accordance with the CRR requirements.

Monitoring and management of the NLB Group's exposure to market risk is decentralised. However, uniform guidelines and exposure limits for each type of risk are set for individual NLB Group members. The methodologies are in line with regulatory requirements on an individual and consolidated level, while reporting to the regulator on the consolidated level is carried out using a standardised approach. Pursuant to the relevant policies, the NLB Group members must monitor and manage exposure to market risks and report to NLB accordingly. The exposure of an individual NLB Group entity is regularly monitored and reported to ALCO.

Interest Rate Risk Management

Interest rate risk is the risk to the NLB Group's capital and profit or loss arising from changes in market interest rates. Interest rate risk management of the NLB Group includes all interest rate-sensitive on- and off-balance sheet assets and liabilities which are divided into the trading and banking books according to regulatory standards. It takes into account the positions in each currency, adjusted for a credit risk. Interest rate risk management in the NLB Group is adopted in accordance with the conservative risk strategy (in accordance with low to moderate risk appetite) and is based on general Basel standards on interest rate management in the banking book ("**IRRB**") and European Banking Authority guidelines.

In the trading book interest rate risk is measured on the basis of the VaR method and BPV method, in accordance with the adopted policy for managing market risk in the trading book of NLB.

The interest rate risk in the banking book is measured and monitored within a framework of the Interest rate risk management policy that establishes consistent methodologies, models and limit systems. The NLB Group manages interest rate risk exposure through application of two main measures:

- Economic value sensitivity – using BPV method, which measures the extent to which the value of the portfolio would change if interest rates changes according to the scenario.

- Sensitivity of net interest income – using EaR method (Earnings at Risk), which measures the impact of the interest rate change on future net interest income over a one-year period, assuming constant balance sheet volume and structure.

The NLB Group regularly measures interest rate risk exposure in the banking book under various standardised and additional scenarios of changes in level and shape of interest rate yield curve and, furthermore, applies a cash flow modelling approach for positions with uncertain maturity and behavioural options. The latter was upgraded in 2017 according to new regulatory IRRB with a renewal of non-maturing deposits allocation methodology and with introduction of a methodology for positions with behavioural options.

The interest rate risk is closely measured, monitored, and managed within approved risk limits and controls. The NLB Group manages interest rate positions and stabilises its interest rate margin primarily with the pricing policy and a fund transfer pricing policy. An important part of the interest rate risk management is presented by the banking book securities portfolio, whose primary purpose is to maintain adequate liquidity reserves, while it also contributes to the stability of the interest rate margin, which is why valuation risk has been included in the NLB Group's interest rate risk management model.

The NLB Group manages interest rates risk also by using plain vanilla derivative financial instruments (interest rate swaps, overnight index swaps, cross currency swaps, and forward rate agreements), most of which are treated according to hedge accounting rules. Interest rate risk exposure arises mainly from banking book positions; particularly in a current low interest rate environment, where NLB Group recorded increased volume of fixed interest rate loans and long-term banking book securities on the assets side and transformation of deposits from term to sight on liabilities side.

The management of the NLB Group's interest rate exposure is decentralised. Each member of the NLB Group is responsible for its own interest rate risk policy, which includes limit system and is in line with local regulatory requirements, as well as with the parent bank's guidelines and standards. NLB regularly monitors the interest rate risk exposure of individual member of the NLB Group in accordance with the Standards for Risk Management in the NLB Group. The aforementioned document comprises guidelines for uniform and effective interest rate risk management within individual NLB Group members.

Interest rate risk in the banking book is measured, monitored, and reported weekly in the case of NLB by the Global Risk Department, while positions are managed by Financial Markets monthly at the consolidated level. Exposure to interest rate risk is discussed by ALCO monthly on NLB's individual level and quarterly on the consolidated level.

Analysis of financial instruments according to the exposure to interest rate risk

Illustrated below are the carrying amounts of financial instruments categorised by the earlier of contractual reprising or residual maturity.

31 December 2017

NLB Group	Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
				in EUR thousand				
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	1,256,481	531,414	725,067	725,067	-	-	-	-
Trading assets	72,189	13,025	59,164	-	55,060	5	2,438	1,661
Financial assets designated at fair value through profit or loss	5,003	4,901	102	-	-	102	-	-
Available-for-sale financial assets	2,276,493	53,184	2,223,309	100,425	143,970	538,822	818,030	622,062

NLB Group	Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
				in EUR thousand				
Derivatives - hedge accounting	1,188	1,188	-	-	-	-	-	-
Loans and advances								
- debt securities	82,133	-	82,133	-	-	1,896	-	80,237
- loans and advances to banks	510,107	18	510,089	176,384	28,839	304,676	190	-
- loans and advances to customers	6,912,333	49,484	6,862,849	1,657,695	1,188,308	2,473,342	1,072,627	470,877
- other financial assets	66,077	66,077	-	-	-	-	-	-
Held-to-maturity financial assets	609,712	-	609,712	38,070	40,228	6,874	260,537	264,003
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	719	-	-	-	-	-	-
Total financial assets	**11,792,435**	**720,010**	**11,072,425**	**2,697,641**	**1,456,405**	**3,325,717**	**2,153,822**	**1,438,840**
Financial liabilities								
Trading liabilities	9,502	9,502	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	635	635	-	-	-	-	-	-
Derivatives - hedge accounting	25,529	25,529	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	40,602	5,788	34,814	34,573	-	-	241	-
- borrowings from banks and central banks	279,616	-	279,616	4,681	78,127	177,165	19,459	184
- due to customers	9,878,378	58,429	9,819,949	7,777,903	489,698	1,140,149	407,809	4,390
- borrowings from other customers	74,286	-	74,286	850	2,685	9,069	36,099	25,583
- debt securities in issue	-	-	-	-	-	-	-	-
- subordinated liabilities	27,350	-	27,350	326	12,054	14,970	-	-
- other financial liabilities	111,019	111,019	-	-	-	-	-	-
Total financial liabilities	**10,446,917**	**210,902**	**10,236,015**	**7,818,333**	**582,564**	**1,341,353**	**463,608**	**30,157**
Total interest repricing gap				**(5,120,692)**	**873,841**	**1,984,364**	**1,690,214**	**1,408,683**

31 December 2016

NLB Group	Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
				in EUR thousand				
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	1,299,014	450,644	848,370	848,370	-	-	-	-
Trading assets	87,699	18,942	68,757	284	49,085	9,168	10,220	-
Financial assets designated at fair value through profit or loss	6,694	5,960	734	-	-	-	734	-
Available-for-sale financial assets	2,072,153	73,620	1,998,533	110,145	267,093	494,924	759,436	366,935
Derivatives - hedge accounting	217	217	-	-	-	-	-	-
Loans and advances								
- debt securities	85,315	-	85,315	-	-	1,891	-	83,424
- loans and advances to banks	435,537	7	435,530	114,962	42,138	276,794	1,636	-
- loans and advances to customers	6,912,067	54,612	6,857,455	1,816,432	1,387,083	2,524,693	840,204	289,043
- other financial assets	61,014	61,014	-	-	-	-	-	-
Held-to-maturity financial assets	611,449	-	611,449	37,691	63,047	16,866	264,360	229,485
Fair value changes of the hedged items in portfolio hedge of interest rate risk	678	678	-	-	-	-	-	-
Total financial assets	**11,571,837**	**665,694**	**10,906,143**	**2,927,884**	**1,808,446**	**3,324,336**	**1,876,590**	**968,887**
Financial liabilities								
Trading liabilities	18,791	18,791	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	2,011	2,011	-	-	-	-	-	-
Derivatives - hedge accounting	29,024	29,024	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	42,334	332	42,002	41,439	563	-	-	-
- borrowings from banks and central banks	371,769	-	371,769	6,779	134,777	203,215	26,381	617
- due to customers	9,437,147	61,672	9,375,475	7,035,752	572,913	1,342,213	417,065	7,532
- borrowings from other customers	83,619	-	83,619	1,298	8,769	26,878	40,966	5,708
- debt securities in issue	277,726	-	277,726	-	-	277,726	-	-
- subordinated liabilities	27,145	-	27,145	200	11,938	15,007	-	-
- other financial liabilities	110,295	110,295	-	-	-	-	-	-
Total financial liabilities	**10,399,861**	**222,125**	**10,177,736**	**7,085,468**	**728,960**	**1,865,039**	**484,412**	**13,857**
Total interest repricing gap				**(4,157,584)**	**1,079,486**	**1,459,297**	**1,392,178**	**955,030**

31 December 2017

NLB	Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
				in EUR thousand				
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	570,010	143,725	426,285	426,285	-	-	-	-
Trading assets	72,180	13,016	59,164	-	55,060	5	2,438	1,661
Financial assets designated at fair value through profit or loss	634	634	-	-	-	-	-	-
Available-for-sale financial assets	1,777,762	46,848	1,730,914	18,190	50,856	384,130	663,277	614,461
Derivatives - hedge accounting	1,188	1,188	-	-	-	-	-	-
Loans and advances								
- debt securities	82,133	-	82,133	-	-	1,896	-	80,237
- loans and advances to banks	462,322	9	462,313	105,616	23,889	325,375	7,433	-
- loans and advances to customers	4,587,477	44,318	4,543,159	1,354,311	1,019,785	1,615,885	309,278	243,900
- other financial assets	38,389	38,389	-	-	-	-	-	-
Held-to-maturity financial assets	609,712	-	609,712	38,070	40,228	6,874	260,537	264,003
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	719	-	-	-	-	-	-
Total financial assets	**8,202,526**	**288,846**	**7,913,680**	**1,942,472**	**1,189,818**	**2,334,165**	**1,242,963**	**1,204,262**
Financial liabilities								
Trading liabilities	9,398	9,398	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	635	635	-	-	-	-	-	-
Derivatives - hedge accounting	25,529	25,529	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	72,072	-	72,072	72,072	-	-	-	-
- borrowings from banks and central banks	260,747	-	260,747	85	77,786	170,702	12,174	-
- due to customers	6,810,967	-	6,810,967	5,866,793	348,703	514,937	78,363	2,171
- borrowings from other customers	5,726	-	5,726	-	-	2	5,716	8
- debt securities in issue	-	-	-	-	-	-	-	-
- other financial liabilities	71,534	71,534	-	-	-	-	-	-
Total financial liabilities	**7,256,608**	**107,096**	**7,149,512**	**5,938,950**	**426,489**	**685,641**	**96,253**	**2,179**
Total interest repricing gap				**(3,996,478)**	**763,329**	**1,648,524**	**1,146,710**	**1,202,083**

31 December 2016

NLB	Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
				in EUR thousand				
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	617,039	128,519	488,520	488,520	-	-	-	-
Trading assets	87,693	18,936	68,757	284	49,085	9,168	10,220	-
Financial assets designated at fair value through profit or loss	2,011	2,011	-	-	-	-	-	-
Available-for-sale financial assets	1,594,094	67,307	1,526,787	27,709	195,730	371,601	569,219	362,528
Derivatives - hedge accounting	217	217	-	-	-	-	-	-
Loans and advances								
- debt securities	85,315	-	85,315	-	-	1,891	-	83,424
- loans and advances to banks	408,056	7	408,049	77,061	28,596	302,392	-	-
- loans and advances to customers	4,843,594	43,021	4,800,573	1,422,972	1,316,675	1,682,375	227,870	150,681
- other financial assets	36,151	36,151	-	-	-	-	-	-
Held-to-maturity financial assets	611,449	-	611,449	37,691	63,047	16,866	264,360	229,485
Fair value changes of the hedged items in portfolio hedge of interest rate risk	678	678	-	-	-	-	-	-
Total financial assets	**8,286,297**	**296,847**	**7,989,450**	**2,054,237**	**1,653,133**	**2,384,293**	**1,071,669**	**826,118**
Financial liabilities								
Trading liabilities	18,787	18,787	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	2,011	2,011	-	-	-	-	-	-
Derivatives - hedge accounting	29,024	29,024	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	74,977	-	74,977	74,977	-	-	-	-
- borrowings from banks and central banks	338,467	-	338,467	4,708	133,117	186,846	13,796	-
- due to customers	6,615,390	-	6,615,390	5,281,645	408,851	744,327	174,193	6,374
- borrowings from other customers	4,274	-	4,274	-	-	-	4,265	9

NLB	Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
				in EUR thousand				
- debt securities in issue	277,726	-	277,726	-	-	277,726	-	-
- other financial liabilities	68,784	68,784	-	-	-	-	-	-
Total financial liabilities	**7,429,440**	**118,606**	**7,310,834**	**5,361,330**	**541,968**	**1,208,899**	**192,254**	**6,383**
Total interest repricing gap				**(3,307,093)**	**1,111,165**	**1,175,394**	**879,415**	**819,735**

Net interest income sensitivity analysis and an economic view of interest rate risk in the banking book

The analysis of interest income sensitivity assumes a move in interest rates by 50 basis points in the one year period. The analysis is based on the assumption that the positions used remain unchanged, and that the yield curve shift is parallel. The assessment of the impact of a change in interest rates of 50 basis points on the amount of net interest income of the banking book position:

2017	NLB Group Average (assessment)	NLB Group Minimum (assessment)	NLB Group Maximum (assessment)	NLB Average (assessment)	NLB Minimum (assessment)	NLB Maximum (assessment)
			in EUR thousand			
Interest income sensitivity						
EUR	11,682	9,027	14,764	10,729	7,867	13,486
USD	464	378	544	308	234	380
CHF	171	134	226	174	134	227
OTHER	1,293	953	1,641	33	24	41

2016	NLB Group Average (assessment)	NLB Group Minimum (assessment)	NLB Group Maximum (assessment)	NLB Average (assessment)	NLB Minimum (assessment)	NLB Maximum (assessment)
			in EUR thousand			
Interest income sensitivity						
EUR	12,009	11,154	13,121	12,025	11,155	12,699
USD	417	319	507	311	182	407
CHF	161	78	247	166	83	248
OTHER	1,238	1,058	1,390	45	31	50

The values in the table are calculated on the basis of monthly calculations of short-term interest rate gaps, where the applied parallel shift of the yield curve by 50 basis points represents a realistic and practical scenario. The "average" value represents the arithmetic mean of monthly calculations, while the "maximum" and "minimum" values represent the highest and lowest values calculated during the period. As of 31 July 2017, the NLB Group has changed the methodological approach of calculating the sensitivity of net interest income, which is implemented in new technological support.

The BPV method is a measure of sensitivity of financial instruments to market interest rates, i.e. changes of the required return. The BPV method is used to assess the change in the value of a position in case market interest rates change by +/- 200 basis points. In this method, a parallel shift of the yield curve is assumed. The BPV is the measurement of the change in the market value of a position in the case of an assumed change in market interest rates by a certain number of basis points, which is expressed in monetary units. NLB weekly calculates the absolute value of potential negative economic effects that would result from a parallel shift in interest rates by 200 bp.

The assessment of the impact of a change in interest rates of 200 basis points on the economic value of the banking book position:

2017	NLB Group Average (assessment)	NLB Group Minimum (assessment)	NLB Group Maximum (assessment)	NLB Average (assessment)	NLB Minimum (assessment)	NLB Maximum (assessment)
			in EUR thousand			
Interest risk in banking book – BPV	210,157	193,355	225,787	159,149	149,053	172,964
Interest risk in banking book - BPV, as % of equity	15.82%	14.47%	16.94%	14.00%	13.05%	15.14%

2016	NLB Group Average (assessment)	NLB Group Minimum (assessment)	NLB Group Maximum (assessment)	NLB Average (assessment)	NLB Minimum (assessment)	NLB Maximum (assessment)
			in EUR thousand			
Interest risk in banking book – BPV	162,224	145,727	198,017	120,515	105,469	153,501
Interest risk in banking book - BPV, as % of equity.......	12.59%	11.36%	14.82%	10.60%	9.29%	13.48%

The values in the table have been calculated on the basis of weekly calculations of interest rate gaps for NLB and monthly on the NLB Group level. The applied parallel shift of the yield curve is by 200 basis points. The "average" value represents the arithmetic mean, while the "maximum" and "minimum" values represent the highest and lowest values calculated during the period. The calculation does not take the allocation of the core part of non-maturing deposits into account or other behavioural assumptions.

Exposure to interest rate risk of the banking book mainly arises from investments in long-term debt securities and loans with fixed interest rate, as well as from transformation of term to sight deposits. Long-term interest positions of other members in the NLB Group, of which present a majority of their exposure to interest-rate risk (an economic point of view), mainly arise from a portfolio of mortgage loans with a fixed interest rate.

Currency Risk Management

Foreign currency exchange risk is a risk of the potential losses from the open foreign exchange positions due to the changes in foreign currency rates. The exposures of NLB to the movement of the foreign exchange rates have impact on the financial position and cash flows of the NLB Group. The NLB Group measures and manages the foreign exchange risk with a usage of combination of sensitivity analysis, VaR, scenarios and stress testing.

In the trading book, similar to the other market risks, the risk is managed on the basis of VaR limits which are approved by the Management Board and in accordance with the adopted policy for managing market risk in the trading book of NLB. Trading FX risk is managed on an integrated basis at a portfolio level.

NLB monitors and manages foreign exchange risk in the banking book according to the policy of managing foreign exchange risk in NLB. The policy is primarily composed to protect CET1 against the negative effects of the volatility of the FX rates, whilst limiting the volatility in the profit and loss account. FX exposures in banking book result from core banking business activities.

Currency risk management in the NLB Group is decentralised. Each member is responsible for its own currency risk policy which also includes a limit system and is in line with local regulatory requirements as well as NLB's guidelines and standards. Policies are confirmed by either the local management board or supervisory board. NLB monitors and manages the NLB Group currency risk exposure on a monthly basis for each member and on the consolidated level.

The NLB Group banks follow the guidelines for managing FX lending in the NLB Group. The guidelines' goal is to address risks stemming from the potential excessive growth of FX lending, to identify hidden risks and tail-event risks related to FX lending, to mitigate the respective risk, to internalise the respective costs, and to hold adequate capital with respect to FX lending.

The positions of all currencies in the statement of financial position of NLB, for which a daily limit is set, are monitored daily. Exposure to currency risks is managed by the Financial Markets on the basis of a report obtained from the Global Risk. The Financial Markets manages net open foreign exchange positions in foreign currency so that they are always within the foreign exchange limits.

Regarding structural FX positions on a consolidated level, assets and liabilities held in foreign operations are translated into euro currency at the closing FX rate on the balance sheet date. Foreign exchange differences of non-euro assets and liabilities against euro are recognised in OCI, and therefore affect Shareholder's equity and CET1 capital. Group ALM employs strategies to manage this foreign currency exposure, including matched funding of assets and liabilities.

Exposure to currency risks is discussed at daily liquidity meetings and monthly meetings of ALCO.

Currency risk sensitivity analysis

The following table illustrates the sensitivity analysis for currency risk for NLB and the NLB Group.

Scenarios	31 December 2017	2016	2015
USD	+/- 6%	+/- 8%	+/-13%
CHF	+/- 5%	+ /- 4%	+/-4%
CZK	+/- 3%	+/- 1%	+/- 1%
RSD	+/- 2%	+/- 2%	+/- 3%
MKD	+/- 3%	+/- 1%	+/- 0.4%
JPY	+/- 7%	+/- 12.5%	+/- 10.5%
AUD	+/- 7%	+/- 11%	+/- 15%
HUF	+/- 3%	+/- 5%	+/- 7%
HRK	+/- 2%	+/- 2%	+/- 1%

	31 December 2017			
	NLB		NLB Group	
	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensiv e income
	(EUR thousands)			
Appreciation of foreign currency / EUR				
USD	92	–	221	–
CHF	26	–	(308)	211
CZK	1	–	2	-
RSD	8	–	7	2,125
MKD	64	–	47	5,412
Other	6	–	(72)	338
Effects on comprehensive income	**197**	–	**(103)**	**8,086**
Depreciation of foreign currency / EUR				
USD	(82)	–	(196)	–
CHF	(24)	–	281	(192)
CZK	(1)	–	(2)	-
RSD	(8)	–	(7)	(2,046)
MKD	(60)	–	(44)	(5,048)
Other	(6)	–	70	(327)
Effects on comprehensive income	**(181)**	–	**102**	**(7,613)**
Total	**16**	–	**(1)**	**473**

	31 December 2016			
	NLB		NLB Group	
	Effects on income statement	Effects on other statement comprehensive Income	Effects on income statement	Effects on other comprehensive income
	(EUR thousands)			
Appreciation of foreign currency / EUR				
USD	79	–	271	–
CHF	13	–	(205)	227
CZK	2	–	(8)	23
RSD	2	–	(3)	1,567
MKD	1	–	1	1,425
Other	70	–	(16)	251
Effects on comprehensive income	**167**	–	**40**	**3,493**
Depreciation of foreign currency / EUR				
USD	(67)	–	(229)	–
CHF	(12)	–	187	(208)
CZK	(2)	–	7	(22)
RSD	(2)	–	2	(1,506)
MKD	(1)	–	(1)	(1,390)
Other	(60)	–	23	(243)
Effects on comprehensive income	**(144)**	–	**(11)**	**(3,369)**
Total	**23**	–	**29**	**124**

	31 December 2015			
	NLB		NLB Group	
	Effects on income statement	Effects on other statement comprehensive Income	Effects on income statement	Effects on other comprehensive income
	(EUR thousands)			
Appreciation of foreign currency / EUR				
USD	45	10	(11)	–
CHF	(9)	–	(434)	384
CZK	9	–	(7)	38
RSD	1	–	(5)	2,391
MKD	1	–	1	782
Other	65	–	(27)	718
Effects on comprehensive income	**112**	**10**	**(483)**	**4,313**
Depreciation of foreign currency / EUR				
USD	(35)	(8)	8	–
CHF	8	–	397	(351)
CZK	(9)	–	6	(37)
RSD	(1)	–	5	(2,235)
MKD	(1)	–	(1)	(771)
Other	(52)	–	35	(709)
Effects on comprehensive income	**(90)**	**(8)**	**450**	**(4,103)**
Total	**22**	**2**	**(33)**	**210**

Managing market risks in the trading book

Market risk exposure in the trading book arises primarily, as a result of the changes in interest rates, credit spreads, foreign exchange rates and equity prices.

The Management Board determines total risk appetite and limits by the risk type. The limits are monitored daily by the Global Risk.

NLB uses an internal VaR model based on the variance-covariance method for other market risks. The daily calculation of the VaR value is adjusted to Basel standards (99 per cent. confidence interval, monitored period of 250 business days, 10-day holding position period).

In June 2018, foreign exchange risk in the trading book amounted to an average of EUR 77 thousand (2017: EUR 95 thousand; 2016: EUR 104 thousand; 2015: EUR 182 thousand). Compared to previous year, average VaR figure is lower. Occasionally higher VaR figures mainly arise from spot deals with a trading date T+0, and closing deal with trading date T+2.

In June 2018, interest rate risks in the trading book amounted to an average of EUR 67 thousand. In 2017, interest rate risks in the trading book amounted to an average of EUR 141 thousand (2016: EUR 232 thousand; 2015: EUR 346 thousand) which is lower, compared to previous year. At the end of June 2018, the market value of the debt securities portfolio amounted to EUR 53.1 million (2017: EUR 59.2 million; 2016: EUR 68.8 million; 2015: EUR 237.4 million).

NLBandNLBGroup	**2017**			**2016**			**2015**		
VaR	**Average**	**Maximum**	**Minimum**	**Average**	**Maximum**	**Minimum**	**Average**	**Maximum**	**Minimum**
					(EUR thousands)				
Foreign exchange risk trading book	95	450	4	104	771	5	182	893	18
Interest rate risk in trading book	141	210	68	232	538	63	346	717	151

The average, maximum and minimum values in the table above are calculated on the basis of daily VaR calculations, which are based on daily open positions and movements in market data during the past monitored period (300 or 250 working days). The "average" value represents the arithmetic mean of daily VaR values in 2017, 2016 and 2015, while the "maximum" and "minimum" values represent the highest and lowest values of daily VaR calculations in 2017, 2016 and 2015, respectively.

Risk of changes in prices in the portfolio of equity securities in the banking book

NLB Group's financial instruments trading strategy includes guidelines for the effective management of risks associated with equity investments. Trading with equity securities is not permitted in subsidiaries. Only stockbrokerage services are provided.

In terms of equity security investments, NLB has adopted policies for managing these investments that were approved by the Management and the Supervisory Board. The policies relate to the investment structure of the portfolio, its diversification, and the monitoring and measurement of risks. In addition to a standardised methodology, NLB also uses an internal model which has been adapted in accordance with the requirements of the Basel standards for monitoring and measuring risks related to the equity portfolio.

(b) *Liquidity risk*

Liquidity risk is the risk that the NLB Group is unable to meet all of its payment obligations, as well as the risk that the bank is unable to fund growth of assets at reasonable prices or at all.

Risk tolerance for the liquidity risk is low. As a result, the NLB Group maintains adequate level of liquidity to provide sufficient funds for settling its liabilities at all times, even if a specific stress scenario encountered. The NLB Group measures and manages its liquidity in three stages:

- Current exposure and compliance;
- Forward-looking and stress testing; and
- Liquidity in exceptional circumstances.

The overall assessment of the liquidity position of the NLB Group is assessed in an Internal Liquidity Adequacy Assessment Process ("**ILAAP**") at least once per year for the NLB Group and it includes a clear formal statement on liquidity adequacy, supported by an analysis of ILAAP outcomes. The NLB Group maintains a sufficient amount of liquidity reserves in the form of high credit quality debt securities that are eligible for refinancing via the ECB or on the interbank market. Currently, the NLB Group also strives to follow as closely as possible the long term trend of diversification on both the liability and asset sides of the balance sheet. The NLB Group regularly performs stress situations. In addition, special attention is given to the fulfilment of liquidity regulation (CRR/CRD), with monitoring and reporting of the LCR according to the Commission Delegated Regulation (EU) 2015/61 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions (OJ L EU 11/1) (the "**Delegated Act**") and the NSFR. This also includes monitoring and reporting of Additional Liquidity Monitoring Metrics ("**ALMM**") on standalone and consolidated level. In accordance with the Commission Implementing Regulation (EU) 2015/79 (OJ L EU 14/1) (Asset Encumbrance) and Regulation (EU) 575/2013 (CRR) (OJ L EU 176/1), Article 100 (the "**Commission Implementing Regulation**"), the NLB Group regularly monitors and quarterly reports on asset encumbrance. Potential increases in the volume of encumbered assets increases liquidity risk and the financing risk, since the NLB Group would have fewer assets available as liquidity reserve to meet unexpected liquidity needs.

NLB prepares a monthly static liquidity mismatch table by residual maturity and dynamic liquidity projections taking several cash-flow scenarios into account, to ensure monitoring over the liquidity position of each NLB Group member.

NLB manages daily its liquidity position (liquidity within one day), for a period of several days or weeks, based on the planning and monitoring of cash flows. Liquidity management at the operational level in the NLB Group is decentralised, meaning each NLB Group member is responsible for its own liquidity position and carries out the following activities:

- managing intraday liquidity;
- concluding transactions for providing liquidity within one day;
- planning and monitoring cash flows;
- monitoring and complying with the liquidity regulations of the central bank;

- adopting business decisions;
- managing liquidity reserves; and
- performing intraday liquidity stress testing to define liquidity buffers for smooth functioning of payment systems in stressed circumstances.

The NLB Group actively manages liquidity within a day taking into account the characteristics of payment settlements to ensure the timely settlement of liabilities in normal and stressed circumstances.

The NLB Group has defined a liquidity contingency and recovery plan for exceptional circumstances that set out guidelines and a plan of activities for recognising liquidity problems, searching for solutions and handling exceptional circumstances. Such plan also provides for the establishment of a system of liquidity management that ensures the maintenance of the NLB Group's liquidity and protects the commercial interests of its customers and Shareholders.

Liquidity risk management in the NLB Group is decentralised but under strict monitoring by NLB as a parent bank. Standardised reporting to NLB by all the NLB Group members is done on a monthly basis. The Global Risk department provides guidelines and defines minimal standards for the NLB Group members regarding liquidity risk management in the NLB Group Risk Management Standards. Each NLB Group member is responsible for ensuring adequate liquidity via the necessary sources of funding and their appropriate diversification and maturity, and by managing liquidity reserves and fulfilling the requirements of regulations governing liquidity. The exposure of each individual NLB Group member is regularly monitored and reported to ALCO.

The objectives of monitoring and managing liquidity risk in the NLB Group are as follows:

- ensuring a sufficient level of liquid assets;
- minimising the costs of maintaining liquidity;
- optimising the amount of liquidity reserves;
- ensuring an appropriate level of liquidity for different situations and stress scenarios;
- anticipating emergencies or crisis conditions, and implementing contingency plans in the event of extraordinary circumstances;
- preparing dynamic projections of liquidity taking several cash-flow scenarios into account; and
- preparing proposals for establishing additional financial assets as collateral for sources of funding.

Managing the NLB Group's liquidity reserves

The NLB Group has liquidity reserves available to cover liabilities that fall or may become due. Liquidity reserves must become available at short notice following the realisation of a stress scenario (immediately, i.e. within one week). Liquidity reserves comprise cash, the settlement account at the central bank, sight deposits and short-term deposits at banks, debt securities and loans eligible as collateral for ECB claims, on the basis of which NLB may generate the requisite liquidity at any time. Available liquidity reserves are liquidity reserves decreased by the reserve requirement, required balances for the continuous performance of payment transactions, encumbered securities and credit claims for different purposes (secured funding).

The structure of liquidity reserves is shown in the following table.

	31 December				
Liquidity reserves NLB	**2017**	**2016**	**2015**	**Change 2017/2016**	**Change 2016/2015**
			(EUR thousands)		
Cash, cash balances at central banks and other demand deposits at banks	570,010	617,039	496,806	(47,029)	120,233
Placements with banks	437,427	387,599	315,016	49,828	72,583
Trading book securities	59,164	68,757	237,362	(9,593)	(168,605)
Banking book securities	2,422,759	2,223,551	2,138,061	199,208	85,490

Liquidity reserves NLB	2017	2016	2015	Change 2017/2016	Change 2016/2015
			31 December		
			(EUR thousands)		
ECB eligible loans	717,503	849,080	799,757	(131,577)	49,323
Total liquid assets	**4,206,863**	**4,146,026**	**3,987,002**	**60,837**	**159,024**
Liquidity reserves NLB Group					
Cash, cash balances at central banks and other demand deposits at banks	1,256,481	1,299,014	1,161,983	(42,533)	137,033
Placements with banks	506,322	433,883	427,195	72,439	6,688
Trading book securities	59,164	68,757	237,362	(9,593)	(168,605)
Banking book securities	2,915,154	2,695,297	2,621,843	219,857	73,454
ECB eligible loans	717,503	849,080	799,757	(131,577)	49,323
Total liquid assets	**5,454,624**	**5,346,031**	**5,248,140**	**108,593**	**97,891**

The NLB Group classifies debt securities as either part of the banking book or the trading book, depending on the purpose of their acquisition and the intended manner of their disposal. The main objective of securities placed in the banking book is to collect contractual cash flows and to manage short-term liquidity surplus while the purpose of the trading book securities is to generate short-term profits.

The purpose of the banking book securities is to provide liquidity, along with stabilisation of the interest margin and interest rate risk management. When managing the portfolio, the NLB Group uses conservative principles, particularly with respect to the portfolio's structure in terms of issuers' ratings and asset class. The framework for managing the banking book securities are the Policy for managing debt securities in the Financial Markets' banking book and the Policy for the management of Slovenian corporate debt securities by the Large Corporate Division, which clearly define the objectives and characteristics of the associated portfolio.

As at 31 December 2017, the balance of debt securities in the banking book of the NLB Group was EUR 2,915.2 million (EUR 2,695.3 million as at 31 December 2016). Of these, 73.6 per cent. (74.4 per cent. as at 31 December 2016) were government securities (in 2017, 43.8 per cent., and in 2016, 50.3 per cent., of government securities were Slovenian government securities) and 26.4 per cent. (25.6 per cent. as at 31 December 2016) were bonds from financial, corporate and supranational organisations. On 15 December 2016, the second of the two government guaranteed bonds issued by the BAMC in 2013 matured in the amount of EUR 309 million.

The ECB-eligible credit claims comprise loans which fulfil the high eligibility criteria set by the ECB itself and for domestic loans the criteria that are specified in the General rules on execution of the monetary policy framework (Part 4) adopted by the Bank of Slovenia. NLB is the only member of the NLB Group that complies with the conditions set by the Eurosystem to be considered as an eligible counterparty. As a result, the above-mentioned ECB credit claims are included amongst liquidity reserves. As at 31 December 2017, ECB-eligible credit claims were EUR 718 million (EUR 849 million as at 31 December 2016). On 7 February 2018, the ECB adopted a new Guideline (EU) 2018/570, amending Guideline (EU) 2015/510 on the implementation of the Eurosystem monetary policy framework (ECB/2018/3) which specifies the implementation of changes described in the point 24 of Article 1 as of 1 October 2018 and which will have a substantial influence on the aforementioned number.

NLB has encumbered liquid assets for different purposes; the biggest portion represents ECB-eligible loans and debt securities encumbered for the purpose of the National Resolution Fund and secure funding received from international financial organisations. Members of the NLB Group manage their liquidity reserves on a decentralised basis in compliance with the local liquidity regulation and the policies of the NLB Group.

The structure of the banking book according to the Fitch credit rating agency is shown in the following table.

Rating	2017	2016	2015	Change 2017/2016	Change 2016/2015
			NLB Group		
			31 December		
			(EUR millions)		
AAA	366	271	350	95	(79)
AA	373	350	249	23	101
A	1,487	1,455	233	32	1,222

	NLB Group				
	31 December				
Rating	**2017**	**2016**	**2015**	**Change 2017/2016**	**Change 2016/2015**
			(EUR millions)		
BBB	200	138	1,278	62	(1,140)
Other	489	481	512	8	(31)
Total	**2,915**	**2,695**	**2,622**	**220**	**73**

	NLB				
	31 December				
Rating	**2017**	**2016**	**2015**	**Change 2017/2016**	**Change 2016/2015**
			(EUR millions)		
AAA	366	271	350	95	(79)
AA	373	350	246	23	104
A	1,411	1,455	233	(44)	1,222
BBB	200	132	1,272	68	(1,140)
Other	72	15	37	57	(22)
Total	**2,423**	**2,223**	**2,138**	**200**	**85**

	NLB Group				
	31 December				
Geographical	**2017**	**2016**	**2015**	**Change 2017/2016**	**Change 2016/2015**
			(EUR millions)		
Austria	90	70	91	20	(21)
Belgium	81	62	62	19	(1)
France	204	198	101	6	97
Germany	235	244	214	(9)	30
Netherlands	146	129	109	17	20
Slovenia	947	1,045	1,249	(98)	(204)
Macedonia	172	160	173	12	(13)
Serbia	57	55	81	2	(26)
Other[(1)]	983	732	541	251	191
Total	**2,915**	**2,695**	**2,622**	**220**	**73**

	NLB				
	31 December				
Geographical	**2017**	**2016**	**2015**	**Change 2017/2016**	**Change 2016/2015**
			(EUR millions)		
Austria	90	70	91	20	(21)
Belgium	81	62	59	19	2
France	204	198	101	6	97
Germany	235	244	214	(9)	30
Netherlands	146	129	109	17	20
Slovenia	872	980	1,202	(108)	(222)
Macedonia	-	-	-	-	-
Serbia	-	-	-	-	-
Other	795	540	362	255	178
Total	**2,423**	**2,223**	**2,138**	**200**	**85**

(1) Other includes Bosnia and Herzegovina (8 per cent.), Denmark (4 per cent), Great Britain (8 per cent.), Finland (7 per cent.), Ireland (5 per cent.), Italy (5 per cent.), Kosovo (7 per cent.), Luxembourg (10 per cent.), Montenegro (5 per cent.), Poland (5 per cent.), Slovakia (5 per cent.), Spain (3 per cent.), Sweden (7 per cent.), and Switzerland (4 per cent.). The remaining includes 11 other European countries and 3 from the rest of the world (Canada, Russian federation and USA). There is no exposure to Greek sovereign bonds/bills.

Asset encumbrance (according to Article 100 of the CRR)

The encumbered/unencumbered assets are shown in the following table.

31 December 2017	NLB				NLB Group			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
				(EUR thousands)				
Loans on demand	–	–	426,284	–	–	–	986,785	–
Equity instruments	–	–	47,482	47,482	–	–	58,085	58,085
Debt securities	62,625	68,725	2,419,298	2,459,356	63,341	69,441	2,911,079	2,951,137
Loans and advances other than loans on demand	53,964	–	5,034,224	–	58,763	–	7,429,754	
Other assets	–	–	668,955	–	–	–	729,938	–
TOTAL	**116,589**		**8,596,243**		**122,104**		**12,115,641**	

31 December 2016	NLB				NLB Group			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
				(EUR thousands)				
Loans on demand	–	–	488,520	–	–	–	1,038,402	–
Equity instruments	–	–	69,318	69,318	–	–	79,580	79,580
Debt securities	94,340	102,049	2,197,968	2,243,792	94,340	102,049	2,670,448	2,712,589
Loans and advances other than loans on demand	37,987	–	5,249,814	–	44,557	–	7,364,061	–
Other assets	–	–	640,019	–	–	–	747,623	–
TOTAL	**132,327**		**8,645,639**		**138,897**		**11,900,114**	

31 December 2015	NLB				NLB Group			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
				(EUR thousands)				
Loans on demand	–	–	368,124	–	–	–	933,827	–
Equity instruments	–	–	75,335	75,335	–	–	82,314	82,314
Debt securities	158,700	166,533	2,216,723	2,270,834	158,700	166,533	2,701,258	2,755,369
Loans and advances other than loans on demand	169,180	–	5,051,110	–	169,180	–	7,025,737	
Other assets	–	–	667,613	–	–	–	750,599	–
TOTAL	**327,880**		**8,378,905**		**327,880**		**11,493,735**	

Collateral received

The nominal amount of collateral received or own debt securities issued not available for encumbrance is shown in the table below:

	NLB			NLB Group		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
			(EUR thousands)			
Loans on demand	–	–	–	–	–	–
Equity instruments	180,034	161,636	150,419	193,439	174,680	168,393
Debt securities	–	–	46	–	–	106
Loans and advances other than loans on demand	29,024	39,846	50,627	118,179	127,851	148,303
Other collateral received	3,763,844	3,755,558	4,222,727	7,415,905	7,380,987	8,016,021
TOTAL	**3,972,902**	**3,957,040**	**4,423,819**	**7,727,523**	**7,683,518**	**8,332,823**

Neither NLB nor the NLB Group has collateral received or own debt securities issued available for encumbrance.

The sources of encumbrance is shown in the following table.

	NLB					
	2017		2016		2015	
	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral
			(EUR thousands)			
Derivatives	33,529	53,964	35,755	37,987	32,519	29,087
Loans	5,276,547	62,625	5,099,974	94,340	4,899,112	298,793
Debt securities issued	–	–	–	–	–	–
Other sources of encumbrance	–	–	–	–	–	–
TOTAL	**5,310,076**	**116,589**	**5,135,729**	**132,327**	**4,931,631**	**327,880**

	NLB Group					
	2017		2016		2015	
	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral
			(EUR thousands)			
Derivatives	33,529	53,964	35,755	37,987	32,519	29,087

	NLB Group					
	2017		2016		2015	
	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral
Loans	5,277,263	63,341	5,099,974	94,340	4,899,112	298,793
Debt securities issued	–	–	–	–	–	–
Other sources of encumbrance	4,570	4,799	6,570	6,570	–	–
TOTAL	**5,315,362**	**122,104**	**5,142,299**	**138,897**	**4,931,631**	**327,880**

As at 31 December 2017, NLB Group and NLB had a large share of unencumbered assets. On the NLB Group level the amount of encumbered assets equalled EUR 122.1 million, relating to the DGS and to secure funding received from international financial organisations.

10.4 Operational Risk Management

When assuming operational risks, the NLB Group follows the principle that such risks may not materially impact its operations and, therefore, the risk appetite for operational risks is low to moderate. Currently, the complexity of the operations of the NLB Group is at a moderate level, although the NLB Group is reducing this risk through the divestment of non-core activities. The NLB Group has set up a system of collecting loss events, identification, assessment and management of operational risks, with the aim of ensuring quality management of operational risks.

All core members of the NLB Group monitor the upper limit of tolerance to operational risk, defined as the maximum amount of net loss that an individual member allows in its operations. The upper tolerance limit at the level of NLB Group is set at 20 and the critical limit at 80 per cent. of the calculated capital requirement for operational risk. Reports on the upper tolerance limit are discussed at least twice a year by the Operational Risk Committee of each NLB Group member with regards to itself and of NLB with regards to itself and the entire Group, which may set additionally required risk management measures or even raise the capital requirement within the second pillar, if the tolerance limit is exceeded.

In addition to collecting loss events, identification of operational risk is on-going as a forward-looking assessment, including risk management methods: acceptance, reduction, risk monitoring, insurance, and avoidance of risks. When selecting one of the risk mitigation techniques, the choice is generally also based on subjective criteria to determine which of the options has the potential to be the most effective. If the selected risk mitigation method is acceptance or avoidance, no other mitigation method can be selected at the same time. Other mitigation methods can be combined (e.g. risk reduction and monitoring can be selected at the same time). NLB also defines a zero tolerance policy for specific activities which means that it does not permit them in its operations. These activities include: internal crime, disclosing information to unauthorised persons, money laundering, abuse of the financial instruments market and other types of harmful conduct.

The critical limit of loss events is also defined, representing the limit above which the member considers a possible increase in the capital requirement for operational risk within the ICAAP and other possible risk management measures. The key risk indicators are regularly monitored (at least quarterly) within the NLB Group Risk Profile.

NLB has established an Operational Risk Committee as the highest authority in the area of operational risk management. Relevant operational risk committees were also appointed at the other NLB Group members. The management board serves in this role at other subsidiaries. The main task of the aforementioned bodies is to discuss the most significant operational risks and loss events, and to monitor and support the effective management of operational risks within an individual entity. All fully consolidated NLB Group members have adopted relevant internal documents that are in line with NLB standards. In Core NLB Group Members, these documents are in line with the development of operational risk management and regularly updated. The NLB Group members use uniform software support, which is also regularly upgraded.

In the NLB Group, reported net losses arising from loss events in the first half of 2018 (EUR 614 thousand), in 2017 (EUR 6,650 thousand) and in 2016 (EUR 7,965 thousand) were significantly lower than the capital requirement for operational risk of EUR 76,279 thousand, EUR 75,959 thousand and EUR 71,420 thousand in 2016 respectively. In general, considerable attention was paid to reporting potential loss events and defining operational risks in all segments. To treat major loss events appropriately and as soon as possible, NLB has introduced an escalation scale for reporting loss events to the top levels of decision-making at NLB and the Supervisory Board of NLB. In the reporting of loss events, additional attention is also paid to the reporting of potential loss events in order to improve the internal controls and thus minimise similar events.

Through comprehensive identification of operational risks, possible future losses are identified, estimated and appropriately managed. The major operational risks are actively managed with specific measures taken to reduce them. Special emphasis is put on the most topical risks, amongst which in particular on those with a low probability of occurrence and very high potential financial influence. To prevent such events, NLB has developed methodology for performing stress tests for operational risk. An operational risk profile is prepared yearly on the basis of the operational risk identification and the capital requirement for operational risk is calculated using the standardised approach at NLB and using the basic indicator approach at the NLB Group level.

For further information, see "*2. Risk Factors—The NLB Group faces interest rate, liquidity, foreign exchange, credit, market, investment and operational risks that could adversely affect it should its risk management policies not succeed*" and "*—The NLB Group is subject to operational risk, including IT risks, and such risks may not be entirely covered by insurance*".

10.5 Business Continuity Management (BCM)

In the NLB Group, business continuity management is carried out to protect lives, goods and reputation. Business continuity plans are prepared to be used in the event of natural disasters, IT disasters and undesired environmental effects to mitigate the consequences of such events.

The yearly action plan aims to upgrade and improve the business continuity management system. The basis for modernising the business continuity plans is the regular annual Business Impact Analysis (BIA). The best indicator of the adequacy of the business continuity plans is testing. In 2017 and first half of 2018, 59 tests were carried out at NLB (49 internal ones and 10 with external business partners). No major deviations were discovered.

In the NLB Group, know-how and methodologies are generally transferred to the members of the NLB Group. The NLB Group's members have adopted appropriate documents which are in line with the standards of NLB and revised in accordance with the development of business continuity management. The activity of the NLB Group members is monitored throughout the year, and expert assistance is provided if necessary. For the more efficient functioning of the business continuity management system in the NLB Group, training courses and visits to individual banking members are also provided. In 2016, NLB carried out a training course for members of the Crisis Management Team and the Office Building Crisis Groups. Upon IT disasters/failures NLB successfully used Business Continuity Plans (office building plans, manual procedures and IT plans) twenty times and activated Crisis Management Structure (Office Building Crisis Groups, Business Operational Crisis Group) fourteen times. Events resulting in the use of Business Continuity Plans are investigated in detail in order to prevent such events in the future or manage them most efficiently. Results of such investigations are also reported to the regulator.

10.6 Management of other types of non-financial risks – capital risk, strategic risks, reputation risk and profitability risk

Risks not included in the calculation of capital requirements by the regulatory approach but which are also important for the NLB Group are adequately discussed in the context of the ICAAP. NLB has established the relevant methodologies for identifying and assessing specific types of risk (capital, strategic, reputation, disinvestment and profitability risk); the methodologies are subject to regular review. The calculation of internal capital requirements for non-financial risks is made quarterly at the NLB Group level. If a certain risk is assessed as a key risk, capital requirements are created. Significant and material changes in the calculation of capital requirements for individual NLB Group members could, at the NLB Group's discretion, result in an increase in relevant capital requirements at the NLB Group level.

10.7 Compliance, Anti-Money Laundering, Anti-Terrorist Financing, Anti-Bribery and Corruption Risk Management

NLB's compliance and integrity program is managed by the Compliance and Integrity organisational unit in NLB ("**Compliance and Integrity**"), through a three pillar structure: (i) prevention and development; (ii) supervision and internal investigations; and (iii) AML and CFT protocols.

The Compliance and Integrity addresses, the following risk areas:

- fraud prevention and investigation;

- AML and CFT;
- privacy data protection and information security;
- focal points for regulators (ECB, Bank of Slovenia);
- regulatory compliance;
- corruption prevention;
- conflict of interests, gifts and hospitality management;
- fit and proper assessment procedures (as part of assessing reputation, financial strength, time availability and conflict of interests);
- identification, assessment and management of compliance and integrity risks at the NLB and NLB Group level;
- oversight, monitoring, steering and managing the compliance function in the NLB Group and the NLB Group compliance programme (established by standards for compliance and integrity for the NLB Group and implementation of monitoring by off-site data analysis and on-site visits); and
- business ethics and corporate integrity.

These risk areas are addressed by multiple approaches and activities, based on regulatory requirements, as well as best practices and international standards in compliance and business ethics. See "*2. Risk Factors—NLB Group is subject to risk of money laundering and financing terrorism in a way that third parties might use NLB Group as a conduit for illegal activities without knowledge of the NLB Group, which could have a material adverse effect on the NLB Group.*" The management of central compliance risks, including Anti-Money Laundering and Anti-Terrorist Financing ("**AML/CFT**") and anti-corruption is presented below.

Culture of integrity and transparent business

During recent years, NLB has been strengthening its client assessment process, including its KYC protocols, drawing more attention to detecting and responding to irregularities and instances of potential fraud or non-compliance, and building a corporate culture of integrity within the NLB Group. NLB is continuously training its employees and raising awareness regarding matters of compliance and integrity through workshops and e-training courses in ethics, prevention of fraud and corruption, AML requirements, protection of personal data, information security, awareness about social engineering and other important compliance issues. For all employees, yearly e-trainings are mandatory on subjects such as ethics, anti-corruption, mitigation of conflict of interests, personal data protection, information security and similar themes. Such trainings have also been made part of the compliance and integrity programme standards for the NLB Group's core subsidiaries. The NLB Group seeks to promote a corporate culture that facilitates compliance and by continuously raising awareness, for example through communication via its monthly compliance newsletter, detailing not only important regulatory changes, but also current information and case studies on different compliance and ethics topics.

The values of NLB Group, embedded in the NLB Group Code of Conduct, provide guidance and principles of behaviour regarding ethical conduct and require appropriate conduct from all employees at any level of the organisation, including contractors.

A comprehensive system for managing compliance risks

The Compliance and Integrity performs the compliance function in NLB with respect to the activities for identification and monitoring of compliance risks, regular compliance monitoring and independent internal investigations in case of suspected compliance or ethics breaches. In close cooperation with different organisational units, the Compliance and Integrity also helps in assessing and managing compliance risks in different areas of operations in NLB.

The main activities of the Compliance and Integrity are:

- conducting compliance checks at various areas covered by the Compliance and Integrity (compliance audits), identification of shortcomings in this regard, suggestion of mitigation measures to be undertaken and monitoring of improvement;
- managing the system/channels for reporting of suspected harmful behaviour (directing the system for reporting on violations through different channels) and conducting internal investigations of the reported and detected cases;
- providing advisory services on compliance-related issues and regular analysis of compliance trends or observed problems and weaknesses in NLB;
- identifying and assessing compliance and integrity risks in the process of (new) product and services developments, projects and other material changes in the NLB Group's business;
- providing compliance communication, trainings, workshops and targeted surveys for all NLB employees, together with its Board members;
- overseeing the regulatory compliance management system (monitoring, reporting and adopting changes required in NLB's legal environment);
- central management and monitoring of all communication with regulators and monitoring of the status of implementation of regulators' recommendations and measures; and
- compliance and integrity business line management for ensuring the same standards throughout the NLB Group, with higher requirements for the core subsidiaries.

As regulatory risk is one of the top compliance risks, NLB has in place a regulatory compliance management system for handling and managing changes in the legal environment. This system is managed centrally by the Compliance and Integrity, while implementation processes are decentralised. This means that organisational units responsible for certain areas affected by a change in applicable regulations prepare action plans and lead implementation processes, thus ensuring the NLB Group's compliance. The Compliance and Integrity oversees the relevant regulatory changes' effects and the status of implementation. The system encompasses:

- monitoring of changes in the legal environment and informing the relevant organisational units;
- overseeing the assessment of the regulatory changes and effects that these changes have on the NLB Group;
- overseeing and reporting on the implementation status of adjustments and alignment with the legal changes;
- monitoring compliance with regulatory requirements, the breach of which could result in the severest sanctions and other serious consequences for the NLB Group.

To further enhance these processes, NLB plans to implement an integrated IT support for regulatory compliance risk management.

Throughout 2016, the Compliance and Integrity introduced the Enterprise Compliance Risk Assessment Process, the implementation of which at the NLB Group level was finished in 2017, with special emphasis on upgrading procedures and measures to combat corruption and bribery, with the aim to further upgrade the current compliance risk management system, and with a Group-wide general methodology for overall compliance and integrity risk identification and assessment, in accordance with best practices. The assessments are conducted in NLB and NLB Group regularly yearly.

The Compliance and Integrity reports quarterly to the Supervisory and Management Boards. It also reports on individual compliance issues at the request of the Supervisory or Management Board or when such reports may be otherwise needed. It also advises the Management Board and NLB senior management with regards to compliance, including the development of regulations and standards applicable to NLB. It also responds to queries of other employees regarding compliance and ethics.

Money laundering and terrorist financing risk management

Based on the identified risks of money laundering and terrorist financing, NLB focuses on the following risks: risk of breaching regulatory requirements in the area of AML/CFT and restrictive measures, the risk of money laundering and terrorism financing through the NLB or the NLB Group financial system, the risk of an inadequate implementation of restrictive measures or international sanctions screening system and the risk of damaging the reputation of NLB and the NLB Group, due to insufficient implementation of the above mentioned standards and requirements.

In the last few years, techniques and typologies of money laundering have changed dramatically and entirely new ways of organising and carrying out terrorist acts have emerged. Several disclosures of large-scale tax evasion were recently disclosed; in response, international institutions have started to stress the importance of tax evasion as a predicate offense for money laundering.

International institutions such as the FATF have issued several documents in the field of AML/CFT, which represent worldwide standards. In 2015, the new AML EU Directive was adopted by the European Parliament and in the second half of 2016 the Republic of Slovenia adopted new local AML legislation. New directives in the area of sanctions and restrictive measures were also issued (e.g. sanctions against Russia and Ukraine with an emphasis on Crimea and changes in sanctions against Iran). Several EU and U.S. banking groups were fined due to breaching sanctions; these groups subsequently introduced completely new standards and severe requirements in the international banking area in the field of controls on restrictive measures. In the period from 2010 to 2016, NLB has had three external audits from the Bank of Slovenia, who issued several orders and recommendations to the bank, which were duly fulfilled and implemented. In the last review, the Bank of Slovenia findings expressed satisfaction with NLB's AML/CFT management system.

To ensure compliance with international and legislative requirements, the NLB and NLB Group established a system to identify and prevent money laundering and financing terrorism and took important measures to mitigate and reduce risks related to AML/CFT, including:

- efficient organisational structure and delegating responsibilities and responsible persons for AML/CFT in the management of the NLB Group, responsible persons and their deputies to conduct activities in this area, system of coordinators in the business areas of the bank, and responsibilities and accountability of individual business areas of the bank,
- established system of internal controls with adequate procedures and internal procedures,
- regular yearly trainings of all employees which are responsible to conduct activities in the AML/CFT area,
- independence of internal audit function.

NLB complies with legislation and international standards in the AML/CFT area. The NLB Group conducts due diligence process of a client (a) before establishing a business relationship, (b) before conducting individual transaction of EUR 15,000 or more, (c) when there is doubt in the accuracy of data or (d) when it has established suspicion of money laundering or terrorism financing, regardless of the amount of a transaction. NLB aims to receive and refresh data and documentation related to the KYC process within a maximum of every 2 years for high-risk clients and every 5 years for regular-risk clients.

In NLB the due diligence of clients encompasses:

- identification and checking of client's identity on the basis of independent and objective sources
- identification of the beneficial owner of the client,
- acquiring data on activities, reasons, purpose and intended nature of the business relationship, as well as others legally required data,
- regular monitoring of business activities of a client, on the basis of risk assessment.

NLB monitors business activities undertaken by the customers through the bank with due diligence and thus ensure knowledge of the customers, including the origin of assets and wealth. Monitoring includes verification of the customer's business operations, compliance with the activity, purpose and intended nature of the business relationship, monitoring and verification of the customer's business operations, compliance with its regular scope of business and verification and updating of documents and data on the customer. Given the number of customers and the scope and complexity of banking services the NLB Group has introduced appropriate IT support and uses transaction monitoring system purchased from FICO Tonbeller. The parameters and thresholds of the system account for behavioural trends, relationships (including persons, transactions and partners), countries risk, changes in operations, in customer's profile, and in anticipated purpose of business. NLB believes that automated procedures are useful for identifying unusual transactions and are of key importance for providing an analysis of all unusual cases in terms of identifying grounds to suspect and report ML or TF cases for money laundering prevention.

NLB has also defined procedures for the timely and accurate reporting of data on every cash transaction and on every transaction to a high risk country that exceeds EUR 15,000, and the reporting of data on suspicious transactions, notwithstanding the amount thereof.

Within the frame of the AML/CFT Act, the NLB Group is obliged to obtain appropriate data and documentation, and as a result all employees are obliged to protect the secrecy of data in line with the current legislation in this area. The NLB Group aims to take particular care when handling certain data, including by marking this data with the appropriate degree of secrecy and handling it in accordance with legislation governing confidential data. The NLB Group has also defined procedures for the consistent implementation of additional measures, which a bank must implement at the request of the Office for Money Laundering Prevention. Pursuant to the AML/CFT Act, the NLB Group must ensure the appropriate retention of all data and related documents obtained in the process of customer due diligence for ten years following the termination of a business relationship or the execution of a transaction.

Based on enterprise risk assessment, NLB ranks the risk of all of its clients based on a prepared risk analysis and risk assessments for individual groups or customers, business relationships, products or transactions with respect to their potential misuse for ML or TF. The risk analysis is drawn up in accordance with guidelines issued by and within the powers of the Bank of Slovenia. The risk assessment is a dynamic process, as risks change over time due to various external influences (including the introduction of new techniques and methods of ML and TF), internal influences (including the introduction of new products and expansion to new markets) and legislative changes, and as a result the NLB Group must regularly update the risk analysis.

NLB has taken a number of important measures to mitigate and reduce risks related to AML/CFT, including:

- introduction of new processes and IT solutions to deal with unusual and suspicious transactions and to process ongoing monitoring of business relationships. One important measure was the establishment of a central process for the treatment of suspicious transactions, which significantly raised the quality of the results;

- publication of new AML/CFT policies of acceptance level for high risk clients and establishment of the a commission for the prevention of money laundering within NLB, that regularly examines cases of suspicion and makes decisions on closing business relationships that exceed the acceptable level of risk;

- an important upgrade of internal controls: (i) at the level of application support (automatic control system), (ii) at the level of organisational units (establishment of the AML coordinators system), and (iii) through implementation of thematic, regular and comprehensive AML/CFT reviews by a designated AML officer;

- implementation of enhanced customer due diligence in the area of cash operations and operations with high-risk countries, especially in terms of checking and disclosing the source of funds and assets;

- establishment of new methodologies and techniques in the disclosure of beneficial owners;

- prohibitions on opening a business relationship with entities located in high-risk countries with poor standards related to terrorist financing;

- upgrade of the uniform screening system and process of defined controls regarding restrictive measures and sanction lists (Dow Jones Watchlist and Safe Watch Filtering Screening System), adhering to UN, EU, OFAC and HMT protocols and controls; and

- regular introduction of new AML/CFT typologies and upgraded AML/CFT scenarios into the suspicious transactions, businesses and clients monitoring and analysing system (SironAML IT Solution).

The NLB Group has implemented the following measures:

- obligatory introduction of standards to the NLB Group with a focus on bank subsidiaries that are highly vulnerable in the field of AML/CFT;

- carrying out regular checks in order to achieve uniform standards within the NLB Group;

- introduction of "off site" control activities in the NLB Group on the basis of reports, questionnaires and assessment of the risk for individual banks;

- carrying out regular "on site" in-depth reviews within the NLB Group;

- implementation and regular upgrading of IT support (SironAML system: a modern anti-money laundering solution that monitors customer transactions using predefined indicators and scenarios, historical and statistical information, peer group profiles in order to identify money laundering activities, and also a system which supports case management workflow for AML officers for the purposes of handling unusual transactions and suspicious activities reports) and re-engineering of the work process in order to harmonise the concept of monitoring unusual transactions at the NLB Group level, improving work efficiency and significantly reducing risks in the treatment of unusual transactions and the reporting of suspicious transactions to the Office for Money Laundering Prevention;

- prohibitions on opening a business relationship with entities located in high-risk countries that have poor standards related to terrorist financing;

- restriction and conducting in-depth review of non-resident clients which do not have economic and logical bases for entering into business relationships - with these clients an increased risk for money laundering was identified in the last year; and

- prohibited business with countries and regimes which are, according to international banking standards, listed as high-risk (including Iran, North Korea, Sudan and South Sudan, Myanmar, Afghanistan, Cuba, Crimea),

- implementation and upgrade of the screening system and process of internal controls regarding restrictive measures, sanction lists and domestic politically exposed persons.

NLB has implemented several additional measures to mitigate and reduce the risks associated with the recommendations issued by Bank of Slovenia on December 2015 and related to a separate inspection of the Office for Money Laundering Prevention where one of the cases of inadequate client risk classification has been detected and the late reporting of one customer suspicious behaviour and transactions was find out:

- the implementation of a series of AML training and awareness raising on the obtaining more qualitative data on the purpose and intended nature of the business relationship, the source of assets and assets and new perceived typologies;

- the introduction of a new procedure for identifying and obtaining proof of the origin of funds and wealth;

- the introduction of a new procedure for the implementation of internal control at the first level in the business of the NLB Group;

- IT development and introduction of automated advanced systems for supporting the implementation of activities in the area of AML/CFT (risk rating evaluation, internal list of suspicious customers detection, reporting automation, PEP identification);

- the issuance of a warning circular to business part to enhancing the correctness of determining the client's risk assessment and business relationships, and the introduction of regular compliance review on the adequacy of the determination of clients' risk by the business parts of the NLB Group;

- the introduction of a more strict procedure for checkpoints in the decision-making process and the procedure for reporting suspicious transactions to the Office for Money Laundering Prevention; and

- the development of an expert system for determining customer risk in the context of a customer review and a business relationship.

Additional information regarding the "Iran" case in NLB

In 2017, NLB was subject to extensive media exposure related to AML/CFT as a result of the Iran Case that took place in 2009 and 2010. This case was also subject to a parliamentary investigation where a special Parliamentary Commission was established in order to investigate the matter (*Preiskovalna komisija o ugotavljanju domnevnega pranja denarja in financiranja terorizma, jedrske proliferacije ter financiranja aktivnosti tujih obveščevalno-varnostnih služb v NLB d.d. ter domnevnega pranja denarja v Novi KBM d.d.*). The Parliamentary Commission concluded the work in May 2018. Part of the final report of the Parliamentary Commission has been published publicly, with portions of the report still restricted, including from NLB. Based on publicly available information, the Parliamentary Commission has not found any signs of criminal offences in this case, however, the report contains findings that the former management and supervisory boards of NLB (no member of which are in office since 2011) breached their duties. Furthermore, there were criminal charges filed against two former employees of NLB for false testimony during the hearing before the Parliamentary Commission, and former governmental representatives and the former representative of the Bank of Slovenia were found to have political responsibility in this case according to the statements and report of this Parliamentary Commission.

The facts of the Iran Case are the following: the client in question ("**Client X**") approached NLB in November 2008. Client X was born in Iran, holding a British citizenship and a permanent address of residence in London. Client X was a legal representative of and opened the accounts with NLB for the following companies: (1) A Ltd, British Virgin Islands; (2) B Ltd, UAE, (3) C Ltd, UAE. Neither Client X nor these companies were at the time of the opening the accounts or the execution of any related transactions on any of sanctions lists (UN, EU, and OFAC). While opening the accounts, the client presented a recommendation letter from a reputed well-known bank, a Wolfsberg Group member, and declared that his companies were involved in international trade and financial business. During the relationship with NLB, all three companies received approximately 800 million EUR from different banks in the United Arab Emirates, Iran, Slovakia, and Latvia. The majority of the transactions were denominated in EUR, others in CAD, JPY and USD, GBP, CHF. The client daily distributed different amounts to several different accounts of physical persons or companies in different countries (Canada, Australia, the USA, Germany, Switzerland, China, Great Britain, Japan). In 2009 and 2010, NLB asked Client X on several occasions for further explanation and supporting materials in order to establish the purpose and legal background of certain transactions. Client X provided NLB with such requested documentation. During 2009 and 2010, numerous meetings were held by NLB to discuss specifics of the client and of the transactions. During these meetings it was decided that Client X presented enough evidence and proof for transactions to take place, but needed to continue to be monitored closely. In 2010, an internal audit was initiated and on 10 October 2010, NLB reported Client X to the Office for Money Laundering Prevention in Slovenia. Subsequently, the Management Board of NLB decided to close the accounts of the client/companies. On 14 December 2010, NLB received an order from the Bank of Slovenia stating that its internal AML controls should be strengthened, including the appointment of an AML officer within the organization and that procedures and analyses of high-risk clients should be upgraded. No sanctions were imposed by the regulator.

In the following years, NLB introduced several changes in AML/CFT area as described below. Under the NLB Group's current AML standards, the AML officer would immediately, at the time of the first suspicious transactions, report to the AML authority, with the option of closing the affected accounts discussed internally by the competent organizational units (i.e. Compliance/AML, front office and legal) who also have the authority to close the accounts. According to NLB's AML/CFT Policy from 2011, NLB will not open any accounts for entities with Iranian background of any kind. In this specific case, the NLB Group has determined that Client X and his companies would be rejected by NLB, because Client X was born in Iran. Since 2011, NLB believes it has met all modern AML/CFT standards, which was confirmed by the final audit of the competent regulator in 2015. The AML/CFT function was strengthened from perspective of:

- access (an AML officer sits in Compliance department and reports directly to the Management Board);
- three-level internal control (Front Office, AML officer and internal audit);
- resources (additional FTEs were employed in AML area);
- automatization (Siron AML was introduced and Dow Jones lists have been integrated in the IT structure);
- regular obligatory training and education of NLB personnel; and
- regular monitoring and supervision of front/middle office by AML personnel.

The AML/CFT control environment set up by NLB was assessed by relevant competent authorities in 2015 as good, mostly as a result of a well-organized AML/CFT function and the established three-level system of internal controls, which includes controls at the level of the organizational units and the AML/CFT officer as well as independent checking by the Internal Audit. In addition, at the NLB Group level, NLB has ensured the use of uniform IT support for detecting unusual or suspicious operations.

After political and media discussions in June 2017, the Slovenian authorities made a public statement on 13 June on the Iran Case. In 2010, the Slovenian authorities had received information from the Office for Money Laundering Prevention and in 2011 they received two additional information related to suspicious transactions of Iranian company. This information was reviewed by the authorities, where the acquired data and checks have not provided grounds for opening the pre-criminal proceedings. From the data acquired there was not enough evidence to confirm the existence of elements of an ex officio prosecutable criminal act. The authorities also added that following the recent media reports they will re-check whether there is any new or additional relevant information available in this case. On 26 June 2017, an employee (and former head) of the Office for Money Laundering Prevention testified in front of the Parliamentary Commission after being mandated to investigate the Iranian transactions in 2009/2010. This individual confirmed that NLB has consulted the AML authority on several occasions in 2009 and filed an official report in 2010 on the transactions in question, but there were no signs that these transactions were connected to money laundering or terrorist financing.

In October 2017, the Slovenian media presented the findings of the authorities (General Police Administration – Criminal Matters Department) that ascertained that no money laundering or terrorism financing transaction occurred at NLB. The authorities took all necessary steps in line with the law for any high-volume transaction, however no evidence of criminal offence was found. The authorities have also not identified any relations to terrorism financing regarding the transaction of Client X.

As of the date of this Prospectus, the NLB Group is not aware of any open proceedings against NLB or its current employees with respect to the above investigation of any other proceedings regarding this case or regarding the final findings of the authorities or the Parliamentary Commission mandated to investigate this case. According to Slovenian legislation any civil or misdemeanor motion has been time barred in accordance with the general statute of limitations of five years.

10.8 Anti-Bribery and Anti-Corruption detection and prevention

NLB has in place processes for recognising, reporting and taking appropriate countermeasures in the event of conflicts of interest and has a system of internal rules and guidelines for employees at any level of the organisation regarding the giving and receiving of gifts.

Through implementation of standards of compliance and integrity, which began extensively in 2015, both anti-bribery and anti-corruption areas are covered at the NLB Group level by requiring member companies to adopt the same rules and introduce them to employees. In 2015 and 2016, this topic was specifically upgraded as a separate module in the annual and mandatory e-training for all employees in NLB and the NLB Group member companies. Conflicts of interest and corruption are also often included in ongoing communication, performed via monthly compliance and integrity newsletters at NLB and the NLB Group level.

With the aim of improving measures in the event of suspected harmful conduct, all banks within the NLB Group have established procedures for prevention and investigation harmful conduct, including the compulsory reporting of suspected harmful conduct to the Compliance and Integrity, and procedures and responsibilities in the process of investigating such conduct, including complete protection of whistleblowers, which the NLB Group sees as an important part of its fraud detection system. The NLB Group members are required to specifically include in their regular quarterly compliance and integrity reports any information on corruption or bribery cases.

With regard to preventing harmful conduct, NLB has in place the NLB Group Code of Conduct, which applies to NLB and other members of the NLB Group, to all employees including executives, accounting and financial officers.

The Code of Conduct and other policies and procedures which regulate the area of anti-bribery and anti-corruption, define the basic rules that apply to NLB and the NLB Group operations and provide guidance and support to employees so that they are able and obliged to conduct themselves in line with legal, moral and ethical standards. NLB Group specifically emphasises zero tolerance regarding any form of illegal or unethical conduct.

Furthermore, NLB has implemented special procedures for politically exposed persons in accordance with applicable AML/CFT legislation.

Market abuse risk management

The market abuse risk management ("**MARM**") is based on requirements of Regulation (EU) No. 596/2014 on market abuse (MAR), level 2 legal documents by the European Securities and Markets Authority ("**ESMA**") and SMA and internal rules and procedures.

The MARM in NLB includes, *inter alia*:

- maintenance of a list of all persons who have access to inside information;
- maintenance of a list of financial instruments which are forbidden to trade with for persons involved in their issuance or market research;
- maintenance of a list of personal transactions for persons involved in investment activities or financial instruments issuance; and
- regular audits of persons and procedures subject to MARM.

Obligatory yearly e-training is conducted for all employees working on financial instruments and investment research in NLB, aiming to train them on the importance of inside information and market abuse prevention.

The MARM in NLB is regulated in the rules on the supervision over the implementation of personal transactions.

As the NLB Group members are subject to different legislation regimes, the standards for compliance and integrity for the NLB Group in that it requires the financial members to comply with both MARM and local regulations and their compliance personnel to assure adequate compliance in this field.

Fraud risk management

In 2013, NLB began to systematically investigate exposures representing the bulk of losses incurred by NLB in the period from 2009 up to and including 2013. This review was completed in the first quarter of 2016. It was carried out on the basis of established criteria, including the materiality of losses, the status of a borrower (in insolvency proceedings or restructuring), risks related to the statute of limitations, and the past findings of regular and one-off internal or external audits.

The review highlighted the factors that resulted in the losses described above. Further, activities were carried out for the partial repayment of damages and suspected criminal acts were reported by NLB to prosecuting authorities. By early 2016, a total of 1,195 investments had been reviewed, with an aggregate exposure of EUR 1,308.5 million. The NLB Group reported information on multiple cases involving suspected criminal offences to the police (primarily the National Bureau of Investigation) and the Prosecutor's Office (primarily the Office of the State Prosecutor General of the Republic of Slovenia) leading to criminal complaints and pecuniary claims (in a total amount of approximately EUR 140.7 million) and four civil actions or claims for damages, of which two are still pending (in the total amount of EUR 10.7 million plus default interest). The key changes made in response to these findings in the area of the corporate credit process related to: (i) collateral; (ii) the credit risk management centralisation and harmonisation project; (iii) the early detection of increased credit risk; and (iv) improved loan granting processes. NLB has zero tolerance for improper practices, which means that every reasonable suspicion of unlawful or improper conduct is investigated. A positive development has been the dialogue with respective regulators and the ECB during this process.

At the same time, NLB improved internal systems and processes, particularly with respect to the adoption of business decisions, the avoidance of conflicts of interest, the reporting of irregularities and the need for transparency in NLB's operations. Other members of the NLB Group have adopted a similar approach.

The NLB Group minimises the risk of internal as well as external fraud by several preventive, detective and investigative measures. First, an annual education programme regarding the importance of detection and prevention of fraud, setting forth a variety of examples, is obligatory for all employees. Training for detecting fraud for the specific needs of individual organisational units also takes place.

Within a number of NLB organisational units, internal control mechanisms for detecting and preventing fraud are in place, such as internal reviews by controllers, early warning systems and similar mechanisms. To ensure appropriate internal control mechanisms throughout the NLB Group, the Compliance and Integrity Centre ("**Compliance and Integrity Centre**") assists the NLB Group members, as well as NLB organisational units, in the further development of internal control mechanisms through periodic thematic reviews.

To employees or other individuals (including external persons) there are multiple channels available for detection of fraud (including via mailbox, e-mail address, telephone and special application), through which anyone can submit an anonymous (with identity protection available within the Compliance and Integrity Centre) or open application. In accordance with the guidelines to protect whistle-blowers adopted in 2015, the NLB Group strictly prohibits any type of retaliation against an employee who reports the *bona fide* suspicion of fraud and ensures complete protection to such employee.

For the purpose of investigation of reported or detected fraud suspicion, the NLB Group has established a single process on the basis of which internal investigations are performed. For every case received/detected, a report on the established facts is prepared, responsibility of individuals is identified and when necessary, recommendations are given to improve individual processes. The recommendations and measures against employees are regularly are monitored. The data from reporting channels and internal investigations undertaken in NLB or the other NLB Group member companies is also regularly reported to NLB's management and supervisory board on a quarterly basis, as well as on individual issues.

NLB plans to implement an integrated IT support for detection and prevention of different types of fraud, as an upgrade to the already implemented IT support (mentioned under 10.7 above) for fraud detection and prevention related to fraud in payment services and AML/TF.

Privacy data risk management

The information security management system ("**ISMS**") operates on the ISO/IEC 27001: 2013 and ISO/IEC 27002:2013 standards. ISMS is under continuous development and improvement in a pro-active manner to facilitate the conduct of several Group activities, mainly:

- the internal audit of information security management system carried out regularly in NLB and throughout member companies;
- the review of external data processors carried out in the hiring phase and while providing (outsourced) services;

- evaluating group members which are connected to the extranet; and
- regularly performing a control over business justifications of personal data processing.

Mandatory yearly e-trainings are organised for all employees with the aim of educating employees about the importance of information security, to inform them about currently relevant threats and to highlight the importance for information security incident reporting,

ISMS issues are reported to the Operational Risk Committee on a regular basis. At the NLB Group level, information security related topics are discussed regularly amongst all security officers.

Privacy data protection is regulated in the following main internal policies, rules and procedures:

- the corporate security policy of NLB;
- the rules on security of information, persons and property in NLB;
- the rules on the protection of personal data in NLB;
- the instructions for incident management in a bank or as part of a banking activity;
- the instructions for handling information of various levels of confidentiality;
- the security policy for online payment services; and
- the standard for assuring cyber security in NLB and NLB Group.

Requirements in this compliance risk area are integrated within the standards for compliance and integrity for the NLB Group.

10.9 Changes to risk management policies

Changes to the risk management policies in year ending 31 December 2015

In 2015, the NLB Group introduced a recovery plan, risk appetite, and regularly revisited and upgraded risk management policies. The NLB Group also enhanced existing methodologies and internal models in the area of credit risk, liquidity, market and operational risk and upgraded stress testing.

Changes in the NLB Group's risk management in the year ending 31 December 2016

In 2016, the NLB Group upgraded its Risk Appetite Statement and Risk Strategy, representing the NLB Group's fundamental risk management documents. Moreover, the NLB Group further enhanced its risk management system in order to support its business decision-making process by upgrading the ICAAP, introducing the ILAAP, enhancing internal stress testing capabilities, introducing a renewed Recovery plan and further upgrading its comprehensive steering processes within the revised risk management framework.

Changes in the NLB Group's risk management in the year ending 31 December 2017

In 2017, the NLB Group upgraded its Risk Appetite Statement and Risk Strategy, representing the NLB Group's fundamental risk management documents. The NLB Group further enhanced its risk management system in order to support its business decision-making process by upgrading the ICAAP, ILAAP, and Recovery and Resolution plan especially in the segment of upgrading stress testing and validations. In order to prepare to the new IFRS 9, which came into force on 1 January 2018 the changes in methodology for the NLB Group provisions and impairments were made. In April 2018, the NLB Group received the information from the SRB on the adoption of the NLB Group Resolution Plan based on items from submitted recovery plan of the NLB Group and the Bank of Slovenia decision on the determination on the MREL. The MREL requirement for the NLB Group is based on the MPE and was determined to be in the amount of 17.40 per cent. of TLOF, which as per financials as of 31 December 2016 totals to EUR 1,512.79 million, which must be complied by 31 March 2019.

10.10 Capital Adequacy Management

European bank capital legislation, comprising the CRR and CRD IV, is based on the Basel III guidelines. The minimum ratios banks must achieve within the scope of Pillar 1 are the following:

- CET1 capital ratio: 4.5 per cent.,
- Tier 1 capital ratio: 6 per cent., and
- Total capital ratio: 8 per cent.

In addition to the aforementioned ratios, which form the Pillar 1 requirement, the NLB Group must meet other requirements and recommendations that are being imposed by the supervisory institutions or by the legislation:

- Pillar 2 Requirement (SREP requirement): bank specific, obligatory requirement set by the supervisory institution through the SREP process (together with the Pillar 1 requirement it represents the minimum TSCR);
- Applicable CBR system of capital buffers to be added on top of TSCR (see "*15. Regulation of the Banking Sector in the Republic of Slovenia—Capital buffers requirements*" below). Non-compliance with the CBR is not a breach of capital requirement but triggers limitations in payment of dividends and other distributions from capital. Some of the buffers are prescribed by law for all banks and some of them are bank specific, set by the supervisory institution (CBR and TSCR together form the OCR);
- Pillar 2 Guidance: capital recommendation set by the supervisory institution through the SREP process. It is bank specific and as a recommendation not obligatory. Any non-compliance does not affect dividends or other distributions from capital, however it might lead to intensified supervision and imposition of measures to re-establish a prudent level of capital.

As at 31 December 2017, NLB was obliged to maintain the OCR of 12.75 per cent. (this requirement included the Pillar 1 requirement, the Pillar 2 requirement and the capital conservation buffer of 1.25 per cent. for 2017).

Starting from 1 January 2018, the requirement for the OCR is set at 13.375 per cent. (including Pillar 1 requirement, Pillar 2 requirement and a capital conservation buffer of 1.875 per cent. for 2018) and allows for inclusion of up to 2 per cent. of Tier 2 capital and 1.5 per cent. of Tier 1 Capital.

The NLB Group calculates capital and capital ratios fully in line with the EU legislation.

Capital adequacy of the NLB Group

	30 June		31 December		
	2018	2017	2017	2016	2015
	(EUR thousands)				
Paid up capital instruments	200,000	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378	871,378
Retained earnings – from previous years	561,110	296,605	296,773	246,656	207,004
Current result	-	-	29,280	49,890	39,599
Accumulated other comprehensive income	11,776	(13,146)	(11,450)	(6,053)	(4,090)
Other reserves	13,522	13,522	13,522	13,522	13,522
Minority interest	-	-	-	-	-
Prudential filters: cash flow hedge reserve	-	-	-	-	897
Prudential filters: additional valuation adjustments (AVA)	(1,986)	(2,276)	(2,389)	(2,213)	(3,134)
(-) Goodwill	(3,529)	(3,529)	(3,529)	(3,529)	(3,529)
(-) Other intangible assets	(29,145)	(33,225)	(31,445)	(30,397)	(35,745)

	30 June		31 December		
	2018	2017	2017	2016	2015
			(EUR thousands)		
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-	(6,075)	-	(3,013)	(2,755)
Common Equity Tier 1 capital (CET1)	**1,623,126**	**1,323,254**	**1,362,140**	**1,336,241**	**1,283,147**
Additional Tier 1 capital	-	-	-	-	-
Tier 1 capital	**1,623,126**	**1,323,254**	**1,362,140**	**1,336,241**	**1,283,147**
Tier 2 capital	-	-	-	-	-
Total capital	**1,623,126**	**1,323,254**	**1,362,140**	**1,336,241**	**1,283,147**
RWA for credit risk	7,209,882	6,956,322	7,096,413	6,864,737	6,849,633
RWA for market risks	527,300	99,639	499,726	104,175	137,351
RWA for CVA	2,100	1,525	850	463	9,313
RWA for operational risk	953,482	949,493	949,493	892,753	930,688
Total risk exposure amount (RWA)	**8,692,764**	**8,006,979**	**8,546,482**	**7,862,128**	**7,926,985**
Common Equity Tier 1 ratio	18.7%(1)	16.5%	15.9%(2)	17.0%	16.2 %
Tier 1 ratio	18.7%(1)	16.5%	15.9%(2)	17.0%	16.2 %
Total capital ratio	18.7%(1)	16.5%	15.9%(2)	17.0%	16.2 %

(1) Including non-distributed profit for the year 2017 in the amount of EUR 189 million.
(2) Including the expected dividend payment for the year 2017 in the amount of EUR 189 million.

11. MANAGEMENT AND CORPORATE GOVERNANCE

11.1 CORPORATE GOVERNANCE—NLB

In accordance with applicable legislation, NLB employs a two-tier system of corporate governance, under which NLB is managed by the Management Board and its operations are supervised by the Supervisory Board.

The Supervisory Board is responsible, amongst others, for the appointment of the President of the Management Board and other members of the Management Board. The Supervisory Board is also responsible for the overall supervision of NLB's operations in line with applicable laws and regulations. The Management Board is responsible for the day-to-day operations and manages NLB's business operations. The business address of the Management Board members and Supervisory Board members is NLB d.d., Trg republike 2, 1000 Ljubljana.

Supervisory Board

The Supervisory Board monitors and supervises the management and operations of the Company. It performs its tasks in accordance with the provisions of the laws governing the operations of banks and companies and the *Statut*.

The Supervisory Board acts in line with the ethical standards of management, in particular taking into consideration the prevention of conflicts of interests.

According to the *Statut*, the Supervisory Board consists of nine members, elected and recalled by NLB's General Assembly from persons proposed by Shareholders or the Supervisory Board. Currently, the Supervisory Board consists of eight members, following the resignations and expirations of mandates of former members. According to the current Statut all Supervisory Board members are required to be independent experts, which is in accordance with the New Commitments requiring the Republic of Slovenia to allocate all of the seats and voting rights on the supervisory board and its committees to independent experts (and requiring the Republic of Slovenia has to ensure compliance with such Commitment). Persons are considered independent experts for the purpose of such provision of the New Commitments if they:

(i) are neither currently employed nor have been employed 24 months prior to their appointment by SSH, state authority, public agency, public fund, public-law institution or public-law economic institution, whose founder is the Republic of Slovenia,

(ii) are neither currently employed nor have been employed 24 months prior to their appointment by any other public entity, which is indirect user of the budget, or by any entity in which the Republic of Slovenia, SSH or Kapitalska družba pokojninskega in invalidskega zavarovanja d.d. has a dominant influence over its operations as defined in the Companies Act (Official Gazette of the Republic of Slovenia No 65/09 – official consolidated text and subsequent amendments);

(iii) do not currently hold nor have held 24 months prior to their appointment a leadership or managing function within a Slovenian political party.

In addition, the Selling Shareholder and the Company entered into a shareholder relationship agreement pursuant to which the Selling Shareholder assumed the obligation to refrain from nominating more than three candidates for the Supervisory Board members for as long as it holds 25 per cent. of the share capital of the Company plus one Share, or more than four candidates when it holds more than 25 per cent. of the share capital of the Company plus one Share, but not more than 49 per cent. The agreement enters into force with the first day of trading of the Shares of the Company on the Standard market or the Prime market of the LJSE and terminates in the event that the shareholding of the Selling Shareholder falls below 25% of the share capital of the Company.

Unless otherwise provided by the resolution on Supervisory Board members' appointment, the term of a Supervisory Board member starts on the date of his/her appointment and expires upon closing of the General Meeting deciding on the application of distributable profit for the 4th year following the appointment.

The table below sets out the members of the Supervisory Board of NLB as at the date of the Prospectus.

Name,	Age	Position	Date Appointed
Primož Karpe	48	Chairman of the Supervisory Board	10 February 2016
Andreas Klingen	54	Deputy Chairman of the Supervisory Board	22 June 2015
David Eric Simon	70	Member of the Supervisory Board	4 August 2016
Peter Groznik, PhD	45	Member of the Supervisory Board	8 September 2017
Vida Šeme Hočevar	51	Member of the Supervisory Board	8 September 2017
Simona Kozjek	43	Member of the Supervisory Board	8 September 2017
Alexander Bayr	58	Member of the Supervisory Board	4 August 2016
László Urbán, PhD	59	Member of the Supervisory Board	10 February 2016

In their capacity as members of the Supervisory Board, the members of the Supervisory Board primarily perform their duties at the Company's registered office.

The Supervisory Board meets, as a general rule, at least at the end of each quarter.

Mr. Primož Karpe

Mr. Karpe joined the Supervisory Board in February 2016 and has been the Chairman of the Supervisory Board since April 2016.

Prior to joining the Supervisory Board in his present role, he served as a member of the Supervisory Board in Gorenjska banka (Republic of Slovenia) until February 2016.

From July 2010 onwards, he has been a partner in Blue Sea Capital, a private equity buyout fund (a regionally focused private investor fund incorporated as a limited liability partnership in Luxemburg). As of mid-2015 he has assumed a passive LP (investor) role in the fund and also runs his own company, Angler Ltd.

Prior to Blue Sea Capital, he worked in the TMT sector as Head of Business Development of Telekom Slovenia Group and as a founding partner of Vafer, a specialised TMT advisory firm. He also led the M&A arm of Publikum, a local investment boutique company from the Republic of Slovenia. He started his career as a banker at SKB bank, where he became Director of the Asset and Liability Department, before later joining the dot.com start-up company EON (owned by a private equity fund), which subsequently merged with Telemach (today a full-scale Telco operator and part of SBB Group).

Mr. Karpe received his Master of Science (BA, Concentration Finance) degree from San Diego State University. He graduated from the Faculty of Economics at the University of Ljubljana, where he specialised in finance.

Mr. Andreas Klingen

Mr. Klingen joined the Supervisory Board in June 2015 and is a member of the Supervisory Board. In April 2017, he assumed the position of Deputy Chairman of the Supervisory Board.

He has wide experience in the field of finance, corporate and investment banking and strategic management, as well as privatisations of banks and restructuring in the financial sector. Currently, he works as an independent banking adviser. From 2010 to 2013, he performed various functions in PC Erste Bank, Kiev, including deputy CEO and CFO. Between 2005 and 2010 he was head of strategic development of the group in Erste Group Bank AG, Vienna, and was Senior Vice President in JPMorgan's investment banking division in London between 1998 and 2005.

Since 2005, Mr. Klingen has been a member of supervisory bodies in several banks in Central and Southeastern Europe, Russia and Central Asia. He is currently a member of the Board of Directors of Komercijalna banka Beograd a.d. and a member of the Supervisory Board of Credit Bank of Moscow and of Kyrgyz Investment and Credit Bank.

Mr. Klingen holds an MBA from Rotterdam School of Management and a Master of Science in Physics from Technische Universität in Berlin.

Mr. David Eric Simon

Mr. Simon joined the Supervisory Board in August 2016 as a member of the Supervisory Board.

Mr. Simon's work experience includes financial restructuring services (CSOB, Prague) and independent banking advisory services (Morgan Grenfell & Co, PwC). He has held managerial functions in American Express Bank, Byblos Bank and Tijari Finance Limited, the London subsidiary of Commercial Bank of Kuwait, and worked as an independent banking consultant cooperating with USAID and EBRD with regard to the development of the banking system in Central and Eastern Europe. He currently holds the function of Chairman of the Supervisory Board of Jihlavan a.s. and is also a Member of the Supervisory Board of Central Europe Industry Partners a.s.

Mr. Simon holds a Diploma in Business Studies from the City of London College.

Mr. Alexander Bayr

Mr. Bayr joined the Supervisory Board in August 2016 as a member of the Supervisory Board.

He has long standing experience in trade and banking sectors. He currently works as Sales Director at BAWAG in Vienna. He has held several functions during his career, particularly executive functions at various banks in several European countries (Slovakia, Austria and the Republic of Slovenia). He was the President of BAWAG banka d.d. in the Republic of Slovenia and a member of the Management Board of the Slovak-Austrian Chamber of Commerce.

Mr. Bayr holds a Master's Degree in Social Sciences, Economics and Business Administration from the University of Innsbruck.

Mr. László Urbán

Mr. Urbán joined the Supervisory Board in February 2016 and is a member of the Supervisory Board.

Mr. Urbán has a broad range of experience in the international banking sector and has served in various management roles. From 2010 to 2011 he has been a member of the Supervisory Board at the EBRD. In addition Mr. Urbán served as the CFO and a member of the Board of Directors at OTP Bank between 2007 and 2009. He has also held the position of Director of the General Secretariat at National Bank of Hungary and from 2000 to 2005 he served as Vice President and Director for Business Planning at Citigroup in New York. He has a broad range of experience in Hungary, having acted as deputy CEO and a member of the Board of Directors at Postalbank, and Director of Planning and Chief Economist at ABN-AMRO Bank.

Mr. Urbán completed an Advanced Management Program at Harvard Business School and holds a University Doctorate and a Master of Arts from the Budapest University of Economics.

Mr. Peter Groznik

Mr. Groznik joined the Supervisory Board in September 2017 as a member of the Supervisory Board.

Mr. Groznik has a broad range of managerial experience. He is a principal at NorthGrant, Ltd, a financial advisory company he established in 2010. He has served as the CFO of Gorenje, a large industrial and publicly listed company, and has also held positions within KD Group, including the head of asset management and the CEO of KD Funds. Mr. Groznik has served as a supervisory board member of several companies including Telekom Slovenia (2007) and Lasko and Union Brewery (2010 - 2015).

Mr. Groznik holds a PhD in Finance, from the Kelley School of Business, Indiana University (2003).

Ms. Vida Šeme Hočevar

Ms. Šeme Hočevar joined the Supervisory Board in September 2017 as a member of the Supervisory Board.

She holds a J.S.D. and is an internationally acclaimed AML/CFT expert, lecturer and evaluator, who held various management positions, connected to banking and finance, among which also the position of Secretary General in the Central Bank of Slovenia (2006-2017), and worked for various international financial organizations (such as the IMF (stationed in Washington D.C. 2003-2004), the World Bank, the European Central Bank, the United Nations Office on Drugs and Crime, the Council of Europe, the European Investment Bank, the European Bank for Reconstruction and Development, the Egmont Group, the Financial Action Task Force). She is currently an Authorised Officer of the Board at Skupna pokojninska družba d.d., Ljubljana, and a member of the Key Issues Group at the Slovene Insurance

Agency. She also worked at the Ministry of Finance as a Member of the Management in the Office for Money Laundering Prevention (2004-2006), and Counsellor to the Government, Head of Prevention and Supervision Department (1997-2003). Before that, she was a Counsellor to the Minister for international issues in Tax Department and a Senior Adviser in International Relations Department. She started her career as a lawyer at Entrepreneurship Innovation Center, Ljubljana.

Ms. Simona Kozjek

Ms. Kozjek joined the Supervisory Board in September 2017 as a member of the Supervisory Board.

She has more than 15 years of experiences in financial industry, especially in insurance business. She has held several functions in Triglav Insurance company. She currently works as President of Management Board of Nama. She has been a member of Supervisory Board in several companies in Slovenia (Triglav Asset Management Company, Triglav Financial Company, Nama, Avrigo).

Ms. Kozjek holds a Master of Science Degree in Economics from the University of Ljubljana. She is also a Certified Business Appraisal.

Committees of the Supervisory Board

The Supervisory Board appoints committees that prepare proposals for resolutions of the Supervisory Board, ensure implementation of such resolutions and perform other expert tasks. The NLB Supervisory Board has four operational committees.

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

Composition of the Committee is as follows: David E. Simon (Chairman), Alexander Bayr (Deputy Chairman), Primož Karpe, and Vida Šeme Hočevar (members).

Risk Committee monitors and drafts resolutions for the Supervisory Board in all areas of risk relevant to NLB's operations. It consults on the current and future risk appetite and the risk management strategy and it helps conduct control over senior management as regards implementation of the risk management strategy.

Composition of the Committee is as follows: Andreas Klingen (Chairman), László Urbán (Deputy Chair), Simona Kozjek, Peter Groznik and David E. Simon (members).

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

Composition of the Committee is as follows: Primož Karpe (Chairman), Andreas Klingen (Deputy Chairman), Alexander Bayr, Vida Šeme Hočevar and Peter Groznik (members).

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

Composition of the Committee is as follows: Vida Šeme Hočevar (Chairwoman), Simona Kozjek (Deputy Chairwoman), Primož Karpe, and László Urbán (members).

Management Board

The Management Board represents and acts independently and at its own discretion and accountability, on behalf of the Company as provided for by law and the *Statut*. In accordance with the *Statut*, the Supervisory Board may appoint (and recall) three to six members (a president and up to five members) to the Management Board. The president and the members of the Management Board are appointed by the Supervisory Board for a term of five years.

The Supervisory Board may also recall the president and the members of the Management Board. The selection is based on relevant legal requirements, but also on internal policies and the recommended national and European guidelines and best practices. Every member has to fit the professional profile prepared before the selection procedure.

The President of the Management Board, Blaž Brodnjak, whose term as a member began on 1 December 2012 (and who was appointed president of the Management Board on 4 July 2016), was joined by Management Board members Archibald Kremser (effective 31 July 2013 and appointed for a new term on 4 July 2016), Andreas Burkhardt (effective 18 September 2013 and appointed for a new term on 4 July 2016) and László Pelle (appointed 4 July 2016 and effective 26 October 2016).

The table below sets out the members of the Management Board of NLB as at the date of the Prospectus.

Name	Age	Position	Date Appointed
Blaž Brodnjak	44	President & CEO	4 July 2016 (new term)
Archibald Kremser..............................	47	Member of the Management Board	4 July 2016 (new term)
Andreas Burkhardt..............................	47	Member of the Management Board	4 July 2016 (new term)
László Pelle...	51	Member of the Management Board	26 October 2016

Mr. Blaž Brodnjak

Mr. Brodnjak joined NLB in December 2012 as a member of the Management Board with responsibility for Corporate Banking (Chief Marketing Officer). Since 5 February 2016, Mr. Brodnjak has assumed certain responsibilities of the President of the Management Board. On 4 July 2016 he was appointed as President of the Management Board and CEO. Until the end of November 2012, Mr. Brodnjak was Head of Group Corporate and Public Finance Division in the Hypo Alpe-Adria Group in Klagenfurt, a position he held for two years. Before that he was a proxy of the Management Board of Zavarovalnica Triglav for more than a year and before that he acted as a Management Board member at BAWAG banka d.d. for four years.

From March 2004 to 2005, Mr. Brodnjak was Head of the Corporate Sales Division at Raiffeisen Banka d.d. and between October 2001 and February 2003 he was in charge of the Corporate Sales Division at the then Bank Austria Creditanstalt d.d. (now Unicredit bank d.d.). He started his business career in 1998, at Publikum.

In 2009, Mr. Brodnjak finished his MBA studies with honours at IEDC Bled School of Management and in 1998 he graduated from the University of Ljubljana, Faculty of Economics. In addition to his regular work, he has also acted as a Supervisory Board member for eleven banking, three insurance and one manufacturing companies.

Mr. Archibald Kremser

Mr. Kremser joined NLB in July 2013 as a member of the Management Board with responsibility for the financial area (Chief Financial Officer), including Accounting, Controlling, Financial Markets, Investment Banking and Securities Services, Global Real Estate Asset Management, Non-Core Equities and Subsidiaries, Accounts Administration and Payroll Management. On 4 July 2016, Mr. Kremser was reappointed for a five-year period.

Mr. Kremser started his career working for the international consulting companies Ernst & Young (Austria) and Bain & Company (Germany). He was mostly engaged with post-merger integration and performance improvement projects in Central and Eastern Europe for Austrian and CEE based banking groups. Between 2004 and 2009 he served as Director in charge of Corporate Development for Dexia-Kommunalkredit banking group based in Vienna.

During the financial crisis in course of which the Republic of Austria took over Kommunalkredit Austria Mr. Kremser was significantly involved with the restructuring of the bank and its subsidiaries. From 2011, he served as Deputy Director for Strategy and Corporate Governance managing the strategic repositioning of Kommunalkredit Austria to an advisory based business model and preparing the bank for privatisation.

He graduated from the Technical University in Vienna and received an MBA from INSEAD in France, where he specialised in the management of banks and business finance.

Mr. Andreas Burkhardt

Mr. Burkhardt joined NLB in September 2013 and is a member of the Management Board with responsibility for risk management (Chief Risk Officer). On 4 July 2016, Mr. Burkhardt was reappointed for a five-year period.

Prior to joining the NLB Group, Mr. Burkhardt was the executive head of risk management for Volksbank Hungary and had a special focus on upgrading and streamlining the restructuring and workout activities of the bank. Before that he worked for a year and a half with Volksbank Romania as a member of the Management Board competent in the area of finance, as well as for restructuring and workout activities. From 2003 until 2009, he served as a member of the Management Board of Volksbank BH, Sarajevo in charge of the financial sector and risk (holding the positions of Chief Financial Officer and Chief Risk Officer).

Mr. Burkhardt graduated from the University of Augsburg in Germany, School of Business Administration and Economics (*Diplom-Kaufmann*) in 1998, where he completed his specialisation in the field of accounting and management, and completed his MBA studies at the University of Dayton in the United States.

Mr. László Pelle

Mr. Pelle was appointed as COO in July 2016 and started to perform his function on 26 October 2016.

Prior to joining NLB, Mr. Pelle served at Erste Bank, the second-largest universal bank in Hungary, where he was the Chief Operating Officer for the last six years. He has many years' experience in banking, design and streamlining of processes, and simplification of core banking products. He has also worked on IT system centralisation, integration and harmonisation, as well as on the establishment of new technological platforms customised to business needs and challenges. Previously, Mr. Pelle gained experience in these fields at HSBC CEE, Czech Republic, and Citibank in Hungary, Singapore and Poland.

Mr. Pelle holds an M.Sc. in electrical engineering from the Technical University of Budapest.

Collective decision-making bodies

Different committees, boards and working bodies are appointed by the Management Board of NLB for the execution of individual tasks within the powers of the Management Board of NLB.

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

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

The **Corporate Credit Sub-Committee** determines credit ratings and makes decisions on the reclassification of clients and approves commercial banking investment transactions and limits that exceed the competences of B-1 level directors. The Corporate Credit Sub-Committee adopts decisions in the scope of NLB's investment policy and business plan, as well as statutory powers in corporate operations of NLB (all companies, and financial institutions) and operations with the clients in restructuring and non-performing loans.

Generally, the Corporate Credit Sub-Committee meetings are convened once a week. The Corporate Credit Sub-Committee has four members and its Chairman is the member of the Management Board responsible for the area of risk (CRO).

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

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

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

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

The **Sales Board** adopts decisions on the management of the range of products and services and the relations with the clients in the area of sales. Generally, Sales Board meetings are convened once a week. The Sales Board has 10 members and its Chairman is the member of the Management Board responsible for Retail and Private Banking and Corporate Banking (CMO).

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

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

Advisory bodies of NLB's Management Board

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

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

To perform individual tasks of the Management Board appointed a working body that operates at the B-1 level, namely:

- The Committee for new and existing products
- The Group Real Estate Asset Management Sub Committee.
- The Enterprise Architecture Committee
- The Data Governance Council
- The Anti - Money Laundering Commission

Positions held by the Members of the Management Board and Supervisory Board

In addition to their positions in the Company and its subsidiaries, the members of the Management Board and Supervisory Board hold, or have held in the past five years, management or supervisory positions and partnerships in the following entities:

Name	Entity	Currently held (Yes/No)
Blaž Brodnjak	Hypo Alpe-Adria-Bank International AG	No
	Zavarovalnica Triglav, d.d.	No
Archibald Kremser	Kommunalkredit Austria AG	No
	Kommunalkredit Vermögensverwaltung GmbH	No
	Kommunalkredit Beteiligungs-und Immobilien GmbH	No
Andreas Burkhardt	Volksbank Romania	No
László Pelle	Erste Bank Hungary Zrt.	No
	Data Busz Ktf, tourism	Yes
Primož Karpe	Angler d.o.o., Koprivnica, Croatia	Yes
	Blue Sea Capital SCSp (LUX/Zagreb)	Yes
	Gorenjska banka d.d., Kranj	No
	Telekom Slovenia Group/Mobitel d.d.	No
Andreas Klingen	Kyrgyz Investment and Credit Bank	Yes
	Credit Bank of Moscow	Yes
	Komercijalna Banka Beograd a.d.	Yes
Alexander Bayr	BAWAG, Vienna	Yes
	BAWAG banka d.d. Slovenia	No
	WKBG Bank Austria	Yes
	Slovak-Austrian Chamber of Commerce	No
David Eric Simon	Czech Export Bank a.s.	No
	Central Europe Industry Partners	Yes
	CEIP Invest s.r.o.	Yes
	Czech Aerospace Industries s.r.o.	Yes
	Jihlavan a.s.	Yes
	PwC, Prague	No
	Ceskoslovenska Obchodni Banka a.s.	No

Name	Entity	Currently held (Yes/No)
László Urbán	Allegro Ltd	No
	EBRD	No
Peter Groznik	NorthGrant Consulting	Yes
	Gorenje d.d.	No
	Pivovarna Laško d.d.	No
Vida Šeme Hočevar.................	Skupna pokojninska družba	Yes
	Bank of Slovenia	No
	Slovene Insurance Association	Yes
Simona Kozjek	Nama d.d.	Yes
	Zavarovalnica Triglav, d.d.	No
	Triglav skladi d.o.o.	No

Remuneration of Members of the Supervisory Boards and the Management Board

Members of the Supervisory Board

In June 2015, the General Meeting of Shareholders approved the session fee for each member of the Supervisory Board and members of the Committees in the amounts as follows:

- Supervisory Board members receive a session fee of EUR 275 gross for attendance at each session;
- Supervisory Board Committee members receive a session fee of 80 per cent. of the session fee for attendance at a particular committee session; and
- Session fee for a correspondence session is 80 per cent. of the session fee for attendance at a Supervisory Board session.

An individual Supervisory Board member is entitled to receive session fees up to a maximum amount of 50 per cent. of the base payment for performance of a Supervisory Board member function per year (EUR 7,500), depending on such member's attendance rate. An individual Supervisory Board member who is a member of a Committee or Committees is, regardless of the number of Supervisory Board and Committee sessions attended in an individual year, entitled to disbursement of session fees up to the maximum amount of 75 per cent. of the base payment for performance of a Supervisory Board member function (EUR 11,250).

Apart from session fees, every Supervisory Board member receives the base payment for performance of the function in the amount of EUR 15,000 gross per annum. The Chairman of the Supervisory Board is entitled to an extra payment in the amount of 50 per cent. of the base payment for performance of a Supervisory Board member function (EUR 7,500). The Vice President/deputy of the Supervisory Board Chairman is entitled to an extra payment of 10 per cent. of the base payment for performance of a Supervisory Board member function (EUR 1,500). Members of a Supervisory Board Committee receive an extra payment for performance of their function, which amounts to 25 per cent. of the base payment for performance of a Supervisory Board member function for an individual Committee member (EUR 3,750) for each Committee. The Committee Chairman is also entitled to an extra payment for performance of the function in the amount of 50 per cent. of the base payment for performance of the Supervisory Board member function (EUR 7,500) for each Committee.

Members of the Supervisory Board and Supervisory Board Committees receive a base payment and extra payment for performance of their function in proportionate monthly payments that they are entitled to as long as they perform the function.

Payments to individual members of the Supervisory Board in 2017 can be seen from the table below:

Member	**Payment to perform the function**	**Attendance** fees	**Reimbursement of expenses**
		(EUR)	
Primož Karpe	37,661	6,270	5,796
Laszlo Zoltan Urban	21,149	5,610	6,276
Uroš Ivanc	7,073	2,310	44
Sergeja Slapničar	6,117	1,430	345
Andreas Klingen	28,858	5,335	10,356
Alexander Bayr	21,490	5,830	10,206
David Eric Simon	27,092	6,490	16,916
Matjaž Titan	6,937	2,805	44
David Kastelic	15,500	4,015	0
Simona Kozjek	6,483	1,155	0
Vida Šeme Hočevar	8,257	1,595	151
Peter Groznik	6,483	1,375	90

In 2017, the aggregate remuneration of the members of the Supervisory Board was EUR 287,544.08.

Members of the Management Board

The remuneration of members of the Management Board consists of a fixed monthly salary, bonuses and other benefits and cost refunds. In 2017, the aggregate amount of remuneration and other benefits paid by the Company to the entire Management Board was EUR 706,752.77.

The remuneration of the members of the Management Board is limited by the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities ("**ZPPOGD**"). As a result of the limitations imposed by ZPPOGD, the remuneration of the members of the Management Board as currently in place is not in accordance with market standards. In order to mitigate the related operational risk and to ensure a stable Management Board, the employment contracts of the members of the Management Board contain a stipulation that, after it becomes permissible in accordance with the relevant legislation that the salary and/or performance bonus is increased (i.e. after ZPPOGD ceases to apply to their remuneration, which will happen when the Republic of Slovenia ceases to hold, directly or indirectly, a majority ownership share in NLB), the salary and bonus arrangements shall be reviewed immediately and adjusted in line with international commercial best practice.

In line with the ZBan-2, the prescribed policies on remuneration of certain employees are based on the CRD IV Directive and are in some aspects stricter than the EBA guidelines on prudent remuneration policies. The ZBan-2 stipulates that the variable remuneration of each individual may not exceed 100% of the fixed remuneration of such individual. Pursuant to Item 7 of the first paragraph of Article 170 of the ZBan-2, at least 50% of the variable part of the remuneration of each individual should be composed of ordinary or preference shares of the bank, or of instruments related to shares or equal non-cash instruments when the bank's shares are not listed on the regulated market; the person obtaining the shares or instruments may only transfer them upon the bank's approval which may only be issued after at least two years of the obtaining. Pursuant to Item 8 of the first paragraph of Article 170 of the ZBan-2, NLB must defer a considerable share, but no less than 40% of the variable part of remuneration of each individual, for a period of three to five years.

On 22 November 2016, the Bank of Slovenia issued the Guidelines in relation to the application of the principle of proportionality when implementing the remuneration policies ("Guidelines regarding remuneration"). It is indicated therein that, considering the general economic situation, especially in the banking system, it is possible to conclude that total variable parts of renumeration of an employee which do not exceed EUR 50,000.00 gross in a year, are not variable part of the remuneration for the purposes of Items 7 and 8 of the first paragraphs of Article 170 of ZBan-2 (as indicated above).

NLB included in its remuneration policy the threshold which the Bank of Slovenia laid down in the Guidelines regarding remuneration, in relation to Item 7 of the first paragraph of Article 170 of the ZBan-2. NLB did not include in its remuneration policy the same threshold in relation to Item 8 of the first paragraph of Article 170 of the ZBan-2.

For now, no Management Board member's variable remuneration exceeded the threshold, specified in the Guidelines regarding remuneration which is why their variable remuneration has never been paid out in instruments. Should in the future the variable remuneration of any individual exceed the threshold set in the Guidelines regarding remuneration (and the NLB Shares are not listed on the regulated market), the NLB has prepared an instrument (in the form of an agreement) that can be used (at the Bank and the Group level) for the payment of variable remuneration, if so stipulated by the regulations. The goal was to create an instrument the value of which would move similarly as the value of the NLB Share at the same time ensuring prudent and effective risk management (valuation of the draft instrument is associated with the theoretical value of the NLB Share determined using the regression valuation method for comparable banks).

In line with the employment contracts, in case of early termination of the employment contract "for other business and economic reasons", a member of the Management Board of NLB is entitled to the payment of the amount equalling gross salary amount payable in the month prior to termination, multiplied by six (provided that this multiplier is increased to 12 on the day such amendment is permitted by the legislation of the Republic of Slovenia), as compensation for early termination of the term of office. The Member of the Management Board shall not be entitled to compensation for early termination of the term of office if he is employed in the NLB or the NLB Group after the termination of the term of office.

In line with the Slovenian legislation, the employees or the lower management are employed for indefinite period of time. The representatives of the senior and middle management have terms of office for specific positions limited to up to five years.

If the term of office of a member of the Management Board expires at the end of the specified term of office period, such member is not entitled to the severance payment.

Upon retirement, employees with service contracts, which includes the members of the Management Board, receive a severance pay of two to three times the average monthly salary pursuant to the Collective Agreement for Banking Activity of Slovenia. An employee who retires on the day when the minimum retirement conditions are fulfilled shall be entitled to severance pay in the amount of three average monthly salaries in the Republic of Slovenia or three average monthly salaries of the employee, whichever is more favourable for the employee. An employee who retires later shall be entitled to severance pay in the amount of two average monthly salaries in the Republic of Slovenia or two average monthly salaries of the employee, whichever is more favourable for the employee.

Payments to individual members of the Supervisory Board in 2017 can be seen from the table below:

Member	Gross salary and holiday allowance	Variable part of payments	Benefits and other short-term bonuses	Cost refunds	Other benefits
			(*EUR*)		
Blaž Brodnjak	140,565	20,447	2,349	1,193	1,409
Archibald Kremser	140,565	20,447	18,753	1,132	1,409
Andreas P. Burkhardt	140,565	20,447	20,372	1,077	1,409
László Pelle	140,565	2,036	29,379	1,224	1,409

Intention of Members of the Management Board and the Supervisory Board to subscribe in the Offering

As far as the Company is aware, as at the date of this Prospectus the Members of the Management Board and the Supervisory Board are considering to subscribe for securities in the Offering as shown in the table below:

Member of Supervisory Board	Shares / GDR	Intended amount (EUR)
Primož Karpe	Shares	35,000 – 40,000
Andreas Klingen	Shares	20,000 – 25,000
Alexander Bayr	Shares	10,000
David E. Simon	Shares	25,000
László Urban	Shares	10,000 – 20,000
Peter Groznik*	Shares	20,000
Simona Kozjek	Shares	10,000
Member of Management Board		
Blaž Brodnjak	Shares	75,000
Archibald Kremser	Shares	10,000
Andreas P. Burkhardt	Shares	10,000
László Pelle	Shares	10,000

* subscribing through a 100% owned company

As at date of this Prospectus, there is no agreement or commitment in respect of intended subscriptions of Securities in the Offering and there is no assurance that such subscriptions would be made or if made, that they would be in the size and value described herein.

Litigation Statement relating to the Members of the Management Board and the Supervisory Board

Based on the NLB Group's best knowledge and after due inquiry, as of the date of this Prospectus, there is no ongoing litigation against any current members of the Management Board or Supervisory Board of the Company directly linked with their activity in the Company having a significant impact upon the price of the Company's Shares or the capacity of such members to serve as part of such corporate bodies.

At the date of this Prospectus, none of the members of the Supervisory Board or the Management Board, for the previous five years:

- has had any convictions in relation to fraudulent offences; nor
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation; nor
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Conflicts of Interest

Save as disclosed in this paragraph, none of the members of the Management Board or the Supervisory Board has conflicts of interests between their duties to the Company and their private interests or other duties, except by four members of the Supervisory Board. As disclosed under this chapter (see individual Members description) several Members of the Supervisory Board hold either executive or non-executive functions in other companies. Potential conflicts of interest have been identified in relation to the function of Andreas Klingen as a member of Board of Directors of Komercijalna banka Beograd a.d., and in relation to the function of Alexander Bayr as the Director of Corporate and Real Estate at BAWAG P.S.K., Vienna, and in relation to the function of Vida Šeme Hočevar at Skupna pokojninska družba d.d., Ljubljana, and in relation to the function of Simona Kozjek as the president of the Management Board of the Nama d.d., Ljubljana, and her previously held functions in Triglav Insurance company (Zavarovalnica Triglav d.d., Ljubljana). These potential conflicts of interests are managed as follows.

The Supervisory Board's rules of procedures and approach to conflicts of interest and self-dealings are governed by relevant banking regulations as well as internal acts. As required by the Companies Act, none of the Supervisory Board members holds an executive position in NLB.

The members of the Management Board have the duty to disclose immediately to the Supervisory Board any material personal interests they may have in transactions of the Company as well as all other conflicts of interest. Furthermore, they have the duty to notify other Management Board members of such interests forthwith. All business transactions between the Company and the Management Board members as well as persons or companies closely related to them must be in accordance with normal corporate governance standards and applicable corporate regulations. Such business transactions as well as their terms and conditions require the prior approval of the Supervisory Board. In addition to their positions in the Company, members of the Management Board hold positions within various of the NLB Group's subsidiaries, and the Company applies internal rules to prevent conflicts of interest.

Directors and Management Liability Insurance Policies

Currently, the Company has in place liability insurance policies/contracts for members of the Management Board and members of the Supervisory Board, among other senior members of management.

11.2 CORPORATE GOVERNANCE

Pursuant to the fifth paragraph of Article 70 of the Companies Act, NLB gave the following Corporate Governance Statement as a part of the Business Report of the Annual Report 2017.

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

In view of the fact that in May 2016 a Corporate Governance Code for Unlisted Companies was adopted for the first time, unlisted companies (i.e. those whose securities are not admitted to trading on a regulated securities exchange market) should endeavor to observe the recommendations of the code and disclose reasons for deviations in Corporate Governance Statement. Since NLB has been using Corporate Governance Code for Listed companies for the last decade, the Management Board and the Supervisory Board in December 2017 adopted revised version of the Policy on Corporate Governance of NLB, with which NLB adopted a decision to follow Corporate Governance Code for Listed Companies also in the future. By doing so NLB wants to ensure greater transparency and better comparability of compliance with recommendations.

In further developing a transparent, clear and successful corporate governance system, during 2017 NLB endeavored, as far as practicable, to comply with the regulatory provisions and the highest standards of responsible and refined corporate governance system as laid down by the above mentioned code, thus further increasing the confidence of investors, customers, creditors and employees of the bank.

In addition, as a company in which the Republic of Slovenia holds an equity investment, NLB also complied with the Corporate Governance Code for Companies with a State Capital Investment.

The purpose of the code is to determine the standards of governance and supervision in state owned companies and ensure that such companies develop transparent and comprehensive corporate governance system, with objective to ensure successful and long-term growth of their assets. The code was partially revised in May 2017, not only to reflect changes in the relevant regulation of the Republic of Slovenia, but also to take into consideration practical experience gained during the years.

In view of the need to regulate certain specific issues related to corporate governance that are not covered by the legal framework applicable to the management of state assets, SSH issued also Recommendations and Expectations of the SSH. Revised version of the document was adopted by SSH in May 2017.

NLB operates in accordance with the following recommended standards, where deviations from the standards listed below are defined in the chapter "*The corporate governance of NLB deviates from the following provisions*":

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

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

- Recommendations and Expectations of the Slovenian Sovereign Holding (adopted in May 2017, available on the website http://www.sdh.si).

Furthermore, NLB complied in its governance system with the commitments made by the Republic of Slovenia to the EC with respect to the state aid given to NLB in December 2013, in part relating to corporate governance. Public version of the entire Catalogue of Commitments dated 18 December 2013 is available on the website of the EC's website http://ec.europa.eu/competition/state_aid/cases/245268/245268_1518816_267_7.pdf) and amendment to the restructuring decision of NLB dated 11 May 2017 is available on the http://ec.europa.eu/competition/state_aid/cases/269184/269184_1911771_145_2.pdf.

Corporate governance of NLB is also defined by the *Statut* (adopted by the General Meeting on 7 April 2017) and Corporate Governance Policy of NLB (adopted in version 3, November 2017). Corporate governance of the NLB Group in 2017 NLB and NLB Group members is regulated by the Corporate Governance Policy of the NLB Group (revised in November 2017). In subsidiaries of the NLB Group, the principles and recommendations of both mentioned codes are followed through the Corporate Governance Policy of the NLB Group (minimum standards by particular business area), also respecting the local legislation and regulatory requirements as well as the principle of proportionality (e.g. the organizational possibilities in the companies.

The Corporate Governance system is explained on the NLB website (http:// www.nlb.si/corporate-governance). The documents referred to in this paragraph are published there.

2. THE CORPORATE GOVERNANCE OF NLB DEVIATES FROM THE FOLLOWING PROVISIONS:

NLB generally aims to follow the recommendations of the aforementioned codes and recommendations. As at 31 December 2017, particular deviations from these codes and recommendations are explained below, with the underlying reasoning for certain of these.

(A) Corporate Governance Code for Listed Companies

Recommendation no. 4.3: The Diversity Policy does not set out the ways of implementation of set objectives, as well as the effects on the human resources procedures and other processes of the company.

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

Recommendation no. 8.7: The remuneration of the Management Board members complies with the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities, and the Regulation on Setting the Highest Correlation of Basic Payments and the Rate of Variable Remuneration of Directors. The remuneration of Management Board members has been subject to restriction arising from Decision of the EC on State Aid No. SA.33229 (2012/C) (ex2011/N) – Restructuring of NLB – Slovenia (which Slovenia is planning to implement for NLB), and has been regulated in accordance with the mentioned commitments.

The management Remuneration Policy follows Companies Act (ZGD-1) and the provisions of this Code. Regarding specification of the highest share of remuneration given as shares, stock options and other types of financial instruments (last indent of this recommendation), along with any restrictions of such remuneration the Remuneration Policy also follows the Guidelines of the Bank of Slovenia dated 22 November 2016 concerning the application of the principle of proportionality in the implementation of remuneration policies. In our opinion restrictions on executive payments are unjustifiable.

Recommendation no 9.3: Pursuant to the provisions of the fifth paragraph of Article 49 of the Banking Act (ZBan-2) and regardless of the provisions of the Companies Act (ZGD-1), only the members of the NLB Group's Supervisory Board can be the members of the committees (there are no exterior members of the Supervisory Board).

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

Recommendation no. 12.2: The Rules of procedure of the Supervisory Board to the NLB (April 2016) do not include the list of all types of transactions for which the Management Board needs prior approval of the Supervisory Board based on a Supervisory Board resolution and the *Statut*, as well as the system of outsourcing for purposes of the Supervisory Board and the Supervisory Board evaluation, education and training of the members of the Supervisory Board. Mentioned provisions are part of other internal documents or decisions of governing bodies.

Recommendation no. 12.3: Rules of procedure of the Supervisory Board do not include the scope of topics and timeframes to be respected by the Management Board in its periodic reporting of the Supervisory Board. However, professional services of the bank take care that timely information is provided to the Supervisory Board.

Recommendation no 12.4: The Supervisory Board will discuss and take a position on the workers' council's report on the status of workers' participation in management at one of the next session.

Recommendation no. 12.5: Material for regular sessions of the Supervisory Board is not provided through information technology but via mail.

Recommendation no. 12.9: Pursuant to the provisions of the fifth paragraph of Article 49 of the Banking Act (ZBan-2) and regardless of the provisions of the Companies Act (ZGD-1), only the members of the NLB Group's Supervisory Board can be the members of the committees (there are no exterior members of the Supervisory Board).

Recommendation no. 12.11: The Supervisory Board's Report presented to the General Meeting does not include the information to what extent the board's self-assessment has contributed to the improvement of Supervisory Board's performance.

Recommendation no. 14: Evaluation of the Supervisory Board will be performed in the following months. Recommendations No. 14.1. to 14.3 for the year 2017 are to be fulfilled in 2018.

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

Recommendation no. 16.2: The secretary of the Supervisory Board did not sign a separate statement in which she makes a commitment to protect the confidentiality of information on the same level as the members of the Supervisory Board. She has provisions on confidentiality included in her employment contract.

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

Recommendation no. 20.1: Drafting a proposal on the Management Board succession plan in 2017 was not necessary.

Recommendations no. 21 and 21.1. NLB deviates from the proposed provision in the Code because the Act Regulating the Incomes of Managers of Companies Owned by the Republic of

Slovenia and Municipalities restricts executive pay, which has posed a severe impediment to the winning over, and retaining of suitable staff. It results in a high level of operational risk and poses, in the NLB Group's opinion, one of the main obstacles to a suitable restructuring of Slovenian businesses (and state-owned enterprises). The NLB Group will continue to promote public discussion and the abolishment of restrictions.

Recommendation no. 20.4: NLB deviates from the proposed provision of the Code by not publishing in advance the dates of General Meetings. The method and rules of convocations of General Meetings are laid down by the *Statut*.

Recommendation no. 22.7: Contract with the board member does not disclose all elements from this item of the Code.

Recommendations no. 21.4 to 21.6: NLB does not provide for variable remuneration in the form of shares, nor do stock option plans and comparable financial instruments make up the majority of the variable remuneration of any member of the NLB Management Board. NLB complies with the Guidelines of the Bank of Slovenia dated 22 November 2016 concerning the application of the principle of proportionality in the implementation of remuneration policies.

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

Recommendation no. 29.7: NLB discloses the remuneration of each member of the Management Board and of the Supervisory Board broken down to all items that are contained in the tables in the Appendices C3 and C4 (except for Appendix C3, where NLB does not disclose columns on variable remuneration gross for the Management Board members).

Recommendation no. 29.9: NLB does not publish rules of procedure of its bodies (management and supervisory bodies and General Meeting) on its website.

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

Recommendation no. 5.1.1.: The recommendation is implemented in full in the part relating to operations. Nevertheless, we wish to point out the anomaly and the deprivileged position of NLB, since we believe that the Code recommendation on the arm's length conditions for NLB as for the other non-state-owned companies is not met, since NLB is subject to numerous limitations or additional obligations that do not apply to privately-owned companies (limited receipts of the management bodies and the obligation to report certain confidential information in accordance with the provisions of the Public Information Access Act (ZDIJZ-1)).

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

Recommendation no. 6.4.1: The Supervisory Board competence profile was not published on bank's web site. The sectorial composition envisaged by Article 21, Paragraph 2 of ZSDH-1 was probably envisaged by SSH.

Recommendation no. 6.6: In 2017, none of the members of the Supervisory Board of NLB in the previous composition (first part of the year 2017) declared themselves dependent. In statements of independence for the new composition of the Supervisory Board (elected on 8 September 2017) all members of the Supervisory Board of NLB declared themselves independent. Eventual conflicts of interest for two members of the Supervisory Board could arise due to their prior employments, but will be managed accordingly.

Recommendations no. 6.7 and 6.7.1: At the last election of the Supervisory Board members for the NLB Group's General Meeting (08/09/2017), the Supervisory Board of NLB explained that the bank, as a regulated credit institution, was subject to stricter requirements and rules for the proposal of candidates for the members of the Supervisory Board, in view of the fact that Article 35 of the Banking Act (ZBan-2) prescribed the Fit & Proper assessment of the candidates. Thus, in accordance with the banking legislation, the Nomination Committee of the Supervisory Board of NLB issued positive Fit & Proper assessments of the candidates, which comprises the assessment of all key candidate suitability criteria, and separately also a statement of potential conflict of interests and independence of the candidates, as confirmed by the Supervisory Board of NLB In line with the above, the Supervisory Board of NLB only included the data required by Article 297 a) of the ZGD-1 in the grounds of its proposals.

Recommendation no. 6.8.4: The Nomination Committee does not adopt a formal resolution to set the profiles of the sought members of the Supervisory Board; nevertheless, it takes into account the substance, using the criteria from the Code.

Recommendation no. 6.8.5: Taking also into account the explanation from the previous point, the Nomination Committee also strives to follow this recommendation while at the same time taking into account the selection path and the proposals submitted by SSH as the representative of the sole Shareholder of NLB.

Recommendation no. 6.9: Taking also into account the explanation from the previous point, the Nomination Committee also strives to follow this recommendation while at the same time taking into account the selection path and the proposals submitted by SSH as the representative of the Sole Shareholder of NLB.

Recommendations no. 6.12 to 6.12.3: Due to the fact that in 2017 considerable changes were made to the composition of the Supervisory Board, the assessment of the new composition of the Supervisory Board in the year 2017 was not done. The evaluation procedure of the Supervisory Board for 2017 is to be executed in 2018.

Recommendation no. 6.15.1: In 2017, the Chairman of the Supervisory Board is not the Chair of the Audit Committee but he is the Chair of the Nomination Committee.

Recommendation no. 7.2.1: NLB complies with the Recommendations for Reporting to Supervisory Boards (Slovene Directors' Association, 25/10/2011 and 10/03/2014) with some deviations from certain recommendations.

Recommendation no. 8.3: In the 2017 NLB Group Annual Report, NLB will disclose the income and other rights of the members of the Supervisory Board in accordance with Attachment 6 to the Code. When disclosing the members of the Management Board, the gross variable income is not disclosed. The remunerations of the members of the NLB Group are not published in the NLB Group's Annual Report.

Recommendation no. 8.5: NLB publishes on its public website the financial calendar that includes the publication of annual unaudited financial statements, the publication of the annual and semi-annual report and two interim reports. The Financial Calendar does not include the dates of the General Meetings and the dates of dividend payment, since these are set in line with the orientations issued by the owner SSH, as the representative of the Sole Shareholder: Financial calendar is published on: https://www.nlb.si/financial-calendar.

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

Recommendation no. 9.3.1: SSH is regularly informed of the risks and all open issues and proposals for their elimination via quarterly meetings of the Management Boards.

(C) Recommendations and Expectations of the Slovenian Sovereign Holding

NLB also takes a position on the adopted Recommendations and Expectations of SSH.

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

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

Recommendation no. 1.3: NLB tries to meet expectations in this recommendation in due time, taking into account the applicable legislation.

Recommendation no. 3.7: NLB has signed some flat-rate agreements with the outsourced contractors for various needs, following the agreed cost optimization and continuous reduction of the costs of outsourced providers.

NLB has 8 such contracts for legal services and 1 for medical services. A flat-rate contract is a contract signed with a lawyer setting a monthly payment for an unspecified scope of services; nevertheless, the lawyer is obliged to issue a monthly invoice (or a different period, if so agreed) together with a specification of services provided in such month or period, and potential surplus hours in line with the signed contract. The lawyers provide the services of legal consultancy in the area of operations with the NLB Group.

The NLB Group has also several contracts for the supply of hardware or software for which the main object of the contract is the supply of such equipment. In addition to payment for the equipment, monthly flat-rate payments for the maintenance of supplied equipment are agreed (e.g. payment includes work, all spare parts, bug fixes in the software, etc.) and, in certain cases, also for a smaller amount of additional development of the supplied software, according to the needs of the bank.

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

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

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

There are dozens of projects in the bank; one of them is the introduction of E2E ownership of processes and the maturity of processes. On the basis of the analysis, the project and phase 2 will be carried out on the basis of i.e. "Lean" process optimization". First 5 to 7 processes will be selected, later on all of them will be renewed.

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

Recommendation no. 6.3: At the moment, only the convocation is published on the NLB Group's website, while the grounds of proposals are sent to the Shareholder first by e-mail and also by a courier. Such specific method of informing the Shareholder is possible because NLB has only one Shareholder.

Recommendation no. 6.4: If the Sole Shareholder had any questions, NLB would not publish them, but the management would provide answers on the General Meeting.

Recommendation no. 6.6: NLB obtained a counterproposal at the April General Meeting but it was received on the day of the meeting and it was, therefore not published.

12. PRINCIPAL AND SELLING SHAREHOLDER

The Selling Shareholder is the Republic of Slovenia, offering the equivalent of no less than 10,000,001 (excluding the Overallotment Option) and up to 14,999,999 (including the Overallotment Option) Shares in the form of Shares and GDRs for sale, acting through its sovereign holding company, SSH.

There is only one class of Shares in the Company and all Shares rank equally. No Shareholder has different voting rights attached to the Shares to any other Shareholder. Following the Offering, the Selling Shareholder will continue to be the largest Shareholder of the Company and may have the ability to influence the outcome of matters presented to the Shareholders of NLB, including the early removal of the Supervisory Board members and approval of significant corporate transactions, including business consolidations and mergers.

The table below sets forth certain information regarding the ownership of Securities prior to the Offering, and Securities immediately following the Offering, assuming all Securities are sold in the Offering:

	Shares owned before the Offering		Shares owned after the Offering	
	(Number)	*%*	*(Number)*	*%*
Shareholder				
Republic of Slovenia	20,000,000	100	5,000,001 – 9,999,999	25.00005 – 49.999995
Total	**20,000,000**	**100**	**5,000,001 – 9,999,999**	**25.00005 – 49.999995**

13. RELATED PARTY TRANSACTIONS

The following is a summary of transactions with related parties as defined in IAS 24 "Related Parties Disclosure", in accordance with IFRS. For further details of these transactions, as of and for the years ended 31 December 2017, 2016 and 2015, see Note 8 of the 2017 Financial Statements and Note 9 of the 2016 and 2015 Financial Statements and as of and for the six months ended 30 June 2018, see Note 6 of the Interim Financial Statements. For more information on the related parties described in this section, see the section headed "6. Business".

For information on material transactions with related parties as defined in IAS 24 "Related Parties Disclosure", in accordance with IFRS, as of and for the periods ended 31 December 2017, 2016 and 2015, see Note 8 of the 2017 Financial Statements and Note 9 of the 2016 and 2015 Financial Statements and as of and for the six months ended 30 June 2018, see Note 6 of the Interim Financial Statements.

A related party is a person or entity that is related to the NLB Group in such a manner that it has control or joint control, has a significant influence, or is a member of the key management personnel of the reporting entity. Related parties of NLB and the NLB Group include key management personnel (Management Board, other key management personnel, and their family members), the Supervisory Board, companies in which members of the Management Board, key management personnel or their family members have control, joint control or a significant influence, the ultimate parent, subsidiaries, associates and joint ventures.

The NLB Group enters into a number of banking transactions with related parties in the normal course of business. The volume of related-party transactions and the outstanding balances in respect of significant transactions with related parties as at 31 December 2017 are disclosed in the Financial Statements. Other than the types of transactions described above, we have not entered into any further significant transactions with related parties since 30 June 2018.

14. MACROECONOMIC CONDITIONS AND THE BANKING SECTOR IN THE REPUBLIC OF SLOVENIA AND OTHER CORE MARKETS

14.1 Overview of the Slovenian Banking Sector

The banking sector in the Republic of Slovenia is one of the smallest within the Eurozone. In recent years, the sector has gone through a substantial consolidation as a result of the economic crisis and government bail-out programme. The following short overview of the Slovenian banking sector is limited in scope and is not intended to be exhaustive.

14.2 History and Development of the Slovenian Banking Sector

The Slovenian banking sector evolved from that of the SFRY and began in earnest when the Republic of Slovenia gained independence in 1991 and the Bank of Slovenia was established. At that time, there were 26 commercial banks and 14 savings banks operating in the Republic of Slovenia with the largest, Ljubljanska banka – Združena banka, accounting for 82 per cent. of the market share. Shortly after the Republic of Slovenia's independence, the banking system in the Republic of Slovenia exhibited a number of inefficiencies:

- due to the sudden break from the SFRY, Slovenian banks at the time were not able to meet all requests for withdrawals of deposits from clients, as the majority of funds were withheld by the SFRY central bank;
- a heritage of political interference in financing decisions from the previous political system left banks with a large volume of bad loans and overexposure to non-profitable companies; and
- due to high inflation, many existing loans reflected inappropriately high interest rates.

As such, the banking sector needed to adjust to a free market economy and a democratic political system, and the process of restructuring the banks commenced in the early 1990s. Newly created entities competed for customers across the country and the process of aligning to international banking standards began.

NLB was established under its current name in the form of a *delniška družba* in the Republic of Slovenia by the Constitutional Act in 1994. Pursuant to the Constitutional Act, NLB took over part of the assets, liabilities and operations of Ljubljanska banka d.d., Ljubljana. Article 22.b of the Constitutional Law provided, *inter alia*, for Ljubljanska banka to retain (and thus for NLB has not assumed):

- all joint and several contingent liabilities pursuant to the NFA and other potential liabilities arising from relationships with NBY and the SFRY where the debtors are located in republics of the SFRY other than the Republic of Slovenia;
- a corresponding part of the contingent claims arising from the contingent liabilities referred to above;
- all liabilities for foreign currency deposits in foreign currency accounts and foreign currency savings-books not guaranteed by the Republic of Slovenia pursuant to the provision of the Constitutional Act;
- all liabilities towards the NBY and liabilities to foreign creditors for which a guarantee was given by the SFRY where the funds' ultimate beneficiaries are located in the republics of the SFRY other than the Republic of Slovenia and any claims arising from such liabilities; and
- relationships with branches and the subsidiaries of Ljubljanska banka with their registered seat in countries of the SFRY other than the Republic of Slovenia, on the understanding that Ljubljanska banka also keeps an adequate share of the claims towards NBY arising from foreign currency savings deposits.

The number of registered banks in the Republic of Slovenia reached a peak in 1994 with 33 commercial banks. This competitive and dispersed banking sector, lacking in adequate supervision, led to the first banking crisis in 1996 when Komercialna banka Triglav failed. As a response to the competitive environment, Slovenian banks established banking groups, mostly on a basis of cooperation rather than consolidation, although eventually mergers between cooperating entities led to consolidation in the late 1990s.

New banking legislation was introduced in 1999, that allowed foreign banks to register their branches in the Republic of Slovenia. Foreign banks such as Hypo Alpe Adria bank made their entry into the Slovenian market. The number of domestic banks decreased over the following years, mostly due to M&A activity. Privatisation of the sector was very slow due to public and governmental reluctance to sell banks to foreign investors.

Following the accession of the Republic of Slovenia to the EU in 2004, Slovenian legislation became fully aligned with EU regulations. When the Republic of Slovenia adopted the euro as its new currency in 2007, monetary policy and supervision of the banking sector was transferred to the ECB.

Shortly after adopting the euro, the Republic of Slovenia was severely affected by the global financial crisis which resulted in two recessions from 2009-2010 and 2011-2013. Slovenian banks were left with a large proportion of bad loans and diminishing capital. The government enacted a number of measures and bailed out three of the largest banks in the Republic of Slovenia, taking full ownership of NLB, NKBM and Abanka in the process. A large portion of bad loans were transferred to the BAMC in 2013 in order to improve the capitalisation of the banking sector, provide liquidity, ease the credit crunch and encourage lending. Some of the smaller, privately-owned banks with a high proportion of bad loans (Probanka and Factor banka) were placed in liquidation by the relevant regulator, and later merged into the BAMC. As a result of the financial crisis, the Slovenian banking sector is experiencing a second consolidation. Banka Celje, a government owned bank, was merged into Abanka, also a government-owned bank and this created the second largest banking group in the country at the time of the merger. Soon afterwards in April 2016, the sale of NKBM to Apollo Global Management and EBRD was completed. Apollo also acquired assets from Raiffeisen which decided to exit the Slovenian market. Thus, NKBM merged with Poštna banka- in 2016 and a former Raiffeisen unit in 2017 to become the second largest banking group in the Republic of Slovenia.

14.3 Macroeconomic and banking environment in the Republic of Slovenia

For information on how the macroeconomic and banking environment in the Republic of Slovenia impacts the NLB Group, see "*2. Risk Factors—The NLB Group is subject to risks arising from the global macroeconomic environment*".

The following table shows the movement of key macroeconomic indicators in the Republic of Slovenia and the Economic and Monetary Union:

	2017	2016	2015	2014	2013	2012
Republic of Slovenia						
GDP (*real growth in per cent.*)	4.9	3.1	2.3	3.0	(1.1)	(2.7)
Average annual inflation rate – HICP (*in per cent.*)	1.6	(0.2)	(0.8)	0.4	1.9	2.8
Surveyed unemployment rate – LFS (*in per cent.*)	6.6	8.0	9.0	9.7	10.1	8.9
Current account of the balance of payments (*as per cent. of GDP*)	6.4	5.2	4.4	5.8	4.4	2.1
Public debt (*as per cent. of GDP*)	73.6	78.6	82.6	80.3	70.4	53.8
Budgetary deficit/surplus (*as per cent. of GDP*)	0	(1.9)	(2.9)	(5.5)	(14.7)	(4.0)
Economic and Monetary Union						
GDP (*real growth in per cent.*)	2.4	1.9	2.1	1.4	(0.2)	(0.9)
Average annual inflation rate – HICP (*in per cent.*)	1.5	0.2	0.0	0.4	1.3	2.5
Surveyed unemployment rate – LFS (*in per cent.*)	9.1	10.0	10.9	11.6	12.0	11.3
Current account of the balance of payments (*as per cent. of GDP*)	3.5	3.4	3.2	2.4	2.2	1.4
Public debt (*as per cent. of GDP*)	86.7	89.0	89.9	91.9	91.6	89.7
Budgetary deficit/surplus (*as per cent. of GDP*)	(0.9)	(1.5)	(2.0)	(2.5)	(3.0)	(3.7)

Sources: Eurostat, WB, ECB

Year ended 31 December 2015

2015 was characterised by divergence and strong market movements. Economic divergence continued between the developed economies of Europe, the United States and Japan as well as in the developing world. 2015 was marked by disinflationary pressures arising from falling investment and commodity demand in the emerging markets, as well as the battle for market share waged in energy markets, having a substantial impact on financial markets and the banking industry, thereby influencing central bank policy and interest rate developments. The slowdown of emerging economies, particularly China, together with the Greek credit crisis was the primary concern in 2015, impacting economic and market sentiment and playing a significant role in shaping the development of the global economy. In 2015, markets witnessed the highly anticipated divergence of monetary policy between the Eurozone, as well as the rest of the world, and the United States, as the country's labour market became sufficiently strong to warrant the first interest rate rise in almost a decade.

Bolstered by the low price of oil and the ECB's quantitative easing programme, the economic recovery of the Eurozone continued, weathering the considerable market turmoil that marked the year. The region's economy grew at an accelerated pace of 2.1 per cent., according to Eurostat, manufacturing generated solid gains and rising consumer sentiment and falling unemployment translated into growing private consumption which promised to bolster the resilience of the region's economic recovery in the face of potential turmoil from abroad. While contributing significantly to the region's economic rebound, the ECB's quantitative easing programme combined with continually falling inflationary expectations added to the pressures felt by the region's banking system; record low returns were the main theme in money and fixed income markets throughout the year.

Supported by the Eurozone's economic recovery and strong export performance, the Republic of Slovenia's economic growth accelerated to 2.3 per cent. in 2015, according to Statistical Office of the Republic of Slovenia. Macroeconomic data was indicative of an economy whose recovery was gaining traction. Industrial production expanded 5.0 per cent., according to Statistical Office of the Republic of Slovenia, in comparison with the previous year. The country's labour market continued its recovery with Eurostat's Labour force survey unemployment rate dropping to 9.0 per cent. in 2015. Retail sales grew at a pace of 4.2 per cent., according to Statistical Office of the Republic of Slovenia. The strengthening labour market and rising consumer confidence led to growth in private consumption. Primarily due to the fall in commodity prices, the country for the first time in history recorded yearly deflation of (0.8) per cent., according to Statistical Office of the Republic of Slovenia. The country's government fulfilled its promise and reduced its fiscal deficit in 2015 to 2.9 per cent., according to Statistical Office of the Republic of Slovenia, thus below 3 per cent., which in combination with the projected current account surplus is expected to help to ensure the continuation of the country's economic recovery. The Republic of Slovenia's public debt as a percentage of GDP was 82.6 per cent. as at 31 December 2015, according to Statistical Office of the Republic of Slovenia.

The country's banking system showed resilience in the face of unfavourable conditions, achieving an aggregate profit of EUR 115.3 million, according to the Bank of Slovenia, which corresponds to a ROE of 3.6 per cent., the first positive result for the Slovenian banking system in six years according to the Bank of Slovenia. The Slovenian banking system's balance sheet continued contracting, shrinking 3.4 per cent. to EUR 37.4 billion, according to the Bank of Slovenia. With a capital adequacy ratio of 20.0 per cent. at the end of the year, according to the Bank of Slovenia, the sector's capital adequacy was well above the euro-area average and the share of NPLs showed an improvement through the year.

Overall, the total loan portfolio as of 31 December 2015 was 7.5 per cent. lower, while loans to the nonbanking sector dropped 5.5 per cent., according to the Bank of Slovenia. As a result of the on-going process of deleveraging and weak investment activities, loans to the private sector continued contracting, falling 10 per cent. in 2015, according to the Bank of Slovenia. Household loans recorded modest 1.2 per cent. growth, mainly due to a recovery in the residential real estate sector. Deposits from households and the private sector grew throughout the year, showing resilience to the lowering interest rates. The total non-banking LTD fell from 88.2 per cent. to 80.6 per cent., according to the Bank of Slovenia. Strong competition resulting from excess liquidity and the on-going propensity to save, evident through the year, manifested itself in dropping interest rates on loans, whose decline accelerated compared with 2014. The low interest rate environment resulting from the ECB's quantitative easing programme, falling interest rates on loans and the introduction of a higher financial services tax resulted in considerable downward pressure on net interest income, which declined 10.4 per cent. in 2015, according to the Bank of Slovenia.

2015 also saw a continuation of the banking system's consolidation with the privatisation process of NKBM, the second largest bank, by Apollo, a U.S. private equity fund, and EBRD as well as the announced exit of Raiffeisen (acquired by Apollo) and concluding the wind-down of two failed banks (Probanka and Faktor banka) by merging them into the BAMC.

Year ended 31 December 2016

The global economy remained resilient despite uncertainty surrounding events such as terrorist attacks, potential instability in the Chinese economy and Europe's banking system, the British referendum decision to leave the EU, the U.S. presidential election and the Italian referendum in December. The assurance of the response of central banks rescuing markets in case of elevated instability calmed the market participants and resulted in muted reactions to the significant events that occurred. Despite the turbulent socio-political background, the macroeconomic picture in the United States improved markedly by the end of the year and resulted in another federal funds rate increase by the Federal Reserve. Towards the end of 2016, a distinct uptick in inflationary dynamics and macroeconomic expectations occurred, buoyed by promises of fiscal spending, an output cut agreement amongst energy producers and rising commodity prices. The improved inflation outlook, together with expectations of an acceleration of rate rises in the United States and an improving macroeconomic picture, resulted in a strong trading market that lasted through the remainder of the year.

With continuing support from the ECB's monetary policies, which remained accommodative and were expanded twice in the year, the Eurozone's economy expanded by 1.9 per cent. in 2016, according to Eurostat. Economic growth was supported by improved domestic demand, and, with the continuing improvement in the labour market, the unemployment rate fell to a five-year low, and resilient consumer confidence, led to robust private consumption growth in spite of rising uncertainties within the region. Monetary policy measures from the ECB, with support from global developments, resulted in improved inflationary dynamics and an acceleration of credit growth dynamics in the region. With expectations that monetary policy will remain accommodative, the macroeconomic outlook for the Eurozone remains positive.

The Republic of Slovenia's economy continued to expand at a steady pace throughout 2016, achieving economic growth of 3.1 per cent. The economic revival continued building momentum throughout the year, with several key metrics showing considerable progress. Industrial production expanded by 7.8 per cent., according to Statistical Office of the Republic of Slovenia, amongst the fastest expansions in the Eurozone, with manufacturing again contributing significantly to economic growth. Bolstered by the recovering labour market, unemployment levels decreased by 1.1 percentage points to 8.0 per cent., according to Statistical Office of the Republic of Slovenia. Improved consumer sentiment, and another year of positive economic progress, meant private consumption (households) grew by 4.0 per cent., according to Statistical Office of the Republic of Slovenia, which is 1.7 percentage points more compared with the same period in 2015. The year also marked the first time since mid-2012 that the retail sales index expanded above 2010 levels. Trade dynamics remained supportive throughout the year, decelerating only slightly on a yearly basis. After recording deflation in 2015, consumer price remained negative, measuring (0.2) per cent., according to Statistical Office of the Republic of Slovenia. The year also marked the first decrease of the Republic of Slovenia's government debt levels as a percentage of GDP, which fell to 78.6 per cent. of GDP in 2016, since the start of the global financial crisis in 2008, while the government deficit further decreased to 1.9 per cent. of GDP in 2016, according to Statistical Office of the Republic of the Republic of Slovenia. Following a credit rating upgrade from Fitch, the Republic of Slovenia now has an A-level credit rating from two of the three major rating agencies, while remaining one notch below A-level with a positive outlook with Moody's. With the prospect of a continued recovery in the country's main trading partners, and, early signs of a revival for the construction sector, the outlook for the country remains positive, with the potential for further economic acceleration in 2017.

The profitability of the Republic of Slovenia's banking system expanded in 2016, achieving an aggregate profit of EUR 363.7 million, according to the Bank of Slovenia, corresponding to a ROE of 8.0 per cent. In spite of falling interest income, the banking system achieved operating profit growth in the year, while falling reservation requirements added to the system's profitability. Considerable progress with the credit portfolio clean-up was achieved in the year, with NPL recording a decrease of 4.4 percentage points, falling to 5.5 per cent. as at 31 December 2016, according to the Bank of Slovenia. Bolstered by the pickup of private consumption and the nascent revival of the real estate market, household loan growth accelerated from 1.2 per cent. in 2015, to 4.6 per cent. in 2016, according to the Bank of Slovenia. The corporate loan portfolio continued contracting, ending the year 1.0 per cent. lower, according to the Bank of Slovenia. Despite another year of contraction, the revival of retail trade to pre-crisis levels, improving sentiment in the construction sector, and strong industrial production performance, have resulted in an improved outlook for the portfolio's recovery. Overall, total loans to the non-financial sector ended the year 1.3 per cent. higher, according to the Bank of Slovenia. The continuing contraction of the loan portfolio and a growing deposit base resulted in another contractions of the system's non-banking LTD, though at a diminished pace, to 78.6 per cent. from 80.6 per cent. at the start of the year, according to the Bank of Slovenia.

Year ended 31 December 2017

Despite world geo-political issues, including trade protectionist measures between the United States and China, the nuclear tensions in North Korea, uncertain developments on Brexit, a deepening immigration crisis, which has escalated nationalist ideologies across Europe, global economic growth became broader and stronger in 2017. The turnaround of economic conditions led to global economic recovery that was more balanced than in prior years. According to the IMF, growth stood at 3.8 per cent., the fastest since 2011. The growth has been driven by an expansion of both, advanced economies and developing countries. Supported by stronger consumption and investment recovery, rapid job creation, combined with the resurgence of global trade, growth strengthened in China, Japan, the United States and the Eurozone. Oil prices increased to the highest level since 2015 which affected consumer price inflation while core inflation has remained stagnant. The euro rose against the U.S. dollar in 2017, despite the large differences in the monetary policies of the ECB and the Fed. The Fed raised its key interest rate several times during the year, while the ECB left its key interest rates unchanged, still reduced its volume of securities purchases compared to 2016. Ongoing monetary policy normalization in some advanced economies and signs of firming inflation has been evident, however, global financial conditions are still very accommodative relative to historical norms and continue to be supportive of economic growth, according to the IMF.

In 2017, the economy of the Eurozone demonstrated resilience in face of political risks that have come to the fore in certain European countries, as well as Brexit and ongoing instability in the Middle East. Growth in the Eurozone remained encouraging, expanding by 2.4 per cent. in 2017, according to Eurostat, and it showed as the strongest in a decade. The region appeared to be in phase of the cycle with strong credit growth, limited inflationary pressures and low interest environment. An improvement in the labour market has been evident and unemployment rates dropped to their lowest levels since 2009. Manufacturing figures and consumer sentiment continued to surpass expectations as they rose to levels not seen in decades. Retail credit growth more than doubled and corporate credit growth was over five times higher when compared to levels in 2016, owing to the ECB accommodative monetary policy. According to the ECB, the robust performance of the real economy was not matched with inflation dynamics. While headline inflation recovered from its past lows, averaging 1.5 per cent. over the year, domestic price pressures remained muted and underlying inflation lacked signs of a sustained upward trend. It is expected that economic sentiment for the region will remain strong, supported by the accommodative monetary policy that is expected to continue as long as needed to attain the inflation objective.

Supported by a broad recovery in the external environment, the Republic of Slovenia's economic growth accelerated to one of the highest rates in euro area, reaching 4.9 per cent. on annual level in 2017. According to the Bank of Slovenia, growth has been driven by strong net exports and domestic demand which was mostly financed by retained earnings in the corporate sector. Private consumption also strengthened in line with the recovering labour market. The labour market continued to improve as unemployment rate decreased at a faster pace, reaching 6.6 per cent. at the year end, according to Eurostat. Higher wage growth was also evident, however, it remained subdued compared to the euro area average. Government expenditure also increased, however it stayed within the boundaries that allowed for a significant improvement in the fiscal position. The Republic of Slovenia's government debt as percentage of GDP declined for the second consecutive year and amounted to 73.6 per cent. of GDP, thereby remaining below the EU average. The general government balance has improved substantially as fiscal position of the country balanced in 2017 owing to improved macroeconomic conditions, the stabilisation of the banking system, the recovery of domestic and foreign confidence and due to retained certain austerity measures. The robust economic growth and the fiscal consolidation measures helped Slovenia to earn a sovereign upgrading from two rating agencies in 2017: an upgrade from Moody's to Baa1 and stable outlook and by Standard & Poor's to A+ and stable outlook. Headline inflation in the Republic of Slovenia measured by the Harmonised Index of Consumer Prices (HICP) was comparable to the average across the euro area, reached 1.6 per cent., a 1.8 percentage points increase compared to the previous year. According to the Bank of Slovenia, the economic outlook for the country remains stable, and does not entail any danger to financial stability for now.

The banking system in the Republic of Slovenia is improving due to better solvency, profitability and asset quality. In 2017, the banking system generated an aggregate pre-tax profit of EUR 443 million, an improvement for the third consecutive year, according to the Bank of Slovenia. The achieved profitability corresponded to a ROE of 9.6 per cent. Bolstered by country's economic growth, the profitability of the banking system of the Republic of Slovenia was also picked-up by net release of impairments and provisioning due to considerable improvement in of the quality of credit portfolio. According to the Bank of Slovenia, the NPE ratio declined by 2.5 percentage points to 6 per cent. at the end of 2017. The implementation of IFRS 9 did not considerably affect the impairments and provisioning, according to the Bank of Slovenia. Net interest income has been declining since 2012, however, and in 2017 a clearly slower pace of decline was observed, accounting for almost 61 per cent. of the banks' gross income in 2017. According to the Bank of Slovenia, the banking system recorded solid growth in loans to the non-banking sector ended the year 4.8 per cent. higher. Consumers' loan volume and growth was higher than of corporates' as a result of certain favourable factors, such as low interest rates, low household indebtedness and the revival of the real estate market. Non-financial sector deposits, households' deposits in particular, remained the main source of banks' funding. Despite the persistence of low interest rates, household deposits continued to strengthen, reaching an increase of 5.6 per cent. in 2017. A slowdown in decline of LTD, which stabilised at 78.2 per cent. (a fall from 78.6 per cent. in 2016) has delivered an evidence of gradual stabilisation of funding in the banking system of the Republic of Slovenia, according to the Bank of Slovenia.

Six months ended 30 June 2018

In the first half of 2018, the Slovenian economy continued to record encouraging economic growth year-over-year (4.2 per cent.), which nevertheless slowed down somewhat compared to the growth at the end of 2017 (6.3 per cent.). The economic growth was mostly driven by final consumption of households and gross investments, while the positive impact of the external trade balance was somewhat reduced. Favourable conditions on the labour market, as well as the economic and consumer sentiment in the last half-year also show a positive macroeconomic picture in the period that will follow. The rate of survey-based unemployment dropped by 1.2 percentage points to 5.2 per cent. year-over-year at the end of the first half of the year. The number of unemployed persons is closing in on the pre-crisis level. In the six months ended 30 June 2018, the economic climate was more than two percentage points higher year over year, mostly because of increased consumer confidence and confidence in the construction sector. The latter is also related to a rather lively market in residential real estate, despite that in the second quarter of 2018 the number of transactions have fallen to the lowest level since third quarter 2015. With relatively high demand and favourable lending conditions, the prices of residential real estate grew by 13.4 per cent. year over year. Consumer prices also increased, specifically by 1.5 per cent. p.a. in the six months ended 30 June 2018, while June growth was 2.1 per cent.

In the six months ended 30 June 2018, the profit of the Slovenian banking system was 26.5 per cent. higher year-over-year. ROE before tax increased to 14.0 per cent. The share of NPLs continued to decrease, dropping by 0.7 basis point year to date, to 2.9 per cent. The interim growth in non-bank crediting was 5.6 per cent. year-over-year, of which growth in loans to non-financial companies was 2.5 per cent. and loans to households 6.7 per cent. With continued favourable economic growth, both household and corporate loans are also expected to continue growing, while the segment of housing loans will be affected by the continued deficit of new real estate on the market. Specifically, the Housing Fund of the Republic of Slovenia will no longer build apartments for sale, but only offer apartments for rent, which will be an additional blow to the number of newly-constructed units. It is expected that the relatively low level of indebtedness of Slovenian households and the growing dynamics of consumption will somewhat mitigate the reduced growth in housing loans. Interest rates, particularly those on mortgage loans, grew only slightly in the second quarter of 2018, while interest rates on consumer loans remained practically unchanged.

Macroeconomic Outlook

Positive global inflationary dynamics are expected to continue into 2018, supported by elevated energy costs, fiscal spending and still improving macroeconomic picture. Signals from the major central banks indicating that the era of extraordinary measures are slowly coming to an end. In 2018, the Fed raised its key interest rate three times by the end of September, while the ECB plans to cease securities purchases by the end of the year 2018. Nevertheless, a raise in the key interest rate by the ECB is not foreseen until the end of the end of the summer in 2019. Macroeconomic indicators continue to show favourable economic conditions in 2018, albeit more subdued than the previous year. Favourable economic dynamics are impacted in particular by U.S. trading policies and associated potential escalations in trade wars, growing political risks in Europe, including with risks associated with Brexit, pressure on emerging markets from rising interest rates and growing geopolitical tensions. The aforementioned downside risks could potentially lead to a reversal of the positive trends from 2017 and result in a continuation of the low rate environment in the Eurozone in particular, should they materialise.

With support from the improving macroeconomic picture, the banking system's outlook continues to improve. Expectations of steepening in the European government bond yield curve, would positively impact banking system profitability, should they materialise. While the Euribor futures indicate a gradual recovery from current low rates, risks from abroad carry the potential to result in a postponement of the recovery from the current rate environment. The tough interest earning environment will force banks to continue focusing on increasing non-interest income and decreasing costs. Further consolidation of the banking system is expected, following a series of acquisitions and mergers within the banking system through the year.

The structure of the banking sector

The Slovenian banking sector comprises commercial banks as well as saving banks. Traditional banks make up the largest share of the market. Below is an outline of banks and their branches as they are dispersed across regions in the Republic of Slovenia as at 31 December 2017.

Region	Banks (headquarters)	Org. units (branches)
Pomurska	0	30
Podravska	1	65
Koroška	0	23
Savinjska	0	72
Zasavska	0	8
Spodnjeposavska	0	17
Jugovzhodna Slovenija	0	37
Osrednjeslovenska	11	112
Gorenjska	1	52
Notranjsko-kraška	0	16
Goriška	0	40
Obalno-kraška	2	31
TOTAL	**20**	**518**

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Note: As of 2017.
Source: Bank of Slovenia

As of 31 December 2017, there are now 12 banks, three savings banks and three registered branches of foreign banks operating in the Republic of Slovenia. They are listed below:

	Ownership
Banks	
Abanka d.d.	state
Banka Intesa Sanpaolo d.d.	private
Banka Sparkasse d.d.	private
Deželna banka Slovenije d.d.	cooperative society
Gorenjska banka d.d.	state[(1)]
Addiko Bank d.d.	private
Nova Kreditna banka Maribor d.d.	private
Nova Ljubljanska banka d.d.	state
Sberbank banka d.d.	private
SKB Banka d.d.	private
SID – Slovenska izvozna in razvojna banka, d.d.	state
UniCredit Banka Slovenija d.d.	private
Savings Banks	
Delavska Hranilnica d.d.	cooperative society
Hranilnica LON, d.d.	private
Primorska Hranilnica Vipava d.d.	private
Foreign Branches	
BKS Bank AG	private
RCI Banque *Société Anonyme*	private
Brüll Kallmus Bank AG[(2)]	private

(1) Not direct state ownership, but through state-owned companies.
(2) This branch has been closed down in June 2018.
Source: Bank of Slovenia

According to the Bank of Slovenia, as at 31 December 2017, the banks held a market share of 93 per cent. of the banking system. In addition, state-owned banks (direct ownership) represented more than 39 per cent. of the total banking sector balance sheet. The table below highlights the key metrics of the ten largest banks in the Republic of Slovenia.

Financial institution	Balance Sheet 2017	Market Share %
	(EUR millions)	
Nova Ljubljanska banka d.d	8,713	23.0%
Nova Kreditna banka Maribor d.d	4,914	13.0%
Abanka d.d	3,656	9.6%
SKB banka d.d	2,991	7.9%
UniCredit banka Slovenija d.d	2,706	7.1%
SID – Slovenska izvozna in razvojna banka, d.d	2,452	6.5%
Banka Intesa Sanpaolo d.d. (ex Banka Koper d.d.)	2,398	6.3%
Gorenjska banka d.d	1,872	4.9%
Sberbank banka d.d	1,741	4.6%
Addiko Bank d.d (ex Hypo Alpe-Adria Bank d.d.)	1,538	4.1%

As at 31 December 2017, the Slovenian banking sector employed 9,390 people, 22.4 per cent. less than the peak in 2008 (12,096 employees).

Slovenian banking sector in numbers

The size of the Slovenian banking sector has decreased substantially from its peak in 2010 when the Republic of Slovenia entered its first recession after the global financial crisis. However, an upturn was seen in 2017.

	31 December								
Size and growth	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Total assets (*EUR millions*)	52,009	50,760	49,243	46,119	40,344	38,714	37,383	37,050	37,946
Total assets (*annual % change*)	8.5	(2.4)	(3.0)	(6.3)	(12.5)	(4.0)	(3.4)	(0.9)	2.4
Total loans (*EUR millions*)(1)	34,132	34,692	33,143	30,962	24,338	21,540	20,275	20,534	21,523
Total loans (*annual % change*)	1.2	1.6	(4.5)	(6.6)	(21.4)	(11.5)	(5.9)	1.3	4.8
Total deposits (*EUR millions*)(1)	23,892	23,877	24,580	23,856	22,550	24,426	25,140	26,133	27,528
Total deposits (*annual % change*)	14.4	(0.1)	2.9	(2.9)	(5.5)	8.3	2.9	3.9	5.3
LTD (%)(1)	142.9	145.3	134.8	129.8	107.9	88.2	80.6	78.6	78.2

(1) Non-bank segments only.
Source: Bank of Slovenia

The LTD decreased significantly due to the deleveraging process and growth in deposits, as clients sought financial security. Deposits represent one of the most important sources of financing for banks. Still, their maturity continue to shorten while loans maturities are lengthening what increases the maturity mismatch between investments and funding.

Following losses in the post-recession years, the Slovenian banking sector returned to profitability in 2015 and has been profitable ever since.

	31 December								
Banking sector profitability	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Net interest income (*EUR millions*)	932.2	1,037.8	1,017.5	886.3	708.0	832.2	745.6	670.0	650.9
Net interest margin (%)	2.0	2.1	2.1	1.9	1.7	2.2	2.1	1.9	1.8
ROE (%)	3.9	(2.4)	(12.5)	(19.0)	(100.0)	(2.7)	3.6	8.0	9.5
ROA (%)	0.3	(0.2)	(1.1)	(1.6)	(7.7)	(0.3)	0.4	1.0	1.2

Source: Bank of Slovenia

The deterioration in loan quality during the recession was reflected in a sharp rise in the volume of NPLs. The percentage of loans which were more than 90 days overdue reached a peak of 14.4 per cent. in 2012 and decreased thereafter, as they were transferred to the BAMC, reaching a level of 9.9 per cent. in 2015. As presented in the table below, they continued to decrease sharply in 2016 and 2017. As credit quality improved, provisions have started to decline and the capital adequacy of the banking sector has also improved.

Asset quality	31 December 2009	2010	2011	2012	2013	2014	2015	2016	2017
NPL (EUR millions)	2,651	3,688	5,547	6,904	5,520	4,448	3,461	1,969	1,250
NPL ratio (%)	5.4	7.4	11.2	14.4	13.4	11.9	9.9	5.5	3.6
CAR ratio (%)	11.7	11.3	11.8	11.4	13.7	17.9	18.6	19.1	18.1
CET1 ratio (%)	8.7	8.3	8.9	10.0	13.2	18.4	18.0	18.5	17.7

Source: Bank of Slovenia

CET1 ratio by segment	2015	2016	2017
Large domestic banks	18.8	20.2	19.1
Small domestic banks	11.0	12.3	12.2
Foreign banks	17.6	17.2	16.5
Banking system	18.0	18.5	17.7

Source: Bank of Slovenia

14.4 Overview of other NLB Core markets' macroeconomics

Information in this section is derived from publicly available data prepared by the central banks of the relevant countries, unless otherwise indicated.

All the NLB Group core markets outside the Republic of Slovenia, except Macedonia, achieved positive economic growth in 2017. The markets of Southeastern Europe continue to grow in importance within the NLB Group. Strong economic growth is projected in the coming years, as the region's recovery strengthens. The region's banking systems are generally healthy and well capitalised; they show strong growth potential.

The following table sets forth macroeconomic indicators of the Southeastern European countries in which the NLB Group's subsidiaries are present as at 31 December 2017 (unless otherwise noted):

2017	Macedonia	Bosnia and Herzegovina[(1)]	Montenegro	Kosovo	Serbia	Total / Average
Population (*millions*)	2.1	3.5	0.6	1.8	7.0	15.0
GDP[(3)] (*EUR billions*)	10.1	16.3	4.2	6.4	36.8	73.8
GDP/Capita (*EUR thousands*)	4.8	4.6	6.8	3.6	5.2	5.0
Real GDP growth	0.0%	3.1%	4.3%	4.2%	1.9%	2.7%
Average inflation	1.4%	1.2%	2.4%	1.5%	3.0%	1.9%
Government debt to GDP ratio	39.3%	33.4[(5)]	62.5%	16.6%	61.5%	42.7%
Household debt to GDP ratio[(4)]	22.8%	27.5%	27.1%	14.3%	20.3%	22.4%
Currency	MKD	EUR[(2)]	EUR	EUR	RSD	n/a
Credit rating (Moody's / S&P)	n/a / BB-	B3 / B	B1 / B+	n/a / n/a	Ba3 / BB	n/a

Sources: IMF, World Bank, respective statistical offices and central banks, Trading economics data, CEIC data, Focus Economics.

(1) Bosnia and Herzegovina is comprised of two entities, The Federation of Bosnia and Herzegovina and Republika Srpska.

(2) Official currency is BAM – Bosnia-Herzegovina Convertible Mark, pegged to EUR.

(3) Converted at average foreign exchange rate for 2017.

(4) Own calculation.

(5) Data for 2016.

For information on how the macroeconomic and banking environment in the NLB Core markets impacts the NLB Group, see "*2. Risk Factors—The NLB Group is subject to risks arising from the macroeconomic and political environment in Southeastern Europe*".

Serbia

Year end 31 December 2015

Serbia made substantial progress with its reforms and post-flood recovery, concluding the year with economic growth of 0.8 per cent., according to Statistical Office of the Republic of Serbia. A pick-up in both investment and job creation combined with a faster-than expected- recovery in the mining and energy industry sectors resulted in three 2015 economic growth projection upgrades for 2015 by the IMF, totalling 1.25 percentage points. The country's banking system is well capitalised, yet the high interest rates resulting from the credit risk of significant foreign exchange lending and high NPLs levels continue to restrict loan growth. According to the National Bank of Serbia, corporate and household loans grew 2.2 and 4.7 per cent., respectively. With reforms continuing at their current strong pace, while the economic recovery is taking hold and accelerating, the current low levels of financial intermediation should become conducive to a new credit cycle in the mid-term.

Year ended 31 December 2016

After returning to economic growth in 2015, following the economic contraction in 2014 caused by floods that hit the country severely that year, Serbia's economic growth accelerated to 2.8 per cent. in 2016, according to Statistical Office of the Republic of Serbia. The government solidified its position in the April 2016 elections, ensuring the necessary stability for continued reform implementation. Investments made a significant contribution to growth in the year, as did strong external demand. Improved economic growth dynamics combined with labour market reforms resulted in employment growth, while unemployment levels decreased to 13.0 per cent. at the end of 2016, from 19.0 per cent. in the first quarter of 2016, according to Statistical Office of the Republic of Serbia. Continued labour market improvements and positive economic developments are expected to be supportive of the nascent private consumption recovery. The banking system was profitable in the year, creating a ROE of 3.3 per cent. as of 2016, according to the National Bank of Serbia. The economic recovery also resulted in a revival of the corporate credit portfolio, which expanded by 1.8 per cent. year-over-year in 2016, whereas loans to households grew 10.5 per cent. year-over-year, according to the National Bank of Serbia. The level of NPL reversed its course in 2016 and ended 2016 4.6 percentage points lower compared to previous year and stood at 17.0 per cent., according to the National Bank of Serbia.

Year ended 31 December 2017

During 2017, the Serbian government continued to step up the implementation of structural reforms, broadening the focus to include social sector transformation. Although the results of the spring 2017 presidential election led to a change in prime minister (with the incumbent current prime minister smooth becoming Serbia's new president), the Serbian government experienced only minor changes. A transfer of power enabled the Serbian government to stay focused on reforming state administration, public finances and economy, along with pursuing the EU accession process. The Serbian government's economic reform focused on ensuring economic and financial stability, halting further debt accumulation, and creating an environment for economic recovery and growth to foster employment and raise living standards. Following this, Serbia's annual economic growth in the fourth quarter 2017 was 2.4 per cent. Public debt was reduced for 10.4 per cent., but still remains high at 61.5 per cent. of GDP. However, Serbia was still fighting with high unemployment rate of 14.7 per cent. at the end of the 2017.

Six months ended 30 June 2018

In the first half of 2018, stable growth trend of net inflow of foreign direct investments has continued. Growth originated from larger foreign investments in retail trade, construction and financial and real estate activities. According to data from the Statistical Office of the republic of Serbia, total industrial production in the first half of 2018 recorded an increase of 4.2 per cent. year-over-year. In June 2018, annual inflation amounted to 2.3 per cent., while average annual inflation in the first half of the year reached 1.7 per cent. Unrevised data in the second quarter currently shows economic growth to be at 4.8 per cent. In Q2 2018, the unemployment rate fell by 2.9 percentage points quarter-over-quarter to 11.9 per cent., which is one of the lowest rates in the last decade.

Macedonia

Year end 31 December 2015

Following a turbulent year of political tension and worries over Greek bank capital outflows, Macedonia's economy expanded by 3.9 per cent. in 2015, according to the State Statistical Office of the Republic of Macedonia. Economic growth is projected to accelerate in the coming years, driven by public investment, rising exports and increased domestic demand, which is expected to be supported by continuing improvements in the labour market. The banking system was profitable in the year, generating an ROE of 10.4 per cent., according to the National Bank of the Republic of Macedonia. Bolstered by strong economic activity and easing credit standards, solid credit growth was noted with deposits also showing firm growth. The LTD and the system's high liquidity indicate good potential for further loan growth.

Year ended 31 December 2016

Continuing political uncertainty proved restrictive for Macedonia's economy, impacting private investment and resulting in a tapering of economic growth to 2.9 per cent. in 2016 from 3.9 per cent. in 2015, according to the State Statistical Office of the Republic of Macedonia. Despite the noted uncertainty, household consumption remained robust and was the primary driver of growth, supported by increasing employment and household lending. The banking system's profitability increased in the year, rising to a ROE of 13.6 per cent., according to the National Bank of the Republic of Macedonia. While consumer loans experienced strong growth of 7.0 per cent. in 2016, political tension negatively impact corporate loans, which decreased by 5.3 per cent. year-over-year, according to the National Bank of the Republic of Macedonia. NPL also decreased in 2016 by 4.2 percentage points to 6.6 per cent., according to the National Bank of the Republic of Macedonia. The country has a strong economic base; however, strong growth projections are predicated on a resolution of lingering political issues, which the December elections failed to achieve.

Year ended 31 December 2017

Macedonian economic growth continued on a downward trend in 2017 and even turned negative at (1.3) per cent. in the middle of the year. However, with the new government formed in June 2017, the growth eventually picked up and end the year with the positive number of 1.2 per cent. Economic activity has been supported by private consumption and exports, while negative effects from the prolonged political instability have restrained investment and slowed down corporate credit growth. Industrial production in 2017 faced a (2.6) per cent. contraction, while unemployment was still very high at 21.9 per cent. at the end of the 2017. However, the ambitious reform agenda of the new government outlined in the government Program 2017-2020 concentrates in growth expansion, job creation, fair taxation, support to small and medium enterprises and reform of social protection for the most vulnerable. In addition, the government also adopted an action plan, which includes a set of measures that will be implemented to accelerate the process of EU and NATO accession.

Six months ended 30 June 2018

The IMF has lowered its projection for Macedonia's 2018 economic growth from 3.2 to 2.8 per cent. In the second quarter of 2018, the GDP increased by 3.1 per cent., up from a 0.1 per cent. growth in the previous quarter. The average annual inflation rate stood at 1.5 per cent., while industrial production in the first half of the year grew by 5.1 per cent., nearly 4 percentage points above the long-term average. The unemployment rate decreased to 21.6 per cent. in the first quarter of 2018 from 22.9 per cent. for the same period 2017. The macroeconomic situation is stable, indicating well placed mechanisms in country's fiscal, monetary and foreign exchange policy. At the end of September 2018, Macedonia will hold the referendum on the agreement with Greece on changing the country's name to the Republic of North Macedonia.

Montenegro

Year end 31 December 2015

Montenegro's economy experienced a rebound in 2015, growing 3.4 per cent., according to the Statistical Office of Montenegro, largely due to a strong performance in tourism and industrial production, which grew on the back of a revival of manufacturing activity. Economic growth is expected to accelerate in the coming years; the Bar-Boljare highway aims to provide a substantial boost to the economy, while additionally stressing the country's significant fiscal imbalances. The current account deficit is one of the highest in the region and is expected to expand in coming years. The banking system reported a negative financial result in the amount of 3.4 million euros, according to the Central bank of Montenegro. NPLs remain high by regional standards, but revealed progress through the year.

Year ended 31 December 2016

Economic growth in Montenegro in 2016 was driven by considerable public investment stemming from the Bar Boljare highway project, which will result in further fiscal strain and rising public debt in the mid-term. Tourism has shown notable growth, while further growth is expected as hotel capacity and investments increase. Following a deceleration in the first-half of the year, stemming from highway permit issuance delays, economic growth accelerated, ending 2016 2.9 per cent. higher than in the prior year, according to the Statistical Office of Montenegro. Tempered growth in the first two-quarters resulted in a slight deterioration in the labour market, which reversed in the second half as the economy began rebounding.

The banking system achieved a ROE of 1.5 per cent. in 2016, according to the Central Bank of Montenegro, a notable improvement compared with the previous year. In the same period, loans to households grew by 10.5 per cent. year-over-year, according to the Central Bank of Montenegro, while the corporate loan portfolio increased by 2.8 per cent. NPL continued to decrease through the year and amounted to 10.3 per cent. of the credit portfolio, a notable decrease from the 17.5 per cent. figure at the end of 2013, according to the Central Bank of Montenegro.

Year ended 31 December 2017

Montenegro's economy experienced a large increase in economic growth in 2017, growing 4.2 per cent. according to the Statistical Office of Montenegro. This was largely due to a continuation of a large publicly financed infrastructure project on the highway Bar-Boljare and as well due to strong performance in the tourism sector and industrial production. However, the use of fiscal resources for infrastructure projects has contributed to a large increase in government debt, which reached 75 per cent. of GDP (by the IMF) in 2017. Recognizing the need to reduce public debt, the Government announced the medium-term fiscal consolidation strategy. If carried out in full, it will considerably reduce government debt, falling to 53% of GDP by 2020. Conditions in banking sector continued to strengthen, with improving asset quality, recovering credit growth, and high liquidity.

Six months ended 30 June 2018

Representatives of the IMF and World Bank welcomed the achieved results of Montenegro in the process of fiscal consolidation, as well as in the part of improving the financial system. In particular they welcomed the success in a favourable sovereign Eurobond issue. IMF projects the economy to expand 3.1 per cent. in 2018 with fiscal consolidation acting as a moderate drag on growth. In the first quarter 2018, the economy showed robust growth. GDP advanced by 4.5 per cent. year-over-year, which is 0.6 percentage point higher than in the last quarter 2017. Average annual inflation rate in the first half of the year was 3.0 per cent., while in June 2018 annual inflation rate amounted to the highest value in almost five years to 3.4 per cent. Robust industrial production growth in first six months of the year (32.3 per cent) indicate a strong momentum in Montenegro's economy. The average annual industrial production growth from 2009 until 2018 was only 0.72 per cent. Due to good economic conditions, unemployment rate decreased for the seventh straight month in June 2018 to 18.4 per cent.

Bosnia and Herzegovina

Year end 31 December 2015

Bosnia and Herzegovina has made significant progress in its recovery, with its economy expanding by 3.1 per cent. in 2015, according to the Agency of Statistics of Bosnia and Herzegovina. Economic growth is projected by the IMF to accelerate in the mid-term. Following a contraction in 2014, industrial production increased 2.8 per cent. in 2015, according to the Agency of Statistics of Bosnia and Herzegovina. However, further progress is hampered by the postponement of the necessary labour market reforms; unemployment figures in the country are amongst the highest in the region and represent a significant drag on the economy. Pursuant to its constitution, Bosnia and Herzegovina is composed of two largely autonomous political entities: the Federation of Bosnia and Herzegovina, whose capital is Sarajevo, and the Republika Sprska, whose capital is Banja Luka. The country's complex and costly political structure continues to hamper the country's competitiveness, limiting the progress of much-needed reforms. Bosnia's banking system generated a profit in 2015. The system's balance sheet grew by 4.3 per cent. in the year ended 31 December 2015, with deposits growing 7.5 per cent., according to the Central Bank of Bosnia and Herzegovina. Total loan growth of 2.4 per cent. was recorded in the year-ended 31 December 2015, according to the Central Bank of Bosnia and Herzegovina, primarily due to strong household loan growth, while loans to non-financial institutions contracted slightly. The quality of the loan portfolio improved through the year with NPLs falling by 0.5 percentage points to 13.7 per cent. at the end of 2015, according to the Central Bank of Bosnia and Herzegovina.

Year ended 31 December 2016

The economy of Bosnia and Herzegovina grew by 3.1 per cent. in 2016, according to the Agency of Statistics of Bosnia and Herzegovina. Net exports and resurgent private consumption were the main drivers of growth, with a notable contribution from manufacturing. Economic growth is expected to accelerate to 4.0 per cent. in the mid-term, supported by consumption, which will, in turn, be supported by continued remittance inflows. Modest export gains are also expected, while investment in energy, construction and tourism will support investment growth. The banking system was profitable in 2016, recording a ROE of 7.3 per cent. in 2016, according to the Central Bank of Bosnia and Herzegovina, an increase of 5.3 percentage points when compared with the end of the previous year. Modest credit growth was recorded (2.0 per cent. compared with the prior year, according to the Central Bank of Bosnia and Herzegovina), including both household and corporate loans finishing the year higher. The quality of the credit portfolio improved through the year; NPL fell by 1.9 percentage points to 11.8 per cent., according to the Central Bank of Bosnia and Herzegovina.

Year ended 31 December 2017

The Bosnian and Herzegovinian economy grew by 3.1 per cent. in 2017, following similar growth rates in the previous two years, and has once again proved to be resilient to reform showdowns and political uncertainty. Services and particularly domestic trade were the main drivers, supported by private consumption. Industry also performed well, although agricultural sector had a slight drag on growth. Average annual inflation declined to 1.2 per cent. At the same time, there was significant slowdown in investments, partly due to significant delays in implementing reforms. Job creation has also been limited and registered unemployment has remained high at 38.7 per cent. with particularly high rates among the youth. Income convergence with the EU has stalled. However, macroeconomic conditions have remained stable. Bosnia and Herzegovina has made progress in reducing internal and external imbalances, thanks to a prudent fiscal position and a strong monetary anchor provided by the currency board.

Six months ended 30 June 2018

The World Bank has stated that economic growth in Bosnia and Herzegovina is expected to pick-up starting in 2018 with the implementation of structural reforms, supported primarily by consumption and heavy infrastructure investments. According to IMF projection, the GDP will grow by 3.2 per cent. in 2018. In the first quarter of 2018, GDP increased by 2.0 per cent. year-over year, while industrial production in the first half of the year increased by 3.4 per cent. Average annual inflation rate in the first half of the year reached 1.1 per cent., while annual inflation rate in June 2018 amounted to 1.9 per cent.

Kosovo

Year-end 31 December 2015

Kosovo's economy grew at 4.1 per cent. in 2015, according to the Kosovo Agency of Statistics. This growth was driven by strong remittance inflows from abroad and growing domestic demand. The banking system's profitability was notably higher than in the previous year with a ROE of 26.4 per cent., according to the Central Bank of the Republic of Kosovo. The system experienced strong total loan growth of 7.3 per cent., according to the Central Bank of the Republic of Kosovo. The banking system's low levels of NPLs, which are fully provisioned, were 6.2 per cent. of the loan portfolio at the end of the year, according to the Central Bank of the Republic of Kosovo. The combination of low NPLs, rising domestic demand and strong economic growth is expected to be supportive of continued loan growth and the profitability of the banking system.

Year-ended 31 December 2016

Kosovo's economy continued its strong economic expansion from the previous year, growing 4.1 per cent. in 2016, according to the Kosovo Agency of Statistics. In the mid-term, further growth will be supported by private consumption and private investment. Due to the importance of remittances in Kosovo's economy, the economy has generally remained stable and resilient to regional downturns. In spite of strong economic performance, unemployment levels remained elevated due to structural issues; however, notable progress was made in 2016, with the unemployment figure decreasing by 5.4 percentage points to 27.5 per cent., according to Kosovo Agency of Statistics. The banking system achieving a ROE of 18.5 per cent. in 2016, according to the Central Bank of the Republic of Kosovo, which is slightly lower than in the previous year, primarily due to a drop of interest income. Credit growth accelerated from the previous year, with corporate loans increasing 8.3 per cent., according to the Central Bank of the Republic of Kosovo, compared with the prior year, while household loans expanded by 14.7 per cent. compared with the prior year, NPL levels remain the lowest within the region at 4.9 per cent., according to the Central Bank of the Republic of Kosovo.

Year-end 31 December 2017

During 2017, Kosovo's economy grow by 4.2 per cent., supported by investment growth and increased export of goods and services. However, the unemployment was one of the highest in the region marking 30.5 per cent. As a result of the growth in economic activity but also of the rise in prices in international markets, the inflation rate reached an average annual rate of 1.5 per cent. Kosovo's public debt was low at 16.6 per cent. of GDP. During 2017, the Kosovo diaspora's contribution played a significant role to the economic welfare in the country. The remittances increased to a record of 11 per cent. on an annual basis. Even though the country's export increased by 22.1 per cent., the Kosovo exports covered imports by only 12.4 per cent. The banking sector was healthy and sound, with banks well capitalized and profitable. In 2017, ratio of nonperforming loans declined to 3.1 per cent. Both credit and deposits have continued to grow at an accelerated rate, reaching a yearly growth of 11.5 per cent. and 6.7 per cent., respectively.

Six months ended 30 June 2018

According to the latest IMF report, Kosovo has made a significant progress in ensuring fiscal discipline, strengthening the financial sector and enhancing growth. According to IMF projections Kosovo's economic growth is expected to expand by 4 per cent. in 2018. According to Kosovo Agency of Statistics, the GDP in the first quarter 2018 increased by 3.5 per cent. The trade deficit in the first half of the year increased by 11.4 per cent. year-over-year. The unemployment rate decreased to 29.4 per cent. in the second quarter of 2018, from 30.6 per cent. at the end of 2017. In June 2018, annual inflation was higher by 0.8 per cent., while average inflation in the first half of the year stayed relatively low, at around 0.4 per cent. Remittances increased by 4.3 per cent. year-over-year in the first quarter of 2018, providing further support, in addition to supportive credit conditions, to consumption. The banking system's net profit in the first half of 2018 was EUR 40.5 million ((11.2) per cent. year-over-year mainly due to interest income decrease). NPLs have decreased to 2.8 per cent. as of June 2018, from 3.1 per cent. year end 2017.

14.5 Overview of the banking sectors in NLBs other core markets

Serbia

As of 30 December 2017, the Serbian banking sector included 29 banks consisting of 1,627 organisational units and employed a total of 23,055 persons. 21 banks (or 76.9 per cent. market share by total assets) are in foreign ownership, whereas eight banks (or 23.1 per cent. market share by total assets) are still domestically owned. The largest 10 banks accounted for 78.4 per cent. of market share by assets and 79.57 per cent. of total deposits in banking sector in the last quarter 2017. The largest bank is Banca Intesa A.D., which represents 17.0 per cent. of the market share based on total assets.

In the table below is a short outline of key metrics for the Serbian banking system.

	31 December						
Serbian Banking System	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Total assets (EUR millions)	25,905	25,975	25,674	25,654	26,572	27,375	28,429
Total assets (% change year over year)	7.2	0.3	(1.2)	(0.1)	3.6	3.0	3.8
LTD	1.27	1.20	1.14	1.03	0.99	0.92	0.93
ROE (%)	0.2	2.0	(0.4)	0.6	1.5	3.3	10.5
ROA (%)	0.05	0.4	(0.1)	0.1	0.3	0.7	2.1
NPL ratio (%)	19.0	18.6	21.4	21.5	21.6	17.0	9.8
CAR ratio (%)	19.1	19.9	20.9	20.0	20.9	21.8	22.6

Source: National Bank of Serbia

The banking system in Serbia is regulated by the National Bank of Serbia.

Bosnia and Herzegovina

As of 30 June 2018, there were 25 banks operating within the Bosnian banking sector. Due to a complex political system, the banking sector is divided into two parts, mostly related to geographical location of operations. Out of 24, 17 banks are registered and operating within the Federation of Bosnia and Herzegovina, whereas eight are based in Republika Srpska.

The banking sector in the Federation of Bosnia and Herzegovina includes 17 banks with total assets amounting to EUR 10.33 billion as of 31 December 2017 which represents an increase of 9.9 per cent.

compared to 2016. Loans, as the largest banks' asset segment recorded growth of 7.4 per cent., while deposits recorded a growth of 11.6 per cent.

At end of 2017, the banking sector of Republika Srpska consisted of eight banks that made a profit in amount of EUR 49 million which is 112 per cent. increasement compared to the end of 2016. Total assets amounted to EUR 3.62 billion, which is 6.2 per cent. higher. The total gross loans increased 7 per cent. while deposits grow with the same percentage.

The entire banking sector in Bosnia and Herzegovina is improving, which is exhibited in the table below.

	31 December						
Bosnia and Herzegovina Banking System	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Total assets (EUR millions)	10,735	10,832	11,260	11,640	12,136	12,789	13,932
Total assets (% change year over year)	2.8	0.9	4.0	3.4	4.3	5.4	8.9
LTD	1.18	1.19	1.15	1.08	1.03	0.98	0.94
ROE (%)	5.8	5.1	(0.5)	5.4	2.0	7.3	10.2
ROA (%)	0.7	0.7	(0.1)	0.8	0.3	1.1	1.5
NPL ratio (%)	11.8	13.5	15.1	14.2	13.7	11.8	10.0
CAR ratio (%)	17.1	17.0	17.8	16.3	14.9	15.8	15.7

Source: Central Bank of Bosnia and Herzegovina

The banking system in Bosnia and Herzegovina is regulated by the Central Bank of Bosnia and Herzegovina on a country level, and also by the Banking Agency of the Federation of Bosnia and Herzegovina and the Banking Agency of Republika Srpska.

Montenegro

As of 31 December 2017, there were 15 banks and seven micro-credit financial institutions operating within the banking system of Montenegro. Aggregate total assets of the 15 banks amounted to EUR 4.18 billion. 10 (or 66.7%) of these banks are in foreign ownership. In the structure of banks' assets in December 2017, total loans accounted for the main share with 64.6 per cent., followed by cash and deposits with central banks with 21.1 per cent., while other asset items accounted for the remaining 14.3 per cent. In the structure of liabilities and capital, the main share of 78.1 per cent. referred to deposits, followed by capital with 12.3 per cent., borrowings with 6.7 per cent., while other liabilities items accounted for 2.9 per cent. At end-December 2017 total capital of banks amounted 514.2 million euros and recorded annual increase of 5.9 per cent.

In the table below is a short outline of key metrics for banking system of Montenegro.

	31 December						
Montenegro Banking System	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Total assets (EUR millions)	2,809.7	2,808.3	2,959.2	3,136.3	3,471.6	3,791.0	4,182.1
Total assets (% change year over year)	(4.5)	(0.1)	5.4	6.0	10.7	9.2	10.3
LTD	1.30	1.18	1.15	1.03	0.91	0.80	0.83
ROE (%)	(1.1)	(18.3)	0.5	5.4	(0.9)	1.5	7.0
ROA (%)	(0.1)	(2.0)	0.1	0.8	(0.1)	0.2	0.89
NPL ratio (%)	15.5	17.6	17.5	15.9	12.6	10.3	7.3
CAR ratio (%)	16.5	14.7	14.4	16.2	15.5	16.1	16.4

Source: Central Bank of Montenegro

Banking system in Montenegro is regulated by the Central Bank of Montenegro.

Macedonia

As of 31 December 2017, there were 15 banks and two savings houses operating in Macedonia. Collectively, their consolidated balance sheet amounted to EUR 7.5 billion. The five banks with the largest market share account for 74.6 per cent. of total assets. The largest bank amongst these is Komercijalna banka A.D., with 22.7 per cent. market share by total assets.

Regardless of the political turmoil in the country, the Macedonian banking system exhibits stable and improving key metrics, which are outlined in the table below.

	31 December						
Macedonia Banking System	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Total assets (EUR millions)	5,384.5	5,738.0	6,007.1	6,510.6	6,878.3	7,232.8	7,513.2
Total assets (% change year over year)	8.5	6.6	4.7	8.4	5.6	5.2	3.9
LTD	0.89	0.89	0.90	0.80	0.92	0.87	0.88
ROE (%)	3.4	3.8	5.7	7.4	10.4	13.6	13.5
ROA (%)	0.4	0.4	0.6	0.8	1.1	1.5	1.4
NPL ratio (%)	9.9	10.5	11.5	11.3	10.8	6.6	6.3
CAR ratio (%)	16.8	17.1	16.8	15.7	15.5	15.2	15.7

Source: National Bank of the Republic of Macedonia

Banking system in Macedonia is regulated by the National Bank of the Republic of Macedonia.

Kosovo

Kosovo's banking system is the smallest one amongst the NLB core markets. As of 31 December 2017, it amounted to 3.88 billion EUR of total assets. Banks with foreign ownership continue to dominate the banking sector, where eight of the ten banks licensed to operate in the country are under foreign ownership and manage 88.3 per cent. of total assets and 91.0 per cent. of the banking sector capital. The banking sector continued to be characterized with an accelerated increase of its credit activity, good financial performance and a satisfactory level of indicators which measure the health of sector, as evident from the table below.

	31 December						
Kosovo Banking System	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Total assets (EUR millions)	2,649.7	2,829.3	3,059.3	3,185.7	3,387.3	3,636.8	3,877.5
Total assets (% change year over year)	7.9	6.8	8.1	4.2	6.3	7.4	6.9
LTD	0.81	0.77	0.74	0.74	0.75	0.77	0.80
ROE (%)	14.9	8.3	10.6	20.3	26.4	18.5	21.3
ROA (%)	1.4	0.8	1.0	2.0	2.9	2.2	2.6
NPL ratio (%)	5.7	7.5	8.7	8.3	6.2	4.9	3.1
CAR ratio (%)	17.6	14.2	16.7	17.8	19.0	17.9	18.0

Source: Central Bank of the Republic of Kosovo

Banking system in Kosovo is fully regulated by the Central Bank of the Republic of Kosovo.

15. REGULATION OF THE BANKING SECTOR IN THE REPUBLIC OF SLOVENIA

The following description of the regulation of the banking sector in the Republic of Slovenia is of a general nature and is not intended to be exhaustive. All information regarding current regulation and planned or proposed changes is provided as at the date of this Prospectus.

15.1 Introduction

The Slovenian banking sector and all banking activity in general is strictly regulated and supervised. Only banks and savings banks (which are a separate category under Slovenian law) are entitled to accept deposits from the general public. Additionally, banks may engage in the provision of certain services which are not reserved to the banks, such as lending, financial leasing, payment services, investment services, safe custody services, and other financial services. The legislation governing the banking sector and financial institutions is subject to frequent changes. The below paragraphs outline certain important features of the legislation applicable to the Slovenian banking sector.

15.2 Banking supervision

Banks in the Eurozone member states, including Slovenian banks, are subject to supervision by the SSM, which comprises the ECB and the national supervisory authorities of the participating countries.

The ECB directly supervises the 119 most significant banks of the participating countries, comprising almost 82 per cent. of banking assets in the Eurozone including three Slovenian banks (NLB, NKBM, and Abanka). Ongoing supervision of these banks is carried out by JST. Each bank has a dedicated JST, comprising of ECB staff and national supervisors.

The SSM, acting through the ECB and/or the Bank of Slovenia, has broad competencies and numerous legal capabilities to supervise banks. Its powers include, amongst other things: (i) granting authorisations, including banking licences, the authorisation to acquire shareholdings in banks exceeding certain thresholds ("**qualifying holdings**"), the authorisation to act as a member of a bank's management board; (ii) monitoring, collecting and verifying the information regarding banks and other persons who are subject to reporting requirements; (iii) carrying out reviews of the operations of banks and other persons; and (iv) imposing supervisory measures.

The supervisory measures which may be imposed on a bank include orders to rectify the identified breaches (including, for example, orders to provide capital in excess of the general requirements, to implement specific measures to improve the internal governance arrangements, to use net profits and retained earnings to improve its capital adequacy, to limit employees' bonuses, to replace members of the bank's management or supervisory board), early intervention measures (such as orders to convene the bank's general meeting by a specific deadline and to propose the adoption of an increase or decrease in the bank's share capital or other specific measures for the bank's recovery, to change the bank's business strategy, as well as removal or replacement of members of bank's bodies or senior management) and withdrawal or conditional withdrawal of authorisation to provide banking, financial and/or ancillary financial services. Supervisory measures can also be imposed against shareholders holding qualifying holdings (such as withdrawals of authorisation to acquire a qualifying holding, orders to dispose of shares or prohibitions to exercise the rights attached to shares) or members of governing bodies (such as withdrawals of authorisation to act as a member of the relevant body).

15.3 Other authorities with material regulatory powers over the banking sector in the Republic of Slovenia

Some aspects of the banking industry are also regulated by other administrative bodies, including: (i) the SMA with respect to investment services; and (ii) Agencija za zavarovalni nadzor (Insurance Supervision Agency) (the "**AZN**") with respect to insurance services.

Additionally, in accordance with the State Administration Act (Zakon o državni upravi (*ZDU-1*)), the Ministry of Finance of the Republic of Slovenia is responsible for creating conditions for the development of the banking system and for contributing to the stability of the Slovenian financial system.

15.4 Capital requirements and risk management requirements

Banks must satisfy numerous regulatory requirements concerning the operations of their businesses. The most important of these requirements include: (i) the obligation to conduct their financial management using strictly defined methods; and (ii) the requirements concerning their own funds, capital adequacy ratio, concentration limits, liquidity, capital adequacy and risk management systems.

Laws, resolutions, regulations, recommendations and opinions published by the Slovenian and EU legislative bodies, the ECB and the Bank of Slovenia are important to banks operating in the Republic of Slovenia. Certain key legislation is described below.

IFRS 9

As at 1 January 2018, a new approach for the calculation of loan impairments and provisions came into force with the replacement of IAS39 with IFRS9. IFRS 9 requires the shift from an incurred loss model to an expected loss model that provides an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. A detailed description of the new accounting standard is presented in 8.1 Impairment methodology.

Slovenian legislation

In May 2015, "**ZBan-2**" entered into force, introducing new concepts mainly in the field of bank capital requirements (introduction of capital buffers), internal management arrangements and higher corporate governance standards. It transposes the EU legal framework for the banking system into Slovenian's national law, in particular Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms ("**CRD IV**"), which alongside the directly applicable Regulation 575/2013 on prudential requirements for credit institutions and investment firms ("**CRR**") is a key EU act in the banking sector. ZBan-2 also regulates the partial transfer of supervisory power to the ECB, which took over some of the supervisory powers over the Slovenian systemic banks as the main supervisor already within the framework of the SSM already in November 2014.

European legislation

Basel III

In December 2010 and June 2011, the Basel Committee on Banking Supervision approved the Basel III Accord, tightening the capital and liquidity requirements for banks in order to improve the banking sector's resilience to the deficiencies revealed during the financial crisis. As part of the Basel III Accord, approved in January 2013, new liquidity coverage requirements and liquidity risk monitoring tools were introduced. Further, in October 2014, NSFR requirements were introduced.

One of the main elements of the Basel III Accord is the concept of bank regulatory capital which includes the following elements: (a) Tier 1 capital, including CET1 and Additional Tier 1 capital; and (b) Tier 2 capital. CET1 consists of common shares of the bank, share premium, retained earnings, accumulated other comprehensive income and other disclosed reserves, as well as minority interests and regulatory adjustments. Additional Tier 1 capital consists of instruments issued by the bank that meet the criteria for inclusion in Additional Tier 1 and do not qualify for CET1, share premiums on those instruments or instruments issued by the bank's subsidiaries and held by third-parties that meet the criteria for inclusion in Additional Tier 1 and do not qualify for CET1 and regulatory adjustments. Tier 2 capital consists of the instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital and do not qualify for Tier 1 capital, share premiums on those instruments, instruments issued by the bank's subsidiaries and held by third-parties that meet the criteria for inclusion in Tier 2 capital and do not qualify for Tier 1 capital, some loss provisions, and regulatory adjustments. For the purpose of allocating the instruments to the relevant regulatory capital category, they must satisfy certain additional criteria described in detail in the Basel III Accord. According to the Basel III Accord, CET1 capital must represent at least 4.5 per cent. of the RWA and the Tier 1 capital must represent at least 6.0 per cent. of these assets, whereas the Total Capital (Tier 1 capital + Tier 2 capital) must represent at least 8.0 per cent. of the RWA.

The provisions of Basel III have been implemented in the EU in the CRD IV Package (as defined below).

CRD IV Package

The purpose of the CRD IV Package is to reform the EU banking sector by implementing, amongst other things, uniform principles of prudential supervision (including regulatory reviews and assessments of banks) and requirements aimed at improving the financial stability of banks and their stress resilience. The CRD IV Package includes: (i) the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (the "**CRR**"); and (ii) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (the "**CRD**") (jointly referred to as the "**CRD IV Package**"). The CRD IV Package will be supplemented with technical standards of the European Banking Authority and delegated acts of the EC as they are passed and published in the Official Journal of the EU. The CRR is legally binding and has been directly applicable in all EU member states since 1 January 2014 (but for certain designated provisions). On the other hand, the CRD needs to be enacted into national legal systems. The CRD was implemented in the Republic of Slovenia mainly in the form of ZBan-2, which entered into force in May 2015.

The key assumptions of the CRD IV Package are discussed below.

Requirements regarding own funds

In the CRD IV Package terminology, the equivalent of the Basel III regulatory capital is the own funds which comprise Tier 1 capital (CET1 and Additional Tier 1 capital) and Tier 2 capital. The requirements regarding the levels of these types of capital are analogous to those of Basel III (see "*—Capital requirements and risk management requirements—European legislation – Basel III*" above).

The elements of the particular capital included in own funds are generally identical to the elements listed in the analogous categories of regulatory capital under Basel III. The CRR defines the detailed terms of allocating particular items or instruments into the relevant categories of own funds, the principles of making adjustments resulting from prudential filters which demand that certain items be excluded from own funds, and the principles of deductions from own funds (for example, the losses for the current financial year, intangible assets, and deferred tax assets or equity interests in own instruments that the bank might be obliged to buy out under its binding contractual regulations are to be deducted).

The required capital ratios are expressed as a percentage of the RWA which is calculated as a total of: (i) the risk-weighted exposure for credit risk and dilution risk for the whole business activity of the bank, minus the risk weighted exposures related to the trading portfolio; (ii) the own-funds requirements calculated for the trading-book business of the bank for position risk and large exposures; (iii) the own funds requirements calculated for the foreign-exchange risk, settlement risk and commodities risk; (iv) the own funds requirements calculated for the credit valuation adjustment risk of OTC derivative instruments other than the credit derivatives recognised to reduce risk-weighted exposure amounts for credit risk; (v) the own funds requirements calculated for operational risk; and (vi) the risk-weighted exposure amounts calculated with respect to counterparty risk arising from the trading book business of the institution for the certain types of transactions and agreements.

In line with Basel III, CRR prescribes the following minimum capital ratios:

- CET1 capital ratio: 4.5 per cent.,
- Tier 1 capital ratio: 6 per cent., and
- Total capital ratio: 8 per cent.

In addition to the aforementioned ratios, which form the Pillar 1 requirement, banks must also meet the additional own funds requirement set by the supervisory institution through the SREP process (Pillar 2 requirement). Both requirements together represent the minimum total SREP requirement (TSCR). Pursuant to the ECB decision from December 2017, NLB is in 2018 required to maintain a Pillar 2 requirement of 3.50 per cent. and hence a TSCR of 11.50 per cent. on a consolidated level.

Through the SREP process, the supervisory institution also sets a bank-specific Pillar 2 Guidance, which is treated as a capital recommendation (it is not obligatory). It is expected to be applied over and above the OCR from 1 January 2019.

Capital buffers requirements

Since 2016, the European CRD IV directive – transposed into Slovenian legislation with ZBan-2 – has introduced a system of capital buffers in order to provide adequate capital accumulation from a bank's operational results. Capital buffers are calculated on the basis of risk exposure amounts calculated for the purposes of own funds requirements (i.e. in the context of the calculation of capital adequacy). On top of the Pillar 1 and Pillar 2 requirements, banks must cover with their highest quality capital (CET1) the requirements arising from capital buffers – the CBR. However, these requirements are not set as a minimum and their breach is not treated as capital inadequacy but leads to restrictions on payments of dividends and other discretionary distributions with the aim of strengthening the capital base.

The CBR is a combination of the following elements:

- Capital conservation buffer (0.625 per cent. at 31 December 2016 which increases by 0.625 per cent. per annum up to 2.5 per cent. in 2019)
- Countercyclical buffer, a macro-prudential measure intended to protect the banking sector from losses potentially caused by cyclical risks in the economy, with the purpose to ensure that a bank has a sufficient capital base in periods of credit growth, to be used in stress periods or when the conditions for lending are less favourable, i.e. to absorb losses. The buffer value may fluctuate between 0 per cent. and 2.5 per cent. of the amount of total risk exposure (in exceptional cases exceeding that) and depends on the amount of risk in the system. The authority responsible for determining a countercyclical buffer for the NLB Group is the Bank of Slovenia.
- Global systemically important institutions (G-SII) buffer – not relevant for the NLB Group
- O-SII buffer, determined by the Bank of Slovenia at the level of at least 1 per cent.
- Systemic risk buffer (SRB) – not currently anticipated for the NLB Group

In 2018, the combined capital buffer requirement for NLB on a consolidated basis amounts to 1.875 per cent.:

- ***Capital conservation buffer***: Set at 1.875 per cent. in 2018 (in 2017, it amounted to 1.25 per cent.)
- ***Countercyclical buffer***: At the end of December 2017 and end of June 2018, the NLB Group's requirement amounted to 0 per cent.

Other buffers were not relevant for the NLB Group as of 31 December 2017 or 30 June 2018.

In 2019 and the following years, CBR is expected to increase to at least 3.5 per cent.:

- ***Capital conservation buffer*** will increase by 0.625 per cent. per annum up to 2.5 per cent. in 2019 and from then on.
- ***Countercyclical buffer***: The countercyclical buffer for each country is subject to macroeconomic developments. In the near future however, the countercyclical buffer for NLB is not expected to increase significantly.
- ***O-SII buffer***: NLB was identified by the Bank of Slovenia as an Other systemically important institution (decision from 17 December 2015) and in line with this decision, NLB will be obliged to provide CET1 capital in the amount of 1 per cent. of RWA on the consolidated level on top of the Pillar 1 and Pillar 2 requirements from 1 January 2019 on.

Capital requirements

As of 31 December 2017 and 30 June 2018, the NLB Group's ICAAP meets the requirements of the Regulation (CRR), the recommendations of both the Bank of Slovenia, the ECB, European Banking

Authority and follows good banking practices. The main purpose of the implementation of the ICAAP and ILAAP (internal liquidity adequacy assessment process) is to provide the following:

- assurance of adequate identification and measurement of risks;
- adequate capital, funding and liquidity of the NLB Group in connection with the Risk appetite; and
- assured robust risk management process (from the organisational and methodological point of view) on an on-going basis.

The NLB Group's ICAAP is integrated into the decision-making process at the strategic and operating level, including the budgeting process. With the active role of the Management and Supervisory Boards of NLB, it represents one of the key components of the NLB Group's proactive management, with the aim to ensure stable long-time operations. Pursuant to the EBA guidelines, the NLB Group is constantly upgrading the ICAAP and ILAAP. The ILAAP involves a comprehensive assessment of liquidity risk control including qualitative and quantitative elements of assessment.

The ICAAP includes at least regular quarterly monitoring and reporting of capital requirements at the level of the Management and Supervisory Boards of NLB, and defines a set of corrective measures for managing and mitigating risks.

The internal assessment of the NLB Group's capital requirements consists of the following steps:

- the identification of all risks, the definition of materially significant risks and their treatment in the context of the ICAAP;
- the selection of the approach to the calculation of regulatory capital requirements (Pillar 1);
- the definition of the internal methodology for the identification, measurement and calculation of capital requirements for risks not covered within the scope of Pillar 1 (Pillar 2);
- the implementation of stress scenarios for key material risks;
- the methodology for preparation of an aggregate assessment of capital requirements for all material risks using the baseline and adverse scenarios;
- the definition of the ICAAP limits from the aspect of capital consumption for materially significant risks;
- planning the volume of available capital, defining the target capital adequacy ratio; and
- the regular monitoring and definition of the measures to manage and mitigate risks.

The comprehensive performance of the NLB Group's ICAAP and ILAAP is defined in an internal document in line with the EBA guidelines described in detail in "*Guidelines on ICAAP and ILAAP information collected for SREP purposes*". In addition, bank members of the NLB Group have set up their own ICAAP processes in line with the NLB Group's guidelines including the specifics of their operations, the investment portfolio structure, strategic guidelines, regulatory framework and relevant macroeconomic environment.

Regulatory capital requirements calculations

The NLB Group uses the following approaches to calculate the regulatory capital requirements on a consolidated basis:

- credit risk – standardised approach;
- market risk – standardised approach; and
- operational risk – simple approach.

In the calculation of capital ratios, risk is expressed as a risk exposure amount or a capital requirement. The capital requirement for an individual risk amounts to 8 per cent. of the total exposure to the individual risk. The table below shows the detailed composition of the capital requirements of the NLB Group as of 30 June 2018 and 2017 together with 31 December 2017, 2016 and 2015.

	30 June		31 December		
	2018	2017	2017	2016	2015
			(EUR thousands)		
Central governments or central banks	79,489	72,474	82,548	69,148	68,557
Regional governments or local authorities	4,186	3,975	4,008	4,654	5,241
Public sector entities	3,280	3,648	4,323	4,351	4,991
Multilateral Development Banks	–	–	–	–	–
International Organisations	–	–	–	–	–
Institutions	40,034	40,075	41,842	43,200	40,632
Corporates	145,616	139,283	139,479	139,623	131,379
Retail	213,418	194,482	203,087	186,309	173,092
Secured by mortgages on immovable property	21,730	19,128	21,152	17,167	16,435
Exposures in default	25,375	37,294	29,214	45,307	68,292
Items associated with particular high risk	9,283	9,198	8,553	725	735
Covered bonds	2,319	578	981	593	719
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–
Collective investments undertakings (CIU)	569	595	519	464	214
Equity	3,488	3,661	3,871	6,066	4,601
Other items	28,004	32,114	28,136	31,572	33,083
Capital requirement for credit risk	**576,791**	**556,506**	**567,713**	**549,179**	**547,971**
Position risk – Traded debt instruments	806	1,619	451	2,238	5,521
Position risk – Equity	–	–	–	–	2
Large exposures exceeding the limit	–	–	–	–	–
Foreign exchange risk	41,378	6,351	39,527	6,096	5,465
Settlement / delivery risk	–	1	–	–	–
Commodities risk	–	–	–	–	–
Specific interest rate risk of securitisation positions	–	–	–	–	–
Capital requirements for market risks	42,184	7,970	39,978	8,334	10,988
Capital requirement for credit valuation adjustment (CVA)	168	122	68	37	745
Capital requirement for operational risk	76,279	75,959	75,959	71,420	74,455
Total capital requirements	**695,421**	**640,558**	**683,719**	**628,970**	**634,159**
Total risk exposure amount (RWA)	**8,692,764**	**8,006,979**	**8,546,482**	**7,862,128**	**7,926,985**

Liquidity coverage requirement

In order to improve the banks' resilience to risks relating to short-term liquidity loss, the CRR has implemented a requirement that banks should maintain liquid assets covering the liquidity outflows less the liquidity inflows under stressed conditions. This is to ensure that the institutions maintain levels of liquidity buffers which are adequate to face any possible imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of thirty days. This is referred to as the "**liquidity coverage requirement**". The liquidity coverage requirement is determined as a percentage ratio representing a proportion of the amount of liquid assets and net liquidity outflows over a period of stress conditions equal to 30 calendar days. The Commission Delegated Regulation (EU) 2015/61 of 10 October 2014, which supplements the CRR in respect of net inflow coverage requirements for credit institutions, states this ratio must be maintained at a level of at least 100 per cent. The LCR was implemented in four phases, from 1 October 2015 to 1 January 2018.

Net Stable Funding Ratio (NSFR)

In addition to the short-term liquidity requirements, Basel III also provides for stable long-term funding requirements and introduces a requirement that the NSFR should be maintained at a level of at least 100 per cent. The NSFR is calculated as a proportion of the available amount of stable funding. This includes the amounts of capital and liabilities available within the ratio's time perspective (up to one year), to the required amount of stable funding resulting from the liquidity characteristics and maturity period for the individual assets and off-balance sheet exposures of the bank.

The CRR requires the banks to secure the proper performance of their long-term obligations using various stable funding instruments, both in normal and stressed conditions. In order to implement the Basel III requirements, the CRR also allows for defining and implementing binding *de minimis* standards for net stable funding in accordance with the procedure described in the next paragraph. Until Basel III requirements are implemented, the EU member states can maintain or implement local law regulations concerning stable funding.

Financial leverage

The leverage ratio is calculated after January 2014 in line with the enforcement of provisions from the Regulation (EU) No 575/2013 and Directive 2013/36/EU, or as of January 2015 pursuant to the amendments in relation to the calculation published in Commission Delegated Regulation (EU) 2015/62. As of 1 January 2015, the additional requirement to disclose information concerning the leverage is in force. In February 2016 Regulation (EU) 2016/200 was adopted, laying down implementing technical guidance with regard to disclosure of the leverage ratio. In March 2016 the Implementing Regulation (EU) 2016/428 was adopted, setting out guidelines for supervisory reporting of the leverage ratio.

The leverage ratio was introduced into the Basel III framework as a simple, transparent, non-risk based supplementary measure to the risk-based capital requirements. Purpose of the leverage ratio is to limit the size of bank balance sheets with a special emphasis on exposures which are not weighted within the framework of the existing capital requirement calculations. So the leverage calculation uses Tier 1 as the numerator, and the denominator is the total exposure of all active balance sheet and off-balance-sheet items after the adjustments are made, in the context of which the exposures from individual derivatives, exposures from transactions of security funding and other off-balance sheet items are especially pointed out.

The leverage ratio of NLB Group, amounted to 11.31% at the 30 June 2018 and is well above the 3% threshold defined by the Basel Committee on Banking Supervision ("**BCBS**"). As of 1 January 2018, the leverage ratio became one of the binding minimum capital requirements.

Since the minimum requirement was exceeded so significantly, the risk of excessive leverage is not material. Leverage risk is assessed and monitored quarterly as part of the internal assessment of capital requirements process (ICAAP) and monitored in the context of the system of early warning regarding risk indicators defined in NLB's Risk Appetite. In this monitoring system, the leverage ratio has set certain limits, or as well in the case of any exceeding of defined triggers and defined notification system. The leverage ratio is regularly, quarterly monitored and reported to ALCO, Management Board and Supervisory Board of NLB Group. The monitoring of excess leverage is also included in stress tests and recovery plan measures if and whenever a bank would be required to maintain an adequate capital level. The testing for any case of extraordinary circumstances is especially important as it is future-oriented: if the leverage ratio also remains stable in extraordinary, stress conditions, the risk of a forced decrease in the NLB Group's assets is low.

Leverage ratio calculated as at 30 June 2018 amounted to 11.31%, and increased by 1.4 percentage points compared to the 31 December 2017. The increase occurred due to the capital increase by EUR 233 million due to retained earnings and the IFRS 9 effect. Total leverage exposure amount calculated in accordance with Article 111 of the Regulation (EU) No 575/2013 rose by EUR 311 million. A higher amount of total leverage exposure arose from increased on-balance sheet exposures especially banking book exposures such as sovereign exposures and retail exposures and investments in covered bonds. Amounts of derivative slightly rose and so the off-balance sheet exposures increased in comparison with end of previous year.

As of 30 June 2018, the leverage exposure was mainly driven by on-balance sheet exposures (96.2%), and other off-balance sheet exposure (3.6%), the rest was exposure from derivatives which is not significant. Among on-balance sheet exposures the most significant were Retail exposures (26%), exposures treated as sovereigns (22.8%), exposures to corporates (16.2 %) and 15.9 % to other exposures.

	As at 30 June	**As at 31 December**	
	2018	**2017**	
Calculation of leverage ratio	**Fully phase-in definition**	**Transitional definition**	**Fully phase-in definition**
Tier 1 capital	1,623,126	1,362,140	1,390,579
Total leverage exposures	14,355,961	14,044,985	14,044,985
Leverage ratio	**11.31%**	**9.70%**	**9.90%**

Leverage ratio common disclosure		NLB Group 30 June 2018 Fully phase-in definition CRR leverage ratio exposures	31 December 2017 Transitional definition CRR leverage ratio exposures	31 December 2017 Fully phase-in definition CRR leverage ratio exposures
			(EUR thousands)	
On-balance sheet exposures (excluding derivatives and SFTs)				
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	13,841,291	13,584,533	13,584,533
2	(Asset amounts deducted in determining Tier 1 capital)	(34,660)	(37,363)	(37,363)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	13,806,631	13,547,170	13,547,170
Derivative exposures				
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	15,344	14,212	14,212
5	Add-on amounts for PFE associated with all derivatives	24,504	22,719	22,719
EU-5a	Exposure determined under Original Exposure Method			
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework			
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(847)	(2,228)	(2,228)
8	(Exempted CCP leg of client-cleared trade exposures)	(10,986)	(11,831)	(11,831)
9	Adjusted effective notional amount of written credit derivatives			
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)			
11	Total derivative exposures (sum of lines 4 to 10)	28,015	22,872	22,872
Securities financing transaction exposures				
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions			
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)			
14	Counterparty credit risk exposure for SFT assets			
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013			
15	Agent transaction exposures			
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)			
16	Total securities financing transaction exposures (sum of lines 12 to 15a)			
Other off-balance sheet exposures				
17	Off-balance sheet exposures at gross notional amount	1,913,546	1,890,516	1,890,516
18	(Adjustments for conversion to credit equivalent amounts	(1,392,232)	(1,415,572)	(1,415,572)

		NLB Group		
		30 June 2018	31 December 2017	
		Fully phase-in definition	Transitional definition	Fully phase-in definition
Leverage ratio common disclosure		CRR leverage ratio exposures	CRR leverage ratio exposures	CRR leverage ratio exposures
			(EUR thousands)	
19	Other off-balance sheet exposures (sum of lines 17 to 18)	521,314	474,944	474,944
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)				
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))			
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))			
Capital and total exposures				
20	Tier 1 capital	1,623,126	1,362,140	1,390,579
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	14,355,961	14,044,985	14,044,985
Leverage ratio				
22	Leverage ratio	11.31%	9.70%	9.90%
Choice on transitional arrangements and amount of derecognised fiduciary items				
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Transitional	Fully phased in

		30 June	31 December
		2018	2017
Summary reconciliation of accounting assets and leverage ratio exposures		Applicable amount	Applicable amount
		(EUR thousands)	
1	Total assets as per published financial statements (in accordance with CRR/CRD IV)	12,516,186	12,237,745
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(30,095)	(36,806)
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0	0
4	Adjustments for derivative financial instruments	12,672	8,659
5	Adjustment for securities financing transactions (SFTs)	0	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	521,314	474,944
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0	0
7	Other adjustments	1,335,884	1,360,443
8	Leverage ratio total exposure measure	14,355,961	14,044,985

		30 June	31 December
		2018	2017
Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		CRR leverage ratio exposures	CRR leverage ratio exposures
		(EUR thousands)	
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	13,841,291	13,584,533
EU-2	Trading book exposures	52,810	59,164
EU-3	Banking book exposures, of which:	13,788,481	13,525,369
EU-4	Covered bonds	194,089	89,191
EU-5	Exposures treated as sovereigns	3,149,086	3,060,144
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	249,383	253,401
EU-7	Institutions	1,212,606	1,265,587
EU-8	Secured by mortgages of immovable properties	714,231	697,134
EU-9	Retail exposures	3,585,729	3,410,857

EU-10	Corporate	2,235,796	2,240,627
EU-11	Exposures in default	248,393	297,000
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	2,199,168	2,211,428

Remuneration policies

Under Articles 74(3) and 75(2) of CRD IV and disclosures under Article 450 of CRR, the Bank of Slovenia implemented the said guidelines ("EBA Guidelines on sound remuneration policies") in the Slovenian banking environment. According to the Regulation, the EBA Guidelines on sound remuneration policies became a binding legal act that the NLB Group must comply with, in particular when setting variable remuneration of the employees whose professional activities have a material impact on the NLB Group risk profile.

Pursuant to the applicable provisions, the NLB Group has aimed to ensure that the Remuneration Policy and its bases have been implemented also at the NLB Group level, naturally taking into account the local legislation.

Furthermore, the CRD IV requires that the competent bodies in the EU member states ensure that the remuneration policies used by banks are in line with the relevant and efficient risk management and that they do not encourage the taking of risks beyond the acceptable levels for the bank in question. The remuneration policies must be aligned with the business strategies, goals, values and the long-term interests of the bank and include the measures for the prevention of the conflict of interest.

These rules apply to senior management positions, persons deciding on business risks, employees holding supervisory functions, all employees receiving payment within the same frameworks as the senior management and persons deciding on the business strategies and whose professional activities significantly impact the risk profile of the NLB Group.

In order to determine the group of persons to whom the requirements of the remuneration policy apply, the EC adopted the Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing the CRD IV with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile. As regards defining the category of employees performing special work, the NLB Group must conduct a self-assessment on an annual basis according to the above-mentioned criteria. The proposed self-assessment shall be confirmed by the Bank's Management Board in agreement with its Supervisory Board.

Furthermore, it is stipulated for the control functions (e.g. risks, audit) that their remuneration must be independent of the performance of the unit they control. The objectives and the assessment of the employees performing special work in the control function shall be approved by the Management Board with the consent of the Supervisory Board. Furthermore, the ratio between the fixed and variable part of remuneration of such employees may be different in order to ensure the independence of their function.

In line with the EBA Guidelines on sound remuneration policies, the Remuneration Policy now specifies a safety mechanism that restricts or prevents payment of variable remuneration where the soundness of the Bank's capital base is at risk. Variable remuneration can be reduced or appropriate measures can be applied to adjust the performance with the aim of strengthening the capital base.

Pursuant to the Guidelines regarding remuneration of the Bank of Slovenia, the Remuneration Policy defines the threshold of the variable remuneration under which it is not paid out in instruments, and the model for the payment of the variable part of remuneration in case such threshold is exceeded. The deferred part of variable remuneration is paid for an individual year after three years.

The award and payment of the variable remuneration (also the deferred part) to the employee performing special work depends on adjustment criteria which result from risk management through the system for monitoring performance based on KPI and KRI targets at the level of the NLB Group, NLB and individual banking subsidiaries.

Stress tests

The CRD IV Package requires stress tests to be conducted in order to identify possible events or changes in the economic environment that may occur in the future and adversely affect the bank's credit exposures.

Stress tests are also used to assess the bank's resilience to such changes and its ability to react to them. The tests are run on two levels.

Firstly, the CRD states that the relevant bodies of the EU member states should conduct tests within each of their regulated banks as required, but at a minimum once a year. In order to ensure that uniform methods are applied in the course of the annual regulatory stress tests, on 26 August 2010 the EBA and ECB issued a set of stress tests guidelines. These were updated in the second-quarter of 2016. Secondly, the CRR requires that banks themselves should, for the purpose of assessment of their own capital adequacy, establish and regularly conduct solid stress tests processes. The choice of the test is the bank's decision, and once made it is reviewed by the regulator. The stress test applied should be meaningful and should consider the effects of severe, but plausible, recession scenarios.

The NLB Group was included in the ECB Stress test exercise for 2016. The stress test results confirmed the NLB Group's resilience in terms of existing capitalisation to be sufficient, and they were incorporated into SREP's decision, while further detailed information regarding ECB stress test results were not publicly disclosed.

On 31 January 2018, the EU-wide stress tests for 2018 were launched, while the EBA's 2018 stress test methodology was published earlier, in November 2017. The baseline scenario is in line with the December forecast published by the ECB, while the adverse scenario assumes the materialisation of four systemic risks, which are currently deemed as representing the most material threats to the stability of the EU banking sector and refer to:

- Abrupt and sizeable repricing of risk premia in global financial markets, which would spill over to the European countries and lead to a tightening of financial conditions;
- Adverse feedback loop between weak bank profitability and low nominal growth resulting from the decline in economic activity in the EU. This will affect, in particular, banks in those countries facing structural challenges in their banking sector;
- Public and private debt sustainability concerns amid potential repricing of risk premia and increased political uncertainty;
- Liquidity risks in the non-bank financial sector with potential spill-overs to the broader financial system.

For the first time, stress tests incorporate IFRS 9 accounting standards. No pass-fail threshold has been included as the results of the exercise are designed to serve as an input to the SREP.

Bank Recovery and Resolution Directive

The Directive No 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (the "**BRRD**") was adopted on 15 May 2014. The BRRD provides, amongst other things, resolution authorities to have the power to require financial institutions and groups facing insolvency to make structural changes to ensure legal and operational separation of "critical functions" that are necessary for the functioning of the real economy of one or more EU member states from other functions where necessary, to ensure the survival of such functions, or to require financial institutions to limit, or cease, existing, or proposed, activities in certain circumstances. It also includes certain powers provided to resolution authorities, including write-down powers, to ensure relevant capital instruments absorb losses upon, amongst other events, the occurrence of the non-viability of the relevant financial institution or its parent company, as well as a bail-in instrument, defined as a write down or conversion of the liabilities of an institution towards its creditors and shareholders into equity in order to capitalise that institution. The purpose of this instrument is to ensure that the taxpayer will be the last to incur the costs related to the deteriorating condition of the banks. As a rule, the BRRD does not preclude a state intervention to uphold the liquidity of a failing bank, but such an intervention is only permitted in exceptional cases where it is deemed to upkeep the public interest by ensuring the stability of the financial system, and where there is a chance to save a bank even though it cannot be capitalised with private funds.

According to the BRRD, to the extent possible, the business of a failing bank should continue to be conducted using restructuring and resolution tools based on private funds. The methods of ensuring such participation of the private sector includes, amongst other things, the bail-in instrument and an acquisition of the institution by a private sector buyer or its merger with such a buyer. Bank creditors and shareholders should be the first ones to absorb the losses, although the group incurring those loses will not include the holders of smaller deposits that are protected in the EU (below EUR 100,000). The BRRD also states that the individual states should establish restructuring and resolution funds from the premiums paid by the banks.

The ZRPPB, implementing the BRRD, entered into force on in June 2016. Pursuant to ZRPPB, the use of bail-in powers by the relevant authorities may result in the issuance of additional share capital or capital instruments, and existing shareholders may experience a dilution of their holdings or reduced profitability and returns.

The ZRPPB is based on the following key principles:

- preventing banking crises and ensuring financial stability by defining the measures to ensure sufficient speed of intervention in the bank dealing with insolvency issues in order to enable the continuation of critical financial and economic functions, while minimising the impact of the financial crises concerning economic and financial system;
- limited use of public funds in relation to the bank recovery and resolution and shifting the burden on the shareholders and creditors of the failing bank;
- bank recovery and resolution as an alternative to the regular insolvency proceedings and to enable restructuring or winding-up of banks whose failure is a threat to financial stability;
- proportionality according to which the losses incurred by the shareholders and creditors of a failing bank in the process of its recovery and resolution should not exceed the losses they would incur if the bank would be subject to a regular winding-up proceeding; and
- controlled winding up of the banks which is implemented through procedural provisions and powers enabling the failed bank to continue to conduct its business in order to ensure the preservation of its assets and maximise the repayment of the bank's creditors.

The Bank of Slovenia has been designated as the Slovenian resolution authority that is empowered to apply the resolution tools and exercise resolution powers. The Bank of Slovenia is required to develop a recovery plan for every credit institution except for credit institutions which are part of a group and subject to consolidated supervision by another supervisory authority. The law provides tools, including the sale of such bank, divestiture of assets, the establishment of provisional institutions and internal recapitalisation, which can be used for relief if the financial situation of a credit institution rapidly deteriorates. The Bank of Slovenia has the right to impose various measures, including changes in business strategy or changes to the legal and operational structures, implementation of the recovery plan, and suspending the powers of a member of the management bodies or senior management. Under the BRRD framework, shareholders, subordinated creditors, and customers with deposits above EUR 100,000 may be required to bear first losses at the beginning of the recovery process. In addition, the power of the resolution authority to decide which liabilities to transfer out of a failing institution based upon the objectives of ensuring the continuity of services and avoiding adverse effects on financial stability may affect the equal treatment of creditors. To avoid having institutions structure their liabilities in a way that impedes the effectiveness of the bail-in or other resolution tools and to avoid the risk of contagion or a bank run, the BRRD requires that institutions meet a robust MREL at all times.

For each of the components of the MREL, the resolution authority may consider upward or downward adjustments, on the basis of a thorough case-by-case analysis of financial information, supervisory data and resolution strategies. In order to meet MREL requirements, NLB may need to issue MREL-eligible instruments, impacting its funding structure and financing costs. Such mechanisms and procedures, besides having the capacity to restrain NLB's strategy, could increase the average cost of NLB's liabilities, in particular, without limitation, the cost of additional Tier 1 and Tier 2 instruments and thus negatively affect NLB's earnings. Tier 1 instruments may also result in a potential dilution of the percentage of ownership of existing shareholders, given their convertibility features.

MREL, which became effective during 2016, involves a transition period and is expected to have implications on the issuance of debt by banking institutions. MREL-eligible instruments include a bank's debt instruments that fulfill the criteria set out in Art 45(4) of BRRD (i.e. debt instruments (a) which are issued and fully paid up; (b) which are not owed to, secured by or guaranteed by the institution itself; (c) whose purchase is not funded by the institution; (d) whose remaining maturity is greater than one year; which do not arise from a derivative; and (e) which do not arise from a deposit which benefits from preference in the national insolvency hierarchy) and MREL-eligible banking institutions are those that fall within the scope of BRRD. MREL may lead to the introduction of alterations in the liability structure through the issuance of new senior debt with some subordination structure or by strengthening the Tier 2 capital of banks.

On 30 April 2018, NLB received information from the SRB on the adoption of the NLB Group Resolution Plan based on items from submitted Recovery plan of the NLB Group and the Decision from the Bank of Slovenia on the determination on the MREL. MREL is expressed as ratio of TLOF on the sub-consolidated level of the NLB Resolution Group and has to be attained by 31 March 2019 and NLB Resolution Group comprises NLB and all members of the NLB Group except the six bank members - NLB Banka Skopje, NLB Banka Beograd, NLB Banka Podgorica, NLB Banka Banja Luka, NLB Banka Sarajevo and NLB Banka Prishtina.

The MREL requirement for NLB Group is based on the MPE and was determined in the amount of 17.40 per cent. of TLOF, which as per financials as of 31 December 2016 totals to EUR 1,512.79 million as at that date.

Single Supervisory Mechanism and Single Resolution Mechanism

In October 2013, the EU adopted a SSM under the supervision of the ECB. As a consequence, since November 2014 all significant institutions in the Eurozone are now under the direct supervision of the ECB. The Council of the EU further adopted on 15 July 2014 a regulation establishing the SRM, which provides for the establishment of the SRB as the authority in charge of the implementation of the SRM and the establishment of a SRF financed by banks at the national level. The SRM is applicable from 1 January 2016. Pursuant to the SRM, on 8 October 2014, the EC adopted the delegated regulation on the provisional system of instalments on contributions to cover the administrative expenditures of the SRB during the provisional period; on 19 December 2014, the Council adopted the proposal for a Council implementing act to calculate the contributions of banks to the SRF, which provides for annual contributions to the SRF to be made by the banks calculated on the basis of their liabilities, excluding own funds and covered deposits and adjusted for risks. Within the framework of the Single Resolution Mechanism, the amendment to ZOSRB-A entered into force in December 2015, regulating the financing mechanism of the Single Resolution Fund. The SRF has replaced national resolution funds as of 1 January 2016 implemented pursuant to the BRRD. During the year ended 31 December 2017, NLB accrued expenses of EUR 2.7 million in connection with contributions to the SRF, by the 30 June 2018, the expenses amounted of EUR 2.6 million.

MiFID II

On 15 May 2014, the European Parliament and European Council adopted directive (Directive 2014/65/EU) and related regulation (Regulation 600/2014) on markets in Financial Instruments (together "**MiFID II**"), which repealed and recast the existing Directive 2004/39/EC on markets in financial instruments. MiFID II introduces a number of new measures which are designed to overhaul existing rules for market infrastructures (including the application of regulatory requirements to a new category of multilateral, discretionary trading venues for non-equities, the Organised Trading Facility), increase transparency and transaction reporting requirements, enhance existing conduct of business requirements and supervisory enforcement powers, increase regulation of commodities business and introduce new rules for third country firms accessing EU markets. The new requirements introduce a number of changes to the banking sector's market infrastructure and conduct rules (including enhanced suitability requirements) and introduces new investor protection measures including product governance requirements.

MiFID II entered into force on July 2014 and was changed in 2016 by the Directive 2016/1034/EU. Directly applicable regulatory and implementing technical standards, and guidelines regarding the application of different provisions of the MiFID II were published by ESMA and EC. It is expected that the Slovenian law, implementing MiFID II, will be adopted by the end of 2018 at the latest.

EU Deposit Guarantee Scheme Directive

In Europe, the first EU Deposit Guarantee Scheme Directive required EU member states to introduce at least one deposit guarantee scheme by 1 July 1995. The EU DGSD was reviewed and a new legislative proposal was published by the EC in July 2010 to recast and replace the current EU DGSD. In April 2014, the EU Deposit Guarantee Scheme Directive was recast and replaced by the current Directive 2014/49/EU of the European Parliament and the Council of 16 April 2014 on deposit guarantee schemes (the "**EU DGSD**"). The main aims of the recast EU DGSD are to restrict the definition of "deposit", to exclude deposits made by certain financial institutions and certain public authorities, to reduce time limits for payments of verified claims to depositors and to make provisions on how deposit guarantee schemes should be funded. In addition, the recast EU DGSD allows for temporary increases in the coverage level in relation to deposits arising certain events, such as the sale of a private residential property. The rules on depositor protection rules and supervisory statements implementing the EU DGSD, took effect in the Republic of Slovenia on 12 April 2016 with ZSJV. Bank of Slovenia as the DGS authority has already adopted additional rules on DGS with the Regulation on Deposit Guarantee Scheme which also implements the EU DGSD.

The Bank of Slovenia established a special deposit guarantee fund at the end of 2016 on the basis of the ZSJV. The fund is being financed by contributions from banks and savings banks established in Slovenia. The fund is used to make repayments of deposits covered by guarantee, and to finance resolution or compulsory winding-up measures by means of which the guarantee of access to deposits covered by guarantee is maintained for depositors.

Total guaranteed deposits amounted to EUR 17.06 billion as at 31 December 2016. Total guaranteed deposits in Slovenia amounted to EUR 17.9 billion as at 31 December 2017. The fund's target level is at least 0.8 per cent. of total guaranteed deposits. Funds will be paid into the fund by banks in annual contributions until the fund's target level, as determined by the Bank of Slovenia, is reached, whereby funds equivalent to at least 0.8 per cent. of total guaranteed deposits as at 3 July 2024 must be paid in by banks by the aforementioned date.

To date the DGS in the Republic of Slovenia has been financed by ex-post contributions by the banks, which in the event of the collapse of an individual bank would be called on by the Bank of Slovenia to provide funds for the repayment of the guaranteed deposits at the bank in question, the government guaranteeing the repayment in the last resort, should the banks be unable to provide the funds in timely fashion.

Under the new arrangements ex-post contributions are retained in the event of the deposit guarantee fund not having sufficient funds at its disposal to repay guaranteed deposits; in such an event the banks would have to provide additional funds via extraordinary contributions, and in extremis the law provides for the possibility of a short-term loan to be provided to the fund by the government, and a liquidity loan to be provided by the Bank of Slovenia subject to the requisite collateral.

Another innovation brought by the law is the possibility of using the fund's assets for the purposes of bank resolution and dissolution, when depositors' access to guaranteed deposits is being maintained in proceedings for the resolution or dissolution of a bank, which in particular includes cases when the guaranteed deposits are being transferred to a new bank and the ability to transact with the guaranteed deposit is being ensured for depositors. NLB's contribution to the DGS for 2017 was EUR 4.7 million, for 2018 the amount was 5.7 million.

In view of the Banking Union, there are plans that EDIS, the European Deposit Insurance Scheme as the last pillar of the Banking Union, will be established in the future.

European Market Infrastructure Regulation

EMIR was adopted by the European Parliament and European Council on 4 July 2012 and entered into force on 16 August 2012. EMIR provides for certain OTC derivatives contracts to be submitted to central clearing and imposes, *inter alia*, margin posting and other risk mitigation techniques, reporting and record keeping requirements. The NLB Group is subject to reporting obligations which have already been in force since 12 February 2014, with the latest revised requirements from 1 November 2017. The clearing and margin requirements are being phased in. The NLB Group will be subject to clearing requirements in relation to those classes of derivatives that are declared to be subject to the clearing obligation, from 21

June 2019, but irrespective of this deadline clearing processes for indirect clearings through a clearing broker have already been implemented since June 2013. Margin requirements for OTC derivatives contracts not cleared by a central clearing counterparty, which reduce counterparty credit risk and mitigate a potential systemic risk, are applied to the NLB Group from 1 March 2017.

Insurance Mediation Directive

In July 2012, the EC published a proposal for the revision of the Insurance Mediation Directive (2002/92/EC) which established an EU-wide supervisor regime for intermediaries involved in the promotion, sale and administration of certain insurance products. The recast IMD2 expands the scope of the Insurance Mediation Directive to cover sales of all insurance products and *inter alia*, (i) introduces more stringent advertising and disclosure requirements (in particular in relation to bundled products); (ii) introduces rules covering the management of conflicts of interest; and (iii) introduces rules covering the disclosure of remuneration received by insurance intermediaries. IMD2 is expected to have a more limited impact on the Slovenian intermediary regime than in other European jurisdictions as the Slovenian intermediary regime already incorporates a number of the requirements proposed by IMD2.

Consumer protection

The new Consumer Credit Act (*Zakon o potrošniških kreditih* ("**ZPotK-2**")) provides the legal framework for the protection of consumer rights in connection with the lending to consumers. The provisions of ZPotK-2 regulate, amongst others, advertising of consumer loans, information obligations, risk assessment obligations, format and mandatory content of the loan agreement, calculation of the effective rate of interest, the right to prepay the loan at any time and licensing and education of the loan brokers.

In the EU, the consumer protection legislation is intended to change further, in order to enhance consumer rights online, giving consumers the tools to enforce their rights through representative action and better protection against unfair commercial practices, higher penalties, improving quality standards and improving conditions for businesses.

15.5 Personal data and identity protection

In light of the large number of individuals serviced by banks, the regulations concerning personal data protection are of particular importance to the banks' operations. Any operations performed with the use of personal data, such as collecting, recording, storing, editing, changing, making available or removing it (collectively, personal data processing) are only permitted in circumstances set out in the relevant legislation. A personal data administrator (for example, a bank with respect to the client data it processes) is required to employ technical and organisational measures ensuring the protection of the data which is being processed, and in particular against being disclosed to unauthorised persons, taken away by an unauthorised person, or loss, damage or destruction. Additionally, the persons whom the data concerns should be able to access and correct their data. The NLB Group's operations are subject to a number of laws relating to data privacy.

The requirements of these laws may affect the NLB Group's ability to collect and use personal data, transfer personal data to countries that do not have adequate data protection laws and also to utilise cookies in a way that is of commercial benefit to the NLB Group. The NLB Group's operations are subject to a number of laws relating to data privacy. The requirements of these laws may affect the NLB Group's ability to collect and use personal data, transfer personal data to countries that do not have adequate data protection laws or to countries outside the EU or the EEA and also to utilise cookies in a way that is of commercial benefit to the NLB Group. From 25 May 2018 the NLB's operations are also be affected by the new Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation). Enforcement of data privacy legislation could result in the NLB Group being subjected to claims from its customers that it has infringed their privacy rights, and it could face administrative or even criminal proceedings. In addition, any enquiries made, or proceedings initiated by, individuals or regulators may lead to negative publicity and potential liability for the NLB Group. The NLB Group must also comply with the Payment Card Industry Data Security Standards in respect of any data collected, transferred or processed in respect of any customer payments from branded payment cards. Non-compliance with regulatory requirements may lead to the NLB Group facing fines, increased card handling fees or withdrawal of payment processing services in the future.

See "*2. Risk Factor—The NLB Group must comply with data protection and privacy laws and may be targeted by cybercriminals*".

Regulation (EU) 910/2014 on e-identification and trust services for electronic transactions in the internal market (the "**Electronic Signatures Regulation**") establishes a legal framework for electronic signatures, electronic seals, electronic time stamps, electronic documents, electronic registered delivery services and certificate services for website authentication. The Electronic Signatures Regulation sets the conditions under which EU member states recognise means of electronic identification of natural and legal persons falling under another EU member state's electronic identification scheme which has been notified to the EC.

The provisions of the Electronic Signatures Regulation apply in EU member states, including in the Republic of Slovenia, on 1 July 2016. In line with the Electronic Signatures Regulation NLB Certification Agency operates within the NLB as a registered certification authority for qualified digital certificates.

15.6 Payment services

In April 2015, Regulation (EU) 2015/751 of the European Parliament and of the Council on interchange fees for card-based payment transactions (the "**MIF Regulation**") was adopted and in October 2015, the European Parliament adopted the EC proposal for a PSD2.

PSD2 is intended to update the existing legal and regulatory framework for payment services in the EEA, broadening its application to capture previously-unregulated payment service providers, and to improve the transparency and security of payment services. On 23 December 2015, the recast PSD2 was published in the Official Journal. PSD2 entered into force on 12 January 2016. From the date of PSD2's publication in the Official Journal, EU member states had two years to introduce the necessary changes in their national laws in order to comply with the new rules and were required to transpose the provisions of PSD2 into national law by January 2018. In preparation for the adoption of PSD2 into Slovenian law, the NLB Group has established a multidisciplinary working group to examine and address the impact of PSD2. Regulatory and implementing technical standards have already been published, as well as the respective guidelines (as stipulated in PSD2) as well as national legislation implementing PSD2 provisions. Amongst other issues, special attention has been dedicated to security of payment services, also in respect to access to bank accounts from third party providers, as regulated in PSD2.

Slovenian law transposing PSD2 was adopted in February 2018, the Payment Services, Services of Issuing Electronic Money and Payment Systems Act (*Zakon o plačilnih storitvah, storitvah izdajanja elektronskega denarja in plačilnih sistemih*) (the "**Payments Act**") and came into force on 22 February 2018. The RTS on strong customer authentication and secure communication under PSD2 was published in the EU Official Journal 13 March 2018 and is applicable from 14 September 2019, except for paragraphs 3 and 5 of Article 30 (test environment to be provided by ASPSP for TPP by 14 March 2019 at the latest).

The functioning of the Slovenian banking sector is affected by the Payments Act, which governs the terms of payment services concerning, in particular, the transparency of contractual provisions and the disclosure requirements relating to payment services, the rights and obligations of the parties to the agreements for payment services, and the scope of the liability of the service providers in relation to their payment services, regulatory, organisational, capital and disclosure obligations imposed on the companies providing payment services, as well as the basic principles of the functioning of the nationwide market of payment card transactions.

Along with the Payments Act there are a number of guidelines and directly applicable technical standards, adopted on the basis of PSD2, i.e. EBA Guidelines on fraud reporting requirements under Article 96(6) of PSD2, EBA Guidelines on major incident reporting under PSD2, Regulatory Technical Standards setting technical requirements on development, operation and maintenance of the electronic central register and on access to the information contained therein, under Article 15(4) of PSD2, Implementing Technical Standards on the details and structure of the information entered by competent authorities in their public registers and notified to the EBA under Article 15(5) of PSD2, and Regulatory Technical Standards on Strong Customer Authentication and common and secure communication under Article 98 of PSD2.

PSD2 implementation, including API management system and consent management as well as fraud and major incident reporting require major IT changes of the IT systems in place and may therefore result in further financial costs, depending on the development of the TPP.

On 19 December 2014, the EBA published its final guidelines on the security of internet payments. The guidelines set minimum security requirements that EU payment service providers were expected to have implemented by 1 August 2015 in respect of internet payments including, amongst other things, customer authentication requirements and the storage of sensitive payment data.

Other significant payment services legislation include: regulation (EU) 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro (the "**SEPA Migration Regulation**"). The SEPA Migration Regulation sought to create an integrated market for electronic payments in Euro, by replacing existing national payment schemes in euro with pan-European SEPA payment schemes. The new SEPA payment schemes were implemented for Eurozone countries by 2014. The deadline for implementation of these schemes by non-Eurozone countries was 31 October 2016.

The MIF Regulation addresses the EC's concerns about the impact of interchange fees charged on debit and credit card transactions. It also lays down business rules and other technical requirements that apply to all types of card-based payment transactions. The combined effect of PSD2 and the MIF Regulation would be to introduce maximum levels of interchange fees for transactions based on consumer debit and credit cards and ban surcharges on these types of card. The MIF Regulation was published in the Official Journal of the EU on 19 May 2015 and most of the provisions entered into force on 8 June 2015. Rules capping interchange fees for consumer debit and credit card transactions came into force on 9 December 2015.

The MIF Regulation entered into force in the EEA region, thus, at this time, affecting solely NLB in the Republic of Slovenia. On 20 November 2015, the Republic of Slovenia published the regulation equalling maximum levels of interchange fees to those set by the EU regulation. The effects of the MIF Regulation are already reflected in the 2016 results, and no material variances from current planned numbers are expected.

Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (the "**Payments Accounts Directive**") introduced measures that banks and other payment service providers must comply with, including, in relation to provision of standard fee information in relation to payment accounts to consumers, facilitation of account switching and ensuring basic bank accounts are available to all EU consumers. The Payment Accounts Directive came into force in September 2014, with EU member states being required to transpose their provisions into national law by September 2016. The Republic of Slovenia introduced local legislation in June 2016, with the requirements to offer a new type of basic account services and facilitate account switching amongst banks, which NLB has since implemented with no material effects yet noted. Parts of the Payment Accounts Directive that relate to standard fee information already came into place with bylaws and no material variances from current planned numbers are expected.

15.7 Agreement to Improve International Tax Compliance and to Implement FATCA

On 2 June 2014, the Republic of Slovenia concluded an Agreement to Improve International Tax Compliance and to Implement FATCA (the "**Tax Compliance Agreement**") with the United States that entered into force on 1 July 2014, which further defines the obligations of Slovenian financial institutions and FURS (the Financial Administration of the Republic of Slovenia) related to FATCA implementation. The Tax Compliance Agreement supplements the existing rules on cooperation between the Republic of Slovenia and the United States in the field of avoidance of double taxation and exchange of information and will contribute to the reduction of the administrative burden to Slovenian financial institutions. In accordance with Annex II of the Tax Compliance Agreement, certain Slovenian financial institutions and financial accounts will be exempt from the system of reporting and from U.S. withholding tax.

The conclusion of the Tax Compliance Agreement, which is based on the Model 1 IGA – Intergovernmental Agreement ("**IGA**"), ensures the implementation of FATCA provisions on the basis of reporting and exchange of information in accordance with the Convention between the Republic of Slovenia and the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital. According to the Tax Compliance Agreement, Slovenian financial institutions are required to report information as determined in the Tax Compliance Agreement to FURS, which then makes the information available to the IRS. Reciprocally, the Republic of Slovenia receives information from the IRS about the funds of Slovenian taxpayers in the United States.

The obligations of the Slovenian financial institutions in relation to the FATCA reporting have been also included in the Slovenian Tax Procedure Act (*Zakon o davčnem postopku* ("**ZDavP-2**")).

15.8 Mandatory automatic exchange of information in the field of taxation

The Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation provides for the mandatory automatic exchange of information between the EU member states on certain categories of income and capital. The Directive has been fully implemented into the Slovenian legal system by amendments to ZDavP-2.

15.9 Financial Transactions Tax

Regulations intended to introduce a financial transactions tax has been developing in the EU for a number of years. The original motion proposing the financial transactions tax was presented by the EC in 2011. The amended motion regarding the financial transactions tax, which would be implemented within the enhanced cooperation procedure in 11 EU member states (including the Republic of Slovenia), was presented by the EU in 2013. As at the date of this Prospectus, information or facts relating to the financial transactions tax are not yet known.

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

- IFRS 16 (new standard) – Leases (effective for annual periods beginning on or after 1 January 2019).
- IFRS 9 (amendment) – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019).

16. DESCRIPTION OF NLB'S SHARE CAPITAL AND APPLICABLE SLOVENIAN LEGISLATION

Set forth below is a description of the Company's share capital, the material provisions of the *Statut* in effect on the date of this Prospectus and certain requirements of Slovenian legislation that the Company considers material to investors in making their investment decision. This description, however, is not a complete extract of the *Statut* or of applicable Slovenian law.

The Company is organised in accordance with the Companies Act in the form of a *delniška družba*, and is registered in the Slovenian business register (*Poslovni register Slovenije*) under identification number (*matična številka*) 5860571000 and has conducted business in conformity with the *Statut* and the Companies Act. The Company's corporate seat is in Ljubljana, its registered office is Trg Republike 2, 1000 Ljubljana, Republic of Slovenia, and its telephone number is +386 1 476 39 00.

GDR Holders will be able to exercise their rights with respect to the Shares underlying the GDRs only in accordance with the provisions of the Deposit Agreement and the deed poll dated on or before the Closing Date executed by the Company in favour of the GDR Holders (the "**Deed Poll**") (see "*17. Terms and Conditions of the Global Depositary Receipts*") and the relevant requirements of Slovenian law.

Company's Object

Pursuant to the *Statut*, the object of the Company is to perform banking and other financial services for which an authorisation has been obtained from the Bank of Slovenia or of which it has informed the Bank of Slovenia, as well as other business operations normally performed by banks in accordance with regulations applicable from time to time. The Company's objects are set forth in full in Article 2 of the *Statut*.

Share Capital

Issued share capital

The Company's issued share capital is EUR 200,000,000 and consists of 20,000,000 Shares.

As at 31 December 2012, the first day covered by the historic financial information included in the Prospectus, the Company's issued share capital was EUR 104,731,512.92 and consisted of 12,548,930 shares, while the Management Board was authorised to increase the share capital for up to additional EUR 79,938,506.98 and to issue up to 9,578,232 new shares.

As at the date of this Prospectus, neither the Company nor any of its subsidiaries has any outstanding convertible securities, exchangeable securities or securities with warrants or any relevant acquisition rights or obligations over the Company's or its subsidiaries' authorised but unissued capital or undertakings to increase its issued share capital.

The book value of NLB shares as at 30 June 2018 was EUR 75.4 per share. This is calculated as the ratio of net assets' book value without other equity instruments issued and the number of shares.

Evolution of the Company's share capital

The table below presents the changes in the Company's share capital as at 31 December 2017, 31 December 2016, 31 December 2015, 31 December 2014, 31 December 2013 and 31 December 2012.

Date	**Number of Shares**	**Share Capital Value**
		(EUR thousands)
31 December 2012	12,548,930	104,731
31 December 2013	20,000,000	200,000
31 December 2014	20,000,000	200,000
31 December 2015	20,000,000	200,000
31 December 2016	20,000,000	200,000
31 December 2017	20,000,000	200,000

In February 2013, the Company's share capital was increased by EUR 1,859 thousand.

In March 2013, a contingent convertible capital instrument ("**CoCo**"), issued in June 2012 in the amount of EUR 320,000,000, was converted into ordinary shares. In June 2013, the interest on the CoCo in the amount of EUR 21,217,000 was also converted into ordinary shares. Share capital was increased by EUR 79,347,000, while the share premium account was increased by EUR 263,727,000.

On 18 December 2013, the Bank of Slovenia adopted an emergency measure to terminate the Company's qualified liabilities pursuant to Article 261 of ZBan-1. As a result, all liabilities arising from the Company's equity capital in the amount of EUR 184.1 million (22,056,378 shares) were terminated, and all of the Company's shares were rescinded and deleted from the central register of book-entry securities at KDD. With the aforementioned measure, the Company's share capital was reduced to zero. Following the write-down of the Company's share capital to zero, the Company's share capital was increased by EUR 200,000,000 through the issue of 20,000,000 new (accountable) par-value ordinary registered Shares, all of them fully paid-up by the Republic of Slovenia, which became the sole Shareholder of the Company, holding 100 per cent. of the Company's Shares. The corresponding value of each new Share was EUR 10.0. The issue price of each new Share was EUR 77.6, while the total issue price of all new Shares was EUR 1,551 million. The new Shares were paid up in full by the Republic of Slovenia via a cash contribution in the amount of EUR 1,141 million and a non-cash contribution of EUR 410 million. The capital increase was completed on 18 December 2013 with the entry of the amendments to the *Statut* and the capital increase in the Companies Register. The new Shares were registered in the central securities register kept by the KDD on 19 December 2013.

Description of the rights attaching to the Shares

The Shares are a part of the single class of shares in the Company and rank *pari passu* in all respects with the other Shares of the Company.

Changes to the *Statut* may result in the change of rights of holders of the Shares. There are no redemption or conversion provisions as, under Slovenian law, the Shares are not redeemable other than upon winding-up after repayment of all obligations.

(a) ***Pre-emptive right***

Pursuant to the Companies Act the existing shareholders have a pre-emptive right to subscribe for new Shares on a *pro rata* basis in case of a share capital increase (*prednostna pravica do novih* *delnic*), except if such a right is excluded in the share capital increase resolution by at least a 75 per cent. majority of votes present in the General Meeting. The pre-emptive right can be exercised during the period specified by the capital increase resolution (which shall not be shorter than 14 days).

(b) ***Voting right and the right to participate at the General Meeting of NLB's Shareholders***

The Shareholders' fundamental rights include the right to participate at the General Meeting and the right to vote (each Share entitles its holder to one vote at the General Meeting). See "—*General Meetings of Shareholders and voting rights*" below.

(c) ***Rights to dividends***

Shareholders have a right to proportional participation in the profit of the Company intended for distribution. According to the Companies Act, dividends may be distributed only if the Company has distributable profit (*bilančni dobiček*). See "*4. Dividend Policy*" above.

(d) ***Right to share in surplus in the event of liquidation***

Shareholders are entitled to a *pro rata* distribution of remaining assets in case of bankruptcy or liquidation of the Company.

(e) ***Right to be informed***

According to the Companies Act, the Management Board is obliged to provide the Shareholders at a General Meeting with accurate information on the Company's affairs to the extent necessary for the assessment of the General Meeting's agenda. If several Shareholders request similar information, the requested information may be provided in a joint answer to all such Shareholders. The right to be informed shall also apply in respect of the Company's legal and business relations with affiliated companies.

The violation of the Shareholder's right to information constitutes sufficient grounds on which a court can render void the resolutions of the General Meeting in connection with which such violation exists.

Description of certain obligations and restrictions attaching to the Shares

Obligations and restrictions applicable to the Securities

(a) *Public access to information on holders of Shares*

The Company's share register is publicly accessible and anyone can obtain information on the identity of the persons holding the Company's Shares directly at their account with KDD.

(b) *Qualifying holdings*

According to ZBan-2 a person who, or a group of persons acting in concert which has, taken a decision either to acquire, directly or indirectly, Shares (including GDRs issued in respect of Shares) representing at least 10 per cent. of NLB's issued share capital (the "**qualifying holding**"), or to further increase, directly or indirectly, such a qualifying holding as a result of which the proportion of the voting rights or of the capital held would reach or exceed 20 per cent., 1/3 or 50 per cent. or on the basis of which the future qualifying holder would become the parent entity of NLB, is required to apply with the Bank of Slovenia for an approval to acquire such Shares, which may be granted or denied by the ECB on the basis of Council Regulation (EU) No 1024/2013. Failure to obtain such approval will result in the loss of voting rights attributable to such Shares (including GDRs issued in respect of the Shares) for the acquisition of which the approval should have been obtained and could result in the imposition of an obligation to dispose of such shares on the holder of such Shares or GDRs issued in respect of the Shares. Although the Shares or GDRs held by an intermediary (a "**Nominee Holder**") on behalf of a third party (a "**Beneficiary**") are generally disregarded for the purposes of determining a qualifying holding, it is possible that the Bank of Slovenia will, in enforcing the consequences mentioned above, consider the Shares or GDRs held by such Nominee Holder as Shares or GDRs beneficially held by such Nominee Holder unless the identity of such third party on behalf of which such Shares or GDRs are held is disclosed and the voting rights arising out of such Shares or GDRs are exercised solely on the basis of instructions of such third party.

(c) *Obligation to notify*

According to the ZTFI, a person who acquires or disposes of the beneficial ownership in Shares or GDRs as a result of which the proportion of its voting rights in the Company reaches or exceeds (in the case of acquisition) or no longer exceeds (in the case of each disposal) 5 per cent., 10 per cent., 15 per cent., 20 per cent., 25 per cent., 1/3, 50 per cent. or 75 per cent. is required to, on each occasion that such threshold is passed, notify the Company on such acquisition or disposal. The Company is obliged to publish such information.

(d) *Restriction on acquisition of Shares*

Pursuant to ZSDH-1, the National Assembly adopted the State Assets Management Ordinance in July 2015, stipulating the definition of state assets and determining the developmental policies of the Republic of Slovenia in its role as Shareholder and the strategic objectives with respect to each strategic asset. In accordance with the State Assets Management Ordinance, NLB is classified as an "*important asset*" of the Republic of Slovenia and the Selling Shareholder must provide for relevant restrictions regarding ownership concentration in the *Statut* and 'consequently' means of ensuring that (1) the Republic of Slovenia shall retain a controlling interest of 25 per cent. plus one Share in the issued share capital of NLB and (2) no Shareholder may hold an interest in the issued share capital of NLB that is greater than the Ownership Ceiling. As a result, a Shareholder who acquires Shares which, together with the Shares already held by such Shareholder or by a third person on behalf of such Shareholder, represent more than 25 per cent. of the NLB's Share capital, may only exercise its voting rights under such Shares if the Supervisory Board approves such acquisition. The Supervisory Board's approval may only be rejected if, following such acquisition, such person would hold Securities representing more than 25 per cent. of NLB's issued share capital plus one Share. The approval shall be considered given if not expressly rejected in 20 days. No such approval is necessary in respect of the Shares acquired by a Nominee Holder for the account of Beneficiaries provided that the Nominee Holder is (i) not entitled to exercise the voting rights arising out of such Shares at its own discretion and (ii) undertakes to NLB that it will not exercise the voting rights based on voting instructions from a single Beneficiary unless such voting instructions are accompanied with a confirmation that such Beneficiary is the beneficial owner of the securities in respect of which votes are to be exercised and does not hold in the aggregate, directly or indirectly an interest in the voting share capital of NLB which is equal to or exceeds 25 per cent. of the voting share capital of NLB. See "*17. Terms and Conditions of the Global Depositary Receipts*" and "*2. Risk Factors—The exercise of voting rights attached to the Securities is subject to the ownership ceiling of 25 per cent. of the issued share capital and to the declaration of beneficial ownership*".

(e) *Provisions regarding mandatory takeover bid*

The Slovenian Takeover Act provides that a person or a group of persons acting in concert who acquires, directly or indirectly, Shares, rights to receive Shares or options to purchase Shares which carry at least 1/3 of the voting rights of the Company's shares (the "**bidder**"), is required to launch an offer (a Takeover bid) to purchase the remaining Shares (the "**offer**"). If, following a successful completion of an offer, the bidder acquires additional Shares which carry at least 10 per cent. of the voting rights of the Company's shares, another offer to purchase the remaining Shares must be launched, until the bidder holds Shares which carry at least 75 per cent. of the voting rights of the Company's shares. The GDRs would be considered as an indirect acquisition of Deposited Shares given that the GDR Depositary holds the Deposited Shares in its name on trust for the benefit of GDR Holders under the terms and conditions of the GDRs (the "**GDR Terms and Conditions**"). The GDR Depositary would not be subject to obligations under the Slovenian Takeover Act as the holder of the Deposited Shares, subject to demonstrating to the ATVP that it holds Deposited Shares on trust for the benefit of GDR Holders and that the GDR Depositary does not have any right to exercise voting rights in the Deposited Shares in its sole discretion.

The price at which the bidder offers to purchase the remaining Shares may not be lower than the highest price at which the bidder purchased the Shares during the preceding 12 months and may be payable in money or in securities admitted to trading on a regulated market. If, within one year following the successful completion of an offer, the bidder acquires Shares at a price which is higher than the price at which such offer was launched, the bidder is required to pay to all persons who accepted such offer the difference between the price of the offer and such higher price.

An offer to purchase the remaining Shares can also be launched voluntarily.

(f) *Squeeze-out and sell-out*

According to the Companies Act, a shareholder holding at least 90 per cent. of the Company's shares (the "**Main Shareholder**") may, by resolution of the General Meeting, cause the shares held by the other shareholders (the "**Minority Shareholders**") to be transferred to it against appropriate consideration (the "**squeeze-out**").

On the other hand, each Minority Shareholder has the right to request the Main Shareholder to purchase all shares held by such Minority Shareholder, whereupon the Main Shareholder must provide such Minority Shareholder with an offer to purchase all of its shares against appropriate consideration (the "**sell-out**").

If the resolution on the squeeze-out is passed, or, the request for the sell-out is given, within the three months after the publication of results of a takeover bid through which the Main Shareholder has reached the threshold of 90 per cent. of the Company's shares, the type and amount or quantity of consideration offered by the Main Shareholder in connection with a squeeze-out or the sell-out must be identical to the type and amount or quantity of consideration offered by such takeover bid. In all other cases, the consideration offered by the Main Shareholder in connection with the squeeze-out or the sell-out must be in cash and must appropriately reflect the assets and profitability of the Company and any Minority Shareholder which is not satisfied with the consideration offered can request that the amount of such cash consideration is determined by a court.

Management Board and the Supervisory Board

The Company has a two-tier management system that consists of a Management Board (*uprava*) and a Supervisory Board (*nadzorni svet*).

The *Statut* follows the applicable legislation in regulating the composition of the Management Board, the appointment and recall of the Management Board members and their duties. The *Statut* also follow the applicable legislation concerning the term of office and the conditions for membership of the Company's Supervisory Board.

The Management Board adopts decisions in the form of resolutions, unanimously in general, and in the event of disagreement with the majority of votes cast, whereby at least two votes in favour are required to pass any resolution. In the event of a tie, the President of the Management Board shall have a casting vote.

The Supervisory Board decides on all matters by a simple majority of votes cast. In the case of a tie, the chairman of the Supervisory Board shall have the casting vote. According to the *Statut*, the Supervisory Board shall have up to nine members, also according to the current Statut all Supervisory Board members are required to be independent experts, which is in accordance with the New Commitments requiring the Republic of Slovenia to allocate all of the seats and voting rights on the Supervisory Board and its committees to independent experts (and requiring the Republic of Slovenia has to ensure compliance with such Commitment).

In addition, the Selling Shareholder and the Company entered into an agreement related to the exercise of certain corporate governance rights pursuant to which the Selling Shareholder assumed the obligation to refrain from nominating more than three candidates for the Supervisory Board members for as long as it holds 25 per cent. of the share capital of the Company plus one Share or more than four candidates when it holds more than 25 per cent. of the share capital of the Company plus one Share, but not more than 49 per cent. The agreement enters into force with the first day of trading of the Shares of the Company on the Standard market or the Prime market of the LJSE and terminates in the event that the shareholding of the Selling Shareholder falls below 25% of the share capital of the Company.

For further details, see "*11. Management and Corporate Governance*".

Rules regarding changes in the share capital of the Company

(a) *Increase in share capital*

According to the *Statut*, any increase in the Company's share capital through capital contributions or conversion of reserves into share capital shall be decided by the General Meeting with an ordinary majority of votes cast.

(b) *Reduction of share capital*

According to the *Statut*, a decrease in the Company's share capital requires a qualified majority of at least 75 per cent. of the votes cast by shareholders at the General Meeting.

For further information, see "*2. Risk Factors—Following the Offering, NLB will have a significant Shareholder who will have the capacity to exert considerable influence on decisions regarding its business*".

Acquisition of shares in the Company's share capital

The Shares are issued in book-entry form in accordance with the provisions of the Slovenian Dematerialised Securities Act "**ZNVP-1**" as entries within the central register maintained by the KDD (the "**Central Register**").

The person to whose account a Share is credited in the KDD is considered the holder of such Share.

The Shares are transferable between accounts held with the KDD by registration of such transfers in the Central Register. For the purpose of transfers, a Shareholder shall maintain a trading account operated by a KDD member (a stockbroker or a bank). A list of the KDD members is available on the website of KDD at www.kdd.si (the contents of such website do not form part of, nor are they incorporated in, this Prospectus).

The KDD automatically settles all transactions in the Shares concluded on the LJSE. All other transfers of the Shares between accounts held with the KDD will be registered in the Central Register on the basis of an order submitted by the transferor to the KDD member operating the transferor's account and a matching order submitted by the transferee to the KDD member operating the transferee's account.

For further information, see "*15. Regulation of the Banking Sector in the Republic of Slovenia*".

General Meetings of Shareholders and voting rights

The General Meeting is called by the Management Board of NLB. The *Statut* provides that the General Meeting may also be called by the Supervisory Board, in cases where the Management Board does not call the General Meeting in a timely manner, or where convening a General Meeting is necessary to further the operations of NLB. A General Meeting must be called if a written request is made to the Management Board by Shareholders collectively holding one-twentieth of the share capital. The request in writing shall be accompanied by an agenda with a proposed resolution for each suggested agenda item to be decided upon at the General Meeting or, if the General Meeting is not adopting a resolution regarding an agenda item, an explanation of such agenda item.

A General Meeting must be convened in accordance with the law and at least once a year. General Meetings take place at the registered office of NLB or in a place specified in the notice of General Meeting. Only Shareholders who are registered in the share register kept by the KDD as at the end of the fourth day prior to the General Meeting, or their legal representatives or authorised persons who present a written power of attorney can attend the General Meeting and vote.

The General Meeting may address any or all of the following matters:

- approval of the annual report to the extent that it was not approved by the Supervisory Board;
- appropriation of the distributable profit;
- appointment and removal of the members of the Supervisory Board;

- award of discharge note (*razrešnica*) to the members of the Management Board and the Supervisory Board;
- amendments to the *Statut*;
- increase or decrease of share capital;
- dissolution of NLB and corporate status changes;
- appointment of the auditor; and
- other matters, if so provided by the *Statut* or the law.

Resolutions may be passed at the General Meeting with an ordinary majority of the votes cast, unless a qualified majority is required by the *Statut* or Slovenian law. Each accounting-par value share carries one voting right.

See "*17. Terms and Conditions of the Global Depositary Receipts—Voting Rights*" and "*2. Risk Factors—Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement between NLB and the GDR Depositary for the GDRs and relevant requirements of Slovenian law*" for a description of the voting rights of GDR Holders.

Provisions of the Statut that affect respite, displacement or hindrance of changes in control over the Issuer

Except for the Ownership Ceiling as described in "*16. Description of certain obligations and restrictions attaching to the Shares—Restriction on acquisition of Shares*" earlier in this section, the *Statut* does not include provisions that could affect respite, displacement or hindrance of changes in control over the issuer.

The *Statut* may be inspected on the AJPES website at www.ajpes.si.

17. TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (*subject to completion and amendment and excepting sentences in italics*) *will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:*

The Global Depositary Receipts ("**GDRs**") represented by this certificate are issued in respect of ordinary shares (the "**Shares**") in Nova Ljubljanska banka d.d., Ljubljana (the "**Company**" or "**NLB**") pursuant to and subject to an agreement dated on or about the Closing Date, and made between the Company and The Bank of New York Mellon in its capacity as depositary (the "**GDR Depositary**") for the "Regulation S Facility" and for the "Rule 144A Facility" (such agreement, as amended from time to time, being hereinafter referred to as the "**Deposit Agreement**"). Pursuant to the provisions of the Deposit Agreement, the GDR Depositary has appointed NLB as Custodian (the "**Custodian**") in relation to Shares represented by the GDRs and held in the name of the GDR Depositary on "*fiduciarni račun*", as such term is defined under Slovenian law, with KDD operated by the Custodian on behalf of the GDR Depositary (the "**Deposited Shares**") and to receive and hold on its behalf all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "**Deposited Property**"). The GDR Depositary shall hold Deposited Property for the benefit of the GDR Holders (as defined below) as bare trustee (other than any cash comprised in the Deposited Property which is held as banker pursuant to Condition 26) in proportion to their holdings of GDRs. In these terms and conditions (the "**Conditions**"), references to the "GDR Depositary" are to The Bank of New York Mellon and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the "Custodian" are to NLB or any other custodian from time to time appointed under the Deposit Agreement and references to the "Main Office" mean, in relation to the relevant Custodian, its head office in the city of Ljubljana or such other location of the head office of the Custodian in the Republic of Slovenia (the "**Republic of Slovenia**") as may be designated by the Custodian with the approval of the GDR Depositary (if outside the city of Ljubljana) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in "*18. Summary of the Provisions Relating to the Global Depositary Receipts While in Master Form*" for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.

References in these Conditions to the GDR Holder of any GDR shall mean the person or persons registered on the books of the GDR Depositary maintained for such purpose (the "**Register**") as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the GDR Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **GDR Holders are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the GDR Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any GDR Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which he is the GDR Holder relate. The GDR Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any GDR Holder or any other person.**

1. Withdrawal of Deposited Property and Further Issues of GDRs

1.1 Any GDR Holder may request withdrawal of, and the GDR Depositary shall, provided that the GDR Depositary shall not be required to accept surrenders of GDRs for the purpose of withdrawal to the extent that it would require the GDR Depositary to procure the delivery of a fraction of a Deposited Share (or of any other security constituting Deposited Property), thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the GDR Holder to the relative GDR as the GDR Depositary may reasonably require to the GDR Depositary or any Agent accompanied by:

(a) a duly executed order (in a form approved by the GDR Depositary) requesting the GDR Depositary to cause the Deposited Property being withdrawn to be delivered (at the request, risk and expense of the GDR Holder, and only if permitted by applicable law from time to time) to such securities account as may be specified by such GDR Holder;

(b) the payment of such fees, taxes, duties, charges, costs, expenses (including currency conversion expenses, tested telex, cable (including SWIFT) and facsimile transmission fees and expenses) and governmental charges as may be required under these Conditions or the Deposit Agreement;

(c) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the GDR Depositary to which the Deposited Property being withdrawn is attributable; and

(d) the delivery to the GDR Depositary of a duly executed and completed certificate substantially in the form set out either (i) in Schedule 3, Part B to the Deposit Agreement (or as amended by the GDR Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.7), if Deposited Property is to be withdrawn or delivered during the Restricted Period (such term being defined as the 40 day period beginning on the latest of the commencement of the Offering, the original issue date of the GDRs, and the issue date with respect to the additional GDRs, if any, issued to cover over- allotments) in respect of surrendered Regulation S GDRs, or (ii) in Schedule 4, Part B to the Deposit Agreement (or as amended by the GDR Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.7), if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the GDR Depositary will direct the Custodian, by tested telex, cable (including SWIFT) or facsimile, within a reasonable time after receiving such direction from such GDR Holder:

(a) transfer to the securities account(s) designated in the accompanying order the relevant Deposited Shares, registered in the name of the GDR Depositary or its nominee to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(b) transfer all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof;

provided that the GDR Depositary (at the request, risk and expense of any GDR Holder so surrendering a GDR):

(i) will direct the Custodian to deliver the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(a) and (b) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or

(ii) will deliver any other property forming part of the Deposited Property which may be held by the GDR Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

at an address specified by the surrendering GDR Holder.

1.3 Delivery by the GDR Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The GDR Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form approved by the GDR Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3, Part A of the Deposit Agreement *(which is described in the following paragraph)* (or as amended by the GDR Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.7) by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement *(which is described in the second following paragraph)* (or as amended by the GDR Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.7) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares represented by such further GDRs) and, subject to the terms of the Deposit Agreement, the GDR Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is located outside the United States and will comply with the restrictions on transfer set forth under "22. Selling and Transfer Restrictions".

*The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the Securities Act of 1933, as amended (the "**Securities Act**") ("**QIB**")) or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under "22. Selling and Transfer Restrictions".*

1.5 Any further GDRs issued pursuant to Condition 1.4 which (i) represent Shares which have rights (whether dividend rights or otherwise) which are different from the rights attaching to the Shares represented by the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will be represented by a GDR certificate in definitive registered form or a separate temporary Regulation S Master GDR and/or temporary Rule 144A Master GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Regulation S Master GDR and/or a Rule 144A Master GDR (by increasing the total number of GDRs evidenced by the relevant Regulation S Master GDR or Rule 144A Master GDR by the number of such further GDRs, as applicable).

1.6 The GDR Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership).

1.7 The GDR Depositary may make such amendments to the certificates contained in the Deposit Agreement in Schedule 3 Parts A and B and in Schedule 4 Parts A and B as it may determine are required in order for the GDR Depositary to perform its duties under the Deposit Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs may be listed or traded, or to comply with the rules or requirements of any book entry system by which the GDRs may be transferred, or to confirm compliance with any special limitations or restrictions to which any particular GDRs are subject.

1.8 Notwithstanding any other provisions of the Deposit Agreement or these Conditions, the GDR Depositary may, with (to the extent reasonably practicable) prior notice to the Company and the GDR Holders, cancel a number of the GDRs then outstanding, sell (either by public or private sale and otherwise in its discretion, subject to all applicable laws and regulations) the Deposited Property formerly represented by such GDRs and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the GDR Holders entitled thereto, and thereby reduce the GDR Depositary's holdings of any class of Deposited Property below an amount that the GDR Depositary determines to be necessary or advisable if (i) the GDR Depositary or its agent(s) receives any notice from any governmental or regulatory authority that the existence or operation of a Facility or the holding by the GDR Depositary (or the Custodian or any of their respective nominees) of the Deposited Property violates any applicable law or regulation, or that the GDR

Depositary (or the Custodian or any of their respective nominees) is required to make any filing or obtain any consent, approval or licence, or perform any other act or execute any other documents to operate that Facility or to hold or exercise any rights with respect to the Deposited Shares or other Deposited Property (other than such filings, consents, approvals or licences, or acts or documents, which the GDR Depositary in its reasonable discretion considers to be of a routine administrative nature required in the ordinary course of business) or (ii) the GDR Depositary or the Custodian receives advice from recognised local counsel that the GDR Depositary (or the Custodian or any of their respective nominees) is reasonably likely to be subject to criminal, civil or administrative liabilities as a result of the existence or operation of a Regulation S Facility or Rule 144A Facility or the holding or exercise by the GDR Depositary (or the Custodian or any of their respective nominees) of any rights with respect to the Deposited Shares or other Deposited Property. If the GDR Depositary cancels GDRs and sells GDR Deposited Property under the preceding sentence, the GDR Depositary shall allocate the cancelled GDRs converted under the preceding sentence and the net proceeds of the sale of the Deposited Property previously represented thereby among the GDR Holders *pro rata* to their respective holdings of GDRs immediately prior to the cancellation, except that the allocations may be adjusted by the GDR Depositary in its sole discretion so that no fraction of a cancelled GDR is allocated to any GDR Holder. Any payment pursuant to this Condition 1.8 in connection with a GDR in definitive registered form shall be made to the relevant GDR Holder only after surrender to the GDR Depositary of the GDR certificate by such GDR Holder for cancellation of the relevant number of GDRs. The GDR Depositary shall also cancel GDRs and sell Deposited Property in accordance with this Condition 1.8 if the GDR Depositary receives written instructions from the Company to do so and such cancellation and sale is necessary to enable the Company to comply with any applicable law or regulation.

1.9 In order to comply with any applicable laws and regulations, or at the request of the Company in order to comply with any applicable law and regulations or with the provisions of the *Statut*, the GDR Depositary may from time to time request each GDR Holder and/or any owner of GDRs to, and each GDR Holder and/or any owner shall upon receipt of such request, provide to the GDR Depositary information relating to: (a) the capacity in which such GDR Holder and/or any owner holds GDRs; (b) the identity of any owners of GDRs or other person or persons then or previously interested in such GDRs; (c) the nature of any such interests in the GDRs; and (d) any other matter where disclosure of such matter is required to enable compliance by the GDR Depositary with applicable laws or the constitutional documents of the Company. Each GDR Holder consents to the disclosure by the GDR Depositary of all information received by the GDR Depositary in response to a request made pursuant to this Condition.

1.10 In order to comply with any applicable laws and regulations or in its sole discretion, or at the request of the Company in order to comply with any applicable law and regulations or the provisions of the *Statut*, the GDR Depositary may from time to time request Euroclear and Clearstream to: provide, within the reasonable period of time stated in the GDR Depositary's request, the GDR Depositary with (a) the participant list in the relevant clearing system, which the relevant clearing system is required to provide in order to ensure that the Company can meet its relevant obligation under Slovenian law, within the time period set forth in the GDR Depositary's request; (b) details of the accountholders within such settlement systems that hold interests in GDRs and the number of GDRs recorded in the account of each such accountholder, and each GDR Holder or owner of GDRs, or intermediary acting on behalf of such GDR Holder or owner, hereby authorises each of Euroclear and Clearstream to disclose such information to the GDR Depositary as issuer of the GDRs; and (c) provide and consent to the collection and processing by the GDR Depositary of, any authorizations, waivers, forms, documentation and other information, relating to such settlement or clearing system's status (or the status of such settlement or such clearing system's direct or indirect owners or accountholders) or otherwise required to be reported, under FATCA.

1.11 To allow the GDR Depositary to comply with the relevant requirements of the European Central Bank, Bank of Slovenia, the United Kingdom FCA and the SMA, or any other supervisory authority having jurisdiction over the Company, and FATCA, each GDR Holder shall provide to the GDR Depositary such information as the GDR Depositary may reasonably require, and each GDR Holder consents to the disclosure, transfer and reporting of such information to any relevant governmental or tax authority or as otherwise reasonably required, including to any person making payments to the GDR Depositary and including transfers to jurisdictions which do not have strict data protection or similar laws, to the extent that the GDR Depositary reasonably determines that such disclosure, transfer or reporting is necessary or warranted to facilitate compliance with FATCA. For the purposes of these Conditions, "**FATCA**" means (i) sections 1471 to 1474 of the U.S. Internal Revenue Code of 1986, as amended or any associated regulations or other official guidance, (ii) any treaty, law, regulation or other official guidance enacted in any other jurisdiction, or relating to an intergovernmental agreement between the United States and any other jurisdiction, which (in either case) facilitates the implementation of paragraph (i), (iii) any agreement pursuant to the implementation of paragraphs (i) or (ii) with the U.S. Internal Revenue Service, the U.S. government or any governmental authority or tax authority in any other jurisdiction or (iv) any arrangements with a similar effect or intent as (i) to (iii) (including, for the avoidance of doubt any agreement implementing any similar arrangements) involving any jurisdiction.

2. **Suspension of Issue of GDRs and of Withdrawal of Deposited Property**

The GDR Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the GDR Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts representing Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the GDR Depositary that any such Shares are eligible for resale pursuant to Rule 144A under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Further, the GDR Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the GDR Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement. The GDR Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the GDR Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

3. **Transfer and Ownership**

The GDRs are in registered form. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The GDR Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws and may refuse to register a transfer of GDRs until all payments due to the GDR Depositary from the GDR Holder of such GDRs have been made. The GDR Holder of any GDR will (except as otherwise required by law) be treated by the GDR Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the GDR Holder.

Interests in Rule 144A GDRs represented by the Rule 144A Master GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Regulation S Master GDR only upon receipt by the GDR Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act. Prior to expiration of the Restricted Period, no owner of Regulation S GDRs may transfer Regulation S GDRs or Shares represented thereby except in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act or to, or for the account of, a qualified institutional buyer as defined in Rule 144A under the Securities Act (each a "**QIB**") in a transaction meeting the requirements of such Rule 144A. There shall be no transfer of Regulation S GDRs by an owner thereof to a QIB except as aforesaid and unless such owner (i) withdraws Shares from the Regulation S Facility in accordance with Clause 3.5 of the Deposit Agreement and (ii) instructs the GDR Depositary to deliver the Shares so withdrawn to the account of the Custodian to be deposited into the Rule 144A Facility for issuance thereunder of Rule 144A GDRs to, or for the account of, such QIB. Issuance of such Rule 144A GDRs shall be subject to the terms and conditions of the Deposit Agreement, including, with respect to the deposit of Shares and the issuance of Rule 144A GDRs, delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees (including cable (including SWIFT) and facsimile transmission fees and expenses), charges and taxes provided therein.

4. **Cash Distributions**

Whenever the GDR Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the GDR Depositary shall, if practicable in the opinion of the GDR Depositary, give notice to the GDR Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the GDR Depositary, for transmission of such payment to GDR Holders and shall as soon as practicable distribute any such amounts to the GDR Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; provided that:

(a) in the event that the GDR Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative GDR Holders shall be adjusted accordingly; and

(b) the GDR Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the GDR Depositary, and any balance remaining shall be retained by the GDR Depositary beneficially as an additional fee under Condition 16.1(d).

If a cash distribution would represent a return of all or substantially all the value of the Deposited Property underlying the GDRs, the GDR Depositary may require GDR Holders to surrender their GDRs for cancellation and may require payment of or deduct the fee for cancellation of GDRs (whether or not it is also requiring cancellation of GDRs) as a condition of making that cash distribution. A distribution of that kind shall be a Termination Option Event.

5. **Distributions of Shares**

Whenever the GDR Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the GDR Depositary shall cause to be distributed to the GDR Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs represented by the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the GDR Holders hold their GDRs; provided that, if and in so far as the GDR Depositary deems any such distribution to all or any GDR Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the GDR Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the GDR Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the GDR Holders entitled thereto.

6. **Distributions other than in Cash or Shares**

Whenever the GDR Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the GDR Depositary shall distribute or cause to be distributed such securities or other property to the GDR Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the GDR Depositary may deem equitable and practicable for effecting such distribution; provided that, if and in so far as the GDR Depositary deems any such distribution to all or any GDR Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the GDR Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the GDR Depositary shall deal with the securities or property so received, or any part thereof, in such way as the GDR Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the GDR Holders entitled thereto.

If a distribution under this Condition 6 would represent a return of all or substantially all the value of the Deposited Property underlying the GDRs, the GDR Depositary may require GDR Holders to surrender their GDRs for cancellation and may require payment of or deduct the fee for cancellation of GDRs (whether or not it is also requiring cancellation of GDRs) as a condition of making that distribution. A distribution of that kind shall be a Termination Option Event.

7. **Rights Issues**

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Company and the GDR Depositary shall endeavour to consult as to the actions, if any, the GDR Depositary may take in connection with that grant of rights. If the Company and the GDR Depositary agree that it is lawful and practical for such rights to be extended to GDR Holders, the Company and the GDR Depositary shall enter into a separate agreement with respect thereto and the GDR Depositary shall as soon as practicable give notice to the GDR Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which GDR Holders may request the GDR Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the GDR Depositary proposes to distribute the rights or the proceeds of any sale thereof and any conditions attached to the GDR Depositary's obligation to take any action as well as relevant fees payable by GDR Holders to the GDR Depositary in respect of such actions. The GDR Depositary shall not be responsible for any failure to determine that it may be lawful or practical to make rights available to or exercise rights on behalf of GDR Holders in general or any GDR Holder in particular, or to sell rights. The GDR Depositary will deal with such rights in the manner described below:

(a) if and to the extent that the GDR Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the GDR Depositary shall make arrangements whereby the GDR Holders may, upon payment of the subscription price in euros or other relevant currency together with such fees, taxes, duties, charges, costs and expenses (including cable (including SWIFT) and facsimile transmission fees and expenses) as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the GDR Depositary may reasonably require, request the GDR Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the GDR Holders entitled thereto by an increase in the numbers of GDRs represented by the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the GDR Holders hold their GDRs; or

(b) if and to the extent that the GDR Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the GDR Depositary will distribute such rights to the GDR Holders entitled thereto in such manner as the GDR Depositary may at its discretion determine; or

(c) if and to the extent that the GDR Depositary deems any such arrangement and distribution as is referred to in paragraphs (a) and (b) above to all or any GDR Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the GDR

Depositary withhold an amount on account of taxes or other governmental charges) and/or to be unlawful, the GDR Depositary (i) will, provided that GDR Holders have not taken up rights through the GDR Depositary as provided in (a) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (ii) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the GDR Holders entitled thereto.

(d)

(i) Notwithstanding the foregoing, in the event that the GDR Depositary offers rights pursuant to Condition 7(a) (the "**Primary GDR Rights Offering**"), if authorised by the Company to do so, the GDR Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a GDR Holder to the GDR Depositary to exercise rights on its behalf pursuant to Condition 7(a), such GDR Holder is permitted to instruct the GDR Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such GDR Holder's GDRs ("**Additional GDR Rights**") if at the date and time specified by the GDR Depositary for the conclusion of the Primary GDR Rights Offering (the "**Instruction Date**") instructions to exercise rights have not been received by the GDR Depositary from the GDR Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights ("**Additional GDR Rights Requests**") shall specify the maximum number of Additional GDR Rights that such GDR Holder is prepared to accept (the "**Maximum Additional Subscription**") and must be received by the GDR Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the GDR Holders initially entitled thereto ("**Unsubscribed Rights**"), subject to Condition 7(d)(iii) and receipt of the relevant subscription price in euros or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses (including cable (including SWIFT) and facsimile transmission fees and expenses) as it may deem necessary, the GDR Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(d)(ii).

(ii) GDR Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Rights Request but the GDR Depositary shall not be bound to arrange for a GDR Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each GDR Holder's Additional GDR Rights Request.

(iii) In order to proceed in the manner contemplated in this Condition 7(d), the GDR Depositary shall be entitled to receive such opinions from Slovenian counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the GDR Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the GDR Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the GDR Depositary shall have no liability to the Company or any GDR Holder in respect of its actions or omissions to act under this Condition 7(d) and, in particular, the GDR Depositary will not be regarded as being negligent, fraudulent, or in wilful default if it elects not to make the arrangements referred to in Condition 7(d)(i).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the GDR Depositary or the GDR Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the GDR Depositary concerning such matters as the GDR Depositary may reasonably specify).

If the Company notifies the GDR Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the GDR Holders or owners of GDRs and to sell the securities corresponding to such rights, the GDR Depositary will not offer such rights or distribute such securities or other property to the GDR Holders or sell such securities unless and until the Company procures the receipt by the GDR Depositary of an opinion from counsel reasonably satisfactory to the GDR Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such GDR Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the GDR Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the GDR Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (a), (b), (c) and (d) above, the GDR Depositary shall permit the rights to lapse. The GDR Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to GDR Holders or owners of GDRs in general or to any GDR Holder or owner of a GDR or GDR Holders or owners of GDRs in particular.

8. **Conversion of Foreign Currency**

Whenever the GDR Depositary shall receive any currency other than euros by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the GDR Depositary be converted on a reasonable basis into euros and distributed to the GDR Holders entitled thereto, the GDR Depositary shall as soon as practicable convert or cause to be converted, by sale or in any other manner that it may reasonably determine, the currency so received into euros. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the GDR Depositary may make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the GDR Depositary shall determine that in its judgement any currency other than euros is not convertible on a reasonable basis into euros and distributable to the GDR Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the GDR Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the GDR Depositary, the GDR Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the GDR Holders entitled thereto to the extent permitted under applicable law, or the GDR Depositary may in its discretion hold such other currency without liability for interest for the benefit of the GDR Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) GDR Holders entitled thereto, the GDR Depositary may at its discretion make such conversion and distribution in euros to the extent possible to the GDR Holders entitled thereto and may distribute the balance of such other currency received by the GDR Depositary to, or hold such balance for the account of, the GDR Holders entitled thereto, and notify the GDR Holders accordingly.

The GDR Depositary will be entitled to make currency conversions under the Deposit Agreement or under these Conditions from time to time by or through any of its affiliates, the Custodian or otherwise through customary banking channels. To the extent conversions are executed by the GDR Depositary or its affiliates (in such cases, the "**FX Counterparty**"), the FX Counterparty shall act as principal for its own account, and not as agent, adviser, broker or fiduciary on behalf of any other persons, and earns revenue, including without limitation, transaction spreads, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion made under the Deposit Agreement or these Conditions and the rate that the FX Counterparty received when buying or selling foreign currency for its own account. The GDR Depositary makes no representation that the exchange rate used or obtained in any currency conversion under the Deposit Agreement or these Conditions will be the most favourable rate that could be obtained at the time or that the method by which that rate will be determined will be the most favourable to GDR Holders, subject to the GDR Depositary's obligations in Clause 9 of the Deposit Agreement. The methodology used to determine exchange rates used in currency conversions is available upon request.

9. **Distribution of any Payments**

9.1 Any distribution of cash under Conditions 4, 5, 6, 7 or 10 will be made by the GDR Depositary to GDR Holders on the record date established by the GDR Depositary for that purpose (such date to be as close to the record date set by or applicable to the Company as is reasonably practicable) and, if practicable in the reasonable opinion of the GDR Depositary, notice shall be given promptly to GDR Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in euros by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the GDR Depositary and Clearstream or Euroclear, as the case may be. The GDR Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of GDRs in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses (including cable (including SWIFT) and facsimile transmission fees and expenses) which may become or have become payable under the Deposit Agreement or under applicable law or regulation (including, for the avoidance of doubt, any taxes imposed pursuant to FATCA) in respect of such GDR or the relative Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the GDR Holders on the record date established by the GDR Depositary for that purpose (such date to be as close to the record date set by or applicable to the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the GDR Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to GDR Holders in accordance with the Deposit Agreement, all rights of the GDR Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the GDR Depositary shall (except for any distribution upon the liquidation of the Company when the GDR Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. **Capital Reorganisation**

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the GDR Depositary shall as soon as practicable give notice of such event to the GDR Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. **Withholding Taxes and Applicable Laws**

11.1 Payments to GDR Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Slovenian and other withholding taxes (including any taxes imposed pursuant to FATCA), if any, at the applicable rates. Services that may permit GDR Holders or owners of GDRs to obtain reduced rates of tax withholding at source, or to reclaim excess tax withheld, and the fees and costs associated with using services of that kind, are not provided under or covered by, and are outside the scope of, these Conditions and the Deposit Agreement. Each GDR Holder agrees to indemnify the Company, the GDR Depositary and the Custodian and their respective directors, employees, agents and affiliates for, and hold each of them harmless against, any claim by any governmental authority with respect to taxes, additions to tax, penalties or interest arising out of any refund of taxes, reduced withholding at source or other tax benefit received by it.

11.2 If any governmental or administrative authorisation, consent, registration or permit or any report or notification to any governmental or administrative authority is required under any applicable law in the Republic of Slovenia or pursuant to FATCA in order for the GDR Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Conditions 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report or notification on behalf of the GDR Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The GDR Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which (as notified to the GDR Depositary by the Company) such authorisation, consent, registration or permit or such report or notification has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report or notification.

12. **Voting Rights**

12.1 The Company has agreed to provide the GDR Depositary with a copy of any notice containing resolutions to be proposed at a general meeting of the Company (the "**meeting**") and any materials with respect to the meeting to be distributed to GDR Holders and the GDR Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12. If the Company requests in writing the GDR Depositary to extend voting to GDR Holders, then the Company, as soon as possible, but not later than 40 calendar days prior to the date of the meeting, will notify the GDR Depositary of the draft resolutions and any materials with respect to the meeting to be distributed to GDR Holders to be proposed at such meeting, and shall further notify the GDR Depositary of any amendments thereof as soon as they become aware of such amendments, in any event, no later than the day which is 30 calendar days prior to the date of the meeting. Upon receipt of any notice of any meeting of holders of the Shares in which the holders of Shares would be entitled to vote and any materials with respect to the meeting to be distributed to GDR Holders, if requested in writing by the Company to extend voting to GDR Holders, the GDR Depositary shall, 30 calendar days prior to such meeting date or as soon as practicable thereafter, give to the GDR Holders a notice in accordance with Condition 23, the form of which shall be in the sole discretion of the GDR Depositary, that shall contain: (a) the information contained in the notice of meeting received by the GDR Depositary; (b) a statement that the GDR Holders as of the close of business on a specified record date (being a date selected by the GDR Depositary which is as close to the relevant record date set by or applicable to the Company, as advised to the GDR Depositary by the Company, as reasonably practicable) will be entitled, subject to any applicable provision of Slovenian law and of the articles of association or similar documents of the Company, to instruct the GDR Depositary as to the exercise of the voting rights arising under the Shares represented by their respective GDRs, (c) a statement as to the manner in which those instructions may be given to the GDR Depositary for or against or (where permitted by Slovenian law) to abstain from voting on, each and any resolution specified in the agenda for the meeting, (d) a request for certain information from the relevant GDR Holder and/or ultimate beneficial owner of the GDRs to be included with the voting instruction form pursuant to Condition 12.4 and (e) the last date on which the GDR Depositary will accept voting instructions from GDR Holders (the "**Instruction Cutoff Date**"). The Instruction Cutoff Date for each meeting shall be notified by the GDR Depositary to the GDR Holders. The Company has agreed to provide to the GDR Depositary appropriate proxy forms and means meeting the requirements of the Company's articles of association or similar documents and all applicable laws and regulations, including, but not limited to, the Companies Act (ZGD-1), the Slovenian Takeovers Act (ZPre-1), and the Slovenian Financial Instruments Market Act (ZTFI), to enable the GDR Depositary to appoint representatives to attend the relevant meeting and vote in accordance with the Deposit Agreement, in accordance with the *Statut* or similar documents and all applicable laws and regulations, including but not limited to ZGD-1, ZPre-1, and ZTFI. The Company has acknowledged, and by holding GDRs each GDR Holder has acknowledged, that there can be no assurance that GDR Holders generally or any particular GDR Holder will receive the notice referred to in this Condition 12.1 in time to enable each GDR Holder to give instructions to the GDR Depositary prior to the Instruction Cutoff Date.

12.2 For the purposes of Condition 12.1, the Company may not instruct the GDR Depositary to extend voting to GDR Holders if it is advised in a legal opinion of an independent law firm that such an extension would breach applicable law or the *Statut*.

12.3 In order for each voting instruction to be valid, the voting instructions form must be duly completed and duly signed or received by authenticated SWIFT message and returned to the GDR Depositary by the Instruction Cutoff Date.

12.4 Following receipt by the GDR Depositary, on or before the Instruction Cutoff Date, of the voting instructions of a person who was a GDR Holder on the record date established by the GDR Depositary under Condition 12.1 either in electronic form in the case of GDRs represented by interests in the Master GDRs or in written form in the case of GDRs held in definitive registered form, the GDR Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that those Deposited Shares which are the subject of the request, will be voted in accordance with the instructions set out in that request; Provided that the GDR Depositary shall not act upon any such instruction unless the completed voting instruction form (i) includes the name, address and other details as may be from time to time specified by the Company of each person who is the ultimate beneficial owner of GDRs at the record date specified by the GDR Depositary and the total number of Shares in the form of GDRs or otherwise, whether held directly or indirectly, to which such ultimate beneficial owner is entitled, (ii) includes confirmation that the beneficial owner(s) of the GDRs in respect of which votes are to be exercised does not hold in the aggregate, directly, indirectly and/or as a concerted party an interest in the voting share capital of the Company (a) a "qualified holding" (under ZBan-2 or any other banking legislation or regulation applicable to the Company from time to time) for the holding of which such beneficial owner(s) has not received the approval of the ECB or other banking authority with jurisdiction over the Company or (b) which exceeds 25 per cent. (or any other limit imposed on investors from time to time by Slovenian law or the *Statut* and, in any such case, notified to the GDR Depositary by the Company in writing) of the total voting rights attributable to the voting share capital of the Company, or (c) a controlling shareholding within the meaning of applicable competition law for which the beneficial owner(s) has not received the approval of the competent national competition authority or the European Commission, as the case may be, and if required, or (d) which exceeds the takeover threshold pursuant to Slovenian law, (iii) includes certification from a third party intermediary that the beneficial owner of the GDRs has duly authorised it to give the instructions and statements contained in the voting instructions in the name and on behalf of such beneficial owner, and such third party intermediary undertakes, for the benefit of the GDR Depositary and the Company, to obtain and keep evidence of such authorisation and to provide it to NLB and/or the GDR Depositary upon their request, (iv) is completed and deemed duly signed by a third party intermediary and/or the respective ultimate beneficial owner and (v) returned to the GDR Depositary by such date as specified by the GDR Depositary.

Subject to its receipt of a certificate as aforesaid, the GDR Depositary will, or will procure that the Custodian will, endeavour, so far as practicable and subject to any applicable provisions of law or of the *Statut* of the Company, to exercise such voting rights in accordance with such instructions. The GDR Holders and the Company acknowledge and agree that the GDR Depositary will be entitled to provide the details contained in any such certificate to the relevant Slovenian authorities and the Company in accordance with the relevant provisions under Slovenian law (or carry out any actions required by Slovenian law) and that the GDR Depositary will not have any liability for providing such information to the relevant Slovenian authorities and the Company or for taking any other such action.

12.5 If the GDR Depositary is advised in the opinion referred to in Condition 12.8 below that it is not permitted by Slovenian law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the GDR Depositary shall not exercise voting rights with respect to such Deposited Shares.

12.6 The GDR Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received, except that if no voting instructions are received by the GDR Depositary (either because no voting instructions are returned to the GDR Depositary or because the voting instructions are incomplete, illegible or unclear, or because no voting instructions are received in respect of a particular draft resolution, or for any other reason) from a GDR Holder with respect to any or all of the Deposited Shares represented by such GDR Holder's GDRs on or before the record date specified by the GDR Depositary, the GDR Depositary shall not exercise such votes, and shall have no obligation to procure the exercise of such votes.

12.7 If the GDR Depositary is advised in the opinion referred to in Condition 12.8 below that it is not permissible under Slovenian law or the GDR Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.4, 12.5 or 12.6 the GDR Depositary shall not vote or cause to be voted such Deposited Shares.

12.8 The GDR Depositary is entitled to request the Company to provide to the GDR Depositary, and where such request has been made shall not be required to take any action required by this Condition 12 unless it shall have received, an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the GDR Depositary) to the effect that such voting arrangement is valid and binding on GDR Holders under Slovenian law and the *Statut* and that the GDR Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the GDR Depositary will not be deemed to be exercising voting discretion or be otherwise adversely affected by any applicable law. The Company has agreed to inform the GDR Depositary of any circumstances which may affect whether the voting arrangements under this Condition 12 are valid and binding on GDR Holders under Slovenian law and the *Statut*, or whether the GDR Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 and in doing so will not be deemed to be exercising voting discretion or be otherwise adversely affected by any applicable law.

12.9 By continuing to hold GDRs, all GDR Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in order to comply with applicable Slovenian law.

12.10 The GDR Depositary shall not, and the GDR Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the GDR Depositary

The GDR Depositary shall not be liable for any taxes (including any taxes imposed pursuant to FATCA), duties, charges, costs or expenses (including cable (including SWIFT) and facsimile transmission fees and expenses) which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "**Charges**") shall be payable by the GDR Holder thereof to the GDR Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The GDR Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the GDR Holder an appropriate number of Deposited Shares or amount of other Deposited Property and may require the GDR Holder on a mandatory basis to surrender for cancellation the GDRs which represent such Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the GDR Depositary from the GDR Holder pursuant to Condition 16, and subsequently pay any surplus to the GDR Holder, but the GDR Holder shall remain liable to the GDR Depositary to the extent such Charges, fees and expenses exceed the sale proceeds. Any request by the GDR Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23.

14. Liability

14.1 In acting hereunder the GDR Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of GDR Holders as bare trustee, does not assume any relationship of trust for or with the GDR Holders or owners of GDRs or any other person.

14.2 Neither the GDR Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors, members of the Supervisory Board, employees or affiliates shall incur any liability to any other of them or to any GDR Holder or owner of a GDR or any other person with an interest in any GDRs if by reason of: (A) any provision of any present or future law or regulation or other act of the government of the United States, any State of the United States or any other state or jurisdiction, or of any governmental or regulatory authority or stock exchange, or the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control; or (B) in the case of only the GDR Depositary, the Custodian, any Agent, or any of their agents, officers, directors, members of the Supervisory Board, employees or affiliates, any provision, present or future, of the constitutive documents of the Company or any provision of any securities issued or distributed by the Company, or any offering or distribution thereof; or (C) any event or circumstance, whether natural or caused by a person or persons, that is beyond the ability of the GDR Depositary or the Company, as the case may be, to prevent or counteract by reasonable care or effort (including, but not limited to earthquakes, floods, severe storms, fires, explosions, war, terrorism, civil unrest, labour disputes or criminal acts; interruptions or malfunctions of utility services, Internet or other communications lines or systems; unauthorized access to or attacks on computer systems or websites; or other failures or malfunctions of computer hardware or software or other systems or equipment), the GDR Depositary, the Custodian, the Company, any Agent, or any of their agents, officers, directors, employees or affiliates, shall be, directly or indirectly, prevented, delayed or forbidden from doing or performing, or could be subject to any civil or criminal penalty on account of doing or performing and therefore does not do or perform, any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any GDR Holder or owner of GDRs or any other person with an interest in any GDRs for any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 Neither the GDR Depositary nor any Agent shall be liable (except for its own wilful default, negligence or fraud or that of its agents, officers, directors or employees) to the Company or any GDR Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any Shares or certificates for GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

14.4 The GDR Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, fees, commissions and charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to GDR Holders or any other person for any profit arising therefrom.

14.5 The GDR Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the GDR Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or fraud or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.

14.6 The GDR Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

14.7 The GDR Depositary shall have no responsibility whatsoever to the Company, any GDR Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the GDR Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof, including for any tax imposed pursuant to FATCA. The GDR Depositary shall not be liable for the inability or failure of a GDR Holder or owner to obtain the benefit of a foreign tax credit, reduced rate of withholding or refund of amounts withheld in respect of tax or any other tax benefit.

14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the GDR Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the GDR Holders or the owners of GDRs or any other person.

14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the GDR Depositary may refrain from doing anything which could or might, in its reasonable opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the GDR Depositary may do anything which is, in its reasonable opinion, necessary to comply with any such law, directive or regulation.

14.10 The GDR Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the GDR Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.

14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter or facsimile transmission and the GDR Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be sent or obtained by any such letter or facsimile transmission although (without the GDR Depositary's knowledge) the same shall contain some error or shall not be authentic.

14.12 The GDR Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a director of the Company or such other certificate from persons specified in Condition 14.10 above which the GDR Depositary considers appropriate and the GDR Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the GDR Depositary acting on such certificate.

14.13 The GDR Depositary shall have no obligation under the Deposit Agreement or these Conditions except to perform its obligations as are specifically set out therein without wilful default, negligence or fraud.

14.14 Any liability of the GDR Depositary arising out of the Deposit Agreement, the GDRs or the Conditions shall be limited to the amount of actual loss suffered (such loss shall be determined as at the date of default of the GDR Depositary or, if later, the day on which the loss arises as a result of such default) but without reference to any special conditions or circumstances known to the GDR Depositary at the time of entering into the Deposit Agreement, the GDRs or the Conditions, or at the time of accepting any relevant instructions, which increases the amount of the loss. In no event shall the GDR Depositary be liable for any loss of profits, goodwill, reputation, business opportunity or anticipated saving, or for special, punitive, indirect or consequential damages, whether or not foreseeable, even if the GDR Depositary has been advised of the possibility of such loss or damages and regardless of whether the claim for loss or damage is made in negligence, breach of contract, duty or otherwise.

14.15 The GDR Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the GDR Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the GDR Depositary may in the interests of the GDR Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the GDR Depositary's ultimate holding company. Any delegation by the GDR Depositary shall be on the basis that the GDR Depositary is acting on behalf of the GDR Holders and/or the Company, as the case may be, in making such delegation. The Company shall not in (any circumstances) and the GDR Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the GDR Depositary shall, if practicable, and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the GDR Depositary of such indemnity and security for costs as the GDR Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The GDR Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the GDR Depositary.

14.16 The GDR Depositary may, in the performance of its obligations hereunder, instead of acting personally, and subject to applicable law, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.

14.17 The GDR Depositary may, in performing its duties hereunder, appoint and employ brokers, dealers, foreign currency dealers or other service providers that are owned by or affiliated with the GDR Depositary and that may earn or share fees, spreads or commissions.

14.18 The GDR Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the GDR Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or fraud or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.

14.19 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the GDR Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance, or the exercise or attempted exercise of (or the failure to exercise any of) its powers or discretions, under the Deposit Agreement, except to the extent that such loss or damage arises from the wilful default, negligence or fraud of the GDR Depositary or that of its agents, officers, directors or employees. Without prejudice to the generality of the foregoing, in no circumstances shall the GDR Depositary have any liability for any act or omission of any securities depository, clearing agency or settlement system in connection with or arising out of book-entry settlement of Deposited Shares or otherwise.

14.20 No provision of the Deposit Agreement or these Conditions shall require the GDR Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

14.21 For the avoidance of doubt, the GDR Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Slovenian law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the GDR Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the GDR Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

14.22 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

14.23 The GDR Depositary shall be under no obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Property or in respect of any GDRs on behalf of any GDR Holder or any other person.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses (including cable (including SWIFT) and facsimile transmission fees and expenses) and such terms as to evidence and indemnity as the GDR Depositary may require, replacement GDRs will be issued by the GDR Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the GDR Depositary or (at the request, risk and expense of the GDR Holder) at the specified office of any Agent.

16. GDR Depositary's Fees, Costs and Expenses

16.1 The GDR Depositary shall be entitled to charge the following remuneration and to receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the GDR Holders in respect of its services under the Deposit Agreement:

(a) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs: EUR 5.00 or less per 100 GDRs (or portion thereof) issued or cancelled, including for the avoidance of doubt, but not limited to, transfers between the Regulation S Master GDR and the Rule 144A Master GDR which transfers shall be treated as cancellations of GDRs represented by one Master GDR and issuances of GDRs represented by the other Master GDR;

(b) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the GDR Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(c) for issuing GDR certificates in definitive registered form (other than pursuant to (b) above): the greater of EUR 1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the GDR Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;

(d) subject to the proviso below, for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of EUR 0.03 or less per GDR for each such dividend or distribution;

(e) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: EUR 5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;

(f) subject to the proviso below, a fee of EUR 0.03 or less per GDR (or portion thereof) per calendar year for depositary services which shall be payable as provided in paragraph (h) below;

(g) a fee of EUR 0.01 or less per GDR per annum for local share registry inspection and related services by the GDR Depositary or the Custodian or their respective agents, which shall be payable as provided in paragraph (h) below; and

(h) any other charge payable by the GDR Depositary, any of the GDR Depositary's agents, including the Custodian, or the agents of the GDR Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against GDR Holders as of the date or dates set by the GDR Depositary and shall be payable at the sole discretion of the GDR Depositary by billing such GDR Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions),

together with all fees and expenses (including currency conversion expenses, cable, SWIFT and facsimile transmission fees and expenses), transfer and registration fees, taxes, duties and charges payable by the GDR Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above, provided that, the combined fees in paragraphs (d) and (f) above shall not exceed EUR 0.03 per GDR (or portion thereof) per calendar year.

16.2 The GDR Depositary may choose to charge the fees set forth in Clause 16.1 in dollars in its reasonable discretion.

16.3 The GDR Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the GDR Depositary.

16.4 From time to time, the GDR Depositary may make payments to the Company to reimburse and / or share revenue from the fees collected from GDR Holders, or waive fees and expenses for services provided, generally relating to costs and expenses arising out of establishment and maintenance of the GDR facilities established pursuant to the Deposit Agreement. Where the Company has been appointed by the GDR Depositary to act as Custodian in connection with the Deposit Agreement, the Company in its capacity as the Custodian may earn fees and revenue, and such fees and revenue may be paid by the GDR Depositary to the Company from fees collected by the GDR Depositary from GDR Holders. In performing its duties under the Deposit Agreement, the GDR Depositary may use brokers, dealers or other service providers that are affiliates of the GDR Depositary and that may earn or share fees and commissions.

17. **Agents**

17.1 The GDR Depositary shall be entitled to appoint one or more agents (the "**Agents**") for the purpose, *inter alia*, of making distributions to the GDR Holders.

18. **Listing**

The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs representing Shares on the ("**Official List**") and admission to trading on the regulated market of the LSE.

For that purpose the Company will pay all fees and sign and deliver all undertakings (and take any other steps) required by the United Kingdom FCA or the LSE in connection therewith. In the event that the listing on the Official List and admission to trading on the regulated market for listed securities of the LSE is not maintained, the Company will use all reasonable endeavours with the reasonable assistance of the GDR Depositary (provided at the Company's expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange in Europe.

19. **The Custodian**

The GDR Depositary has agreed with the Custodian that the Deposited Shares will be held in the name of the GDR Depositary on a *fiduciarni račun* with KDD operated by the Custodian (or agents appointed by the Custodian approved by the GDR Depositary) on behalf of the GDR Depositary and that the Custodian will receive and hold (or appoint agents approved by the GDR Depositary to receive and hold) other Deposited Property for the account and to the order of the GDR Depositary on a "*fiduciarni račun*", provided that with respect to cash, such account shall be an omnibus account opened with the Bank of Slovenia, in accordance with the applicable terms of the Deposit Agreement which include a requirement that Deposited Property held for the account of the GDR Depositary be identifiable on the books and records of the Custodian as being held for the account of the GDR Depositary. The Custodian shall be responsible solely to the GDR Depositary provided that, if and so long as the GDR Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the GDR Holders and the Company. Upon the removal of or receiving notice of the resignation of the Custodian (where upon the effectiveness of that resignation or removal there would be no Custodian acting under the Deposit Agreement), the GDR Depositary shall as promptly as practicable appoint a substitute Custodian or Custodians, which shall thereafter, become the Custodian under the Deposit Agreement. The GDR Depositary shall require any Custodian that resigns or is removed to deliver all Deposited Property held by such Custodian to another Custodian. The GDR Depositary in its discretion may appoint a substitute or additional custodian or custodians, which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement. The GDR Depositary shall notify GDR Holders of such change in accordance with Condition 23.

20. **Resignation and Removal of the GDR Depositary**

20.1 The Company may remove the GDR Depositary under the Deposit Agreement by giving 120 days' prior notice in writing to the GDR Depositary to become effective upon the later of (i) the 120th day after receipt of such notice by the GDR Depositary and (ii) the appointment of a successor depositary and its acceptance of appointment. The GDR Depositary may resign as Depositary by giving notice in writing to the Company to become effective upon the appointment of a successor depositary and its acceptance of that appointment as provided in Condition 20.2 below. The effect of the removal or resignation of the GDR Depositary if a successor depositary is not appointed is set out in Condition 21.

20.2 If the GDR Depositary resigns or is removed, the Company shall use all reasonable endeavours to appoint a successor depositary. Every successor depositary shall execute and deliver to the Company an instrument in writing accepting its appointment under the Deposit Agreement in accordance with the terms thereof and these Conditions. If the GDR Depositary receives notice from the Company that a successor depositary has been appointed following its resignation or removal, the GDR Depositary, upon receipt of payment of all sums due to it from the Company, shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such depositary, or to its order, all property and cash held by it under the Deposit Agreement. When the GDR Depositary has taken the actions specified in the preceding sentence (i) the successor shall become the GDR Depositary and shall have all the rights and shall assume all the duties of the GDR Depositary under the Deposit Agreement and (ii) the predecessor depositary shall cease to be the GDR Depositary and shall be discharged and released from all obligations under the Deposit Agreement, except for its duties under Clause 10.5 of the Deposit Agreement with respect to the time before that discharge. A successor Depositary shall notify the GDR Holders of its appointment as soon as practical after assuming the duties of Depositary.

21. **Termination of Deposit Agreement**

21.1 The Company may terminate the Deposit Agreement by written notice to the GDR Depositary. The GDR Depositary may terminate the Deposit Agreement by written notice to the Company if (a) the Company has failed to appoint a replacement Depositary within 60 days of the date on which the Company or the GDR Depositary has given notice pursuant to Clause 12 of the Deposit Agreement and Condition 20, (b) an Insolvency Event or Delisting Event (as defined below) occurs with respect to the Company or (c) a Termination Option Event has occurred or will occur. If the Deposit Agreement will be terminated, the GDR Depositary shall, within three business days of such termination notice being given by the Company pursuant to clauses (b) and (c) of the preceding sentence, provided that there are no outstanding amounts due to the GDR Depositary from the Company, give a notice of termination in accordance with Condition 23 to the GDR Holders then outstanding setting a date for termination (the "**Termination Date**"), which shall be at least 90 days after the date of that notice, and the Deposit Agreement shall terminate on that Termination Date.

21.2 At any time prior to the Termination Date, the GDR Depositary may accept surrenders of GDRs for the purpose of withdrawal of Deposited Property in accordance with Clause 3 of the Deposit Agreement and Condition 1.

21.3 At any time after the Termination Date, the GDR Depositary may sell the Deposited Property then held under the Deposit Agreement and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it hereunder, unsegregated and without liability for interest, for the *pro rata* benefit of GDR Holders that remain outstanding, and those GDR Holders will become general creditors of the GDR Depositary with respect to those net proceeds. After making that sale, the GDR Depositary shall be discharged from all obligations under the Deposit Agreement, except (i) to account to GDR Holders for the net proceeds and other cash (after deducting, in each case, the fee of the GDR Depositary for the surrender of GDRs, any expenses for the account of the GDR Holder in accordance with the terms and conditions of the Deposit Agreement and any applicable taxes or governmental charges) and (ii) for its liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations and (iii) to act as provided in the Condition 21.4 below, and after selling the Deposited Property and satisfying (i) and (ii) above, the GDR Depositary may cancel the outstanding GDRs.

21.4 After the Termination Date, the GDR Depositary shall continue to receive dividends and other distributions pertaining to Deposited Property (that have not been sold), may sell rights and other property as provided in the Deposit Agreement and shall deliver Deposited Property (or sale proceeds) upon surrender of GDRs (after payment or upon deduction, in each case, of the fee of the GDR Depositary for the surrender of GDRs, any expenses for the account of the GDR Holder of those GDRs in accordance with the terms and conditions of the Deposit Agreement and any applicable taxes or governmental charges). However, after the Termination Date, (i) the GDR Depositary may refuse to accept surrenders of GDRs for the purpose of withdrawal of Deposited Property (that has not been sold) or may reverse previously accepted surrenders of that kind that have not settled if in its opinion the requested withdrawal would interfere with its efforts to sell the Deposited Property, (ii) the GDR Depositary will not be required to deliver cash proceeds of the sale of Deposited Property until all Deposited Property has been sold and (iii) the GDR Depositary may discontinue the registration of transfers of GDRs and suspend the distribution of dividends and other distributions on Deposited Property to the GDR Holders and need not give any further notices or perform any further acts under the Deposit Agreement except as provided in this Condition 21.4, it being understood that following the Termination Date, the GDR Depositary will no longer vote or cause to be voted such Deposited Property.

21.5 For the purposes of this Condition 21, "**Delisting Event**" means a failure by the Company to comply with its obligations under Clause 7.1 of the Deposit Agreement and "**Insolvency Event**" means any of the following (i) the Company becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Company or the whole or any substantial (in the opinion of the GDR Depositary) part of the undertaking, assets and revenues of the Company, (iii) the Company or any regulator with jurisdiction over the Company, including but not limited to the Bank of Slovenia and the European Central Bank, takes any action for a restructuring of the Company's business or readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it, (iv) the Company ceases or threatens to cease to carry on all or any substantial part of its business, (v) the Company becomes or is reasonably likely to become, subject to supervision measures or recovery, reorganization, liquidation or termination, or resolution measures pursuant to the Slovenian Resolution and Compulsory Dissolution of Credit Institutions Act (*Zakon o reševanju in prisilnem prenehanju bank* (ZRPPB)), the Regulation (EU) 806/2014, the Regulation (EU) 1024/2013, the Regulation (EU) 468/2014, the Regulation (EU) 1093/2010, the Slovenian Banking Act (Zakon o bančništvu (ZBan-2)) or any other banking, regulatory, or bespoke statute to which the Company is or may become subject from time to time, or (vi) an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Company.

22. Amendment of Deposit Agreement and Conditions

22.1 Subject to Condition 22.3, all and any of the provisions of the Deposit Agreement and these Conditions may at any time and from time to time be amended by written agreement between the Company and the GDR Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the GDR Holders by the GDR Depositary, and any amendment which shall increase or impose fees payable by GDR Holders, which amends this Condition 22 or which, in the reasonable opinion of the GDR Depositary, would be materially prejudicial to the interests of the GDR Holders (as a class) shall not (unless such fees, amendment or material prejudice are the result of: governmental charges, registration fees, fees imposed by the GDR Depositary in its discretion in connection with any cable, SWIFT or facsimile transmission fees or costs, or delivery costs) become effective so as to impose any obligation on the GDR Holders until the expiration of 30 calendar days after such notice shall have been given. During such period of 30 calendar days, each GDR Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(a) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each GDR Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the GDR Holders. In no event shall any amendment impair the right of any GDR Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

22.2 For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of GDR Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the GDR Depositary which are or will become fully consolidated as a single series with the other Deposited Shares, provided that temporary GDRs will represent such Shares until they are so consolidated.

22.3 The Company and the GDR Depositary may at any time by agreement in any form amend the number of Shares represented by each GDR, provided that each outstanding GDR represents the same number of Shares as each other outstanding GDR, and at least 30 calendar days' notice of such amendment is given to the GDR Holders, but in no circumstances shall any amendment pursuant to this Condition 22.3 be regarded as an amendment requiring 30 calendar days' notice in accordance with Condition 22.1.

23. Notices

23.1 Any and all notices to be given to any GDR Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by facsimile transmission confirmed by letter sent by mail, air courier, or by email addressed to such GDR Holder at the address of such GDR Holder as it appears on the transfer books for GDRs of the GDR Depositary, or, if such GDR Holder shall have filed with the GDR Depositary a written request that notices intended for such GDR Holder be mailed to some other address, at the address specified in such request.

23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The GDR Depositary or the Company may, however, act upon any facsimile transmission received by it from the other or from any GDR Holder, notwithstanding that such facsimile transmission shall not subsequently be confirmed as aforesaid.

24. Reports and Information on the Company

24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the GDR Depositary with one copy in the English language (and to make available to the GDR Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from GDR Holders) of:

(a) in respect of the financial year ending on 31 December 2018 and in respect of each financial year thereafter, the non-consolidated (and, if published for holders of Shares, consolidated) balance sheets as at the end of such financial year and the non-consolidated (and, if published for holders of Shares, consolidated) statements of income for such financial year in respect of the Company, prepared in conformity with the IFRS and audited by independent auditors selected by the Company, as soon as practicable (and in any event within 180 days) after the end of such year;

(b) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Company, as soon as practicable, after the same are published and in any event no later than three months after the end of the period to which they relate; and

(c) if the Company publishes quarterly financial statements for holders of Shares, such quarterly financial statements, as soon as practicable, after the same are published, and in any event no later than three months after the end of the period to which they relate.

24.2 The GDR Depositary shall upon receipt thereof give due notice to the GDR Holders that such copies are available upon request at its specified office and the specified office of any Agent.

24.3 For so long as any of the GDRs or the Shares remain outstanding and are "**restricted securities**" within the meaning of Rule 144(a)(3) under the Securities Act ("**Restricted Securities**"), if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the GDR Depositary such information, in the English language and in such quantities as the GDR Depositary may from time to time reasonably request, as is required to be delivered to any GDR Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such GDR Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the Securities Act, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the GDR Depositary will deliver such information, during any period in which the Company informs the GDR Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the GDR Depositary have any liability for the contents of any such information.

25. **Copies of Company Notices**

The Company has undertaken in the Deposit Agreement to provide to the Custodian and the GDR Depositary: (i) if the Company takes or decides to take any corporate action of a kind that is addressed in Conditions 4, 5, 6, 7, 9 or 11, or that effects or will effect a change in the name or legal structure of the Company, or that effects or will effect a change to the Shares, a notification of that action or decision as soon as it is lawful and practical to give that notification, which notification shall be in English and shall include all details that the Company is required to include in any notice to any governmental or regulatory authority or securities exchange or is required to make available generally to holders of Shares by publication or otherwise; and (ii) promptly, all notices and any other reports and communications which are made generally available by the Company to holders of its Shares (or such number of English translations of the originals if the originals were prepared in a language other than English as the GDR Depositary may reasonably request). If any such notice is not furnished to the GDR Depositary in English, either by the Company or the Custodian, the GDR Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the GDR Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the GDR Depositary shall, as soon as practicable after receiving any such notice or (where appropriate) upon completion of translation thereof, give due notice to the GDR Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to GDR Holders in such manner as it may determine.

26. **Moneys held by the GDR Depositary**

The GDR Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any GDR Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the GDR Depositary.

27. **Severability**

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. **Governing Law**

The Deposit Agreement, the GDRs, and any non-contractual obligations arising from or connected with the Deposit Agreement and the GDRs, are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the GDR Depositary and the GDR Holders to elect that Disputes are resolved by arbitration.

29. **Jurisdiction**

29.1 The Company has irrevocably appointed Embassy of the Republic of Slovenia in United Kingdom, with offices at 17 Dartmouth Street, SW1H 9BL London, United Kingdom, as its agent in England to receive process which may be served in any suit or, legal action or proceedings in England arising out of or relating to the Deposited Shares, the GDRs, the Conditions or the Deposit Agreement ("**Proceedings**"). For the avoidance of doubt, the Company hereby confirms that it will not contest the effecting of service of process pursuant to the Deposit Agreement or the Conditions, including service of process on the Embassy of the Republic of Slovenia in United Kingdom to which it has expressly agreed. The Company has agreed to receive service of process in any legal action or Proceedings in New York arising out of or relating to the Deposited Shares, the GDRs, these Conditions or the Deposit Agreement by pre-paid post (given, made or served in accordance with Clause 14 of the Deposit Agreement) at its registered office in the Republic of Slovenia. Any writ, judgement or other notice of legal process shall be sufficiently served on the Company if delivered to such relevant agent at its address for the time being. The Company has irrevocably undertaken not to revoke the authority of such agent and if, for any reason, the GDR Depositary requests the Company to do so it shall promptly appoint another such agent with an address in England and notify the GDR Depositary and the GDR Holders accordingly. The Company has agreed that, if for any other reason it does not have such an agent in England, it will promptly appoint a substitute process agent and notify the GDR Holders and the GDR Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

29.2 The courts of England shall have jurisdiction to settle any disputes (each a "**Dispute**") and accordingly any Proceedings may be brought in such courts. Without prejudice to the foregoing, the GDR Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The GDR Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

29.3 These submissions are made for the benefit of each of the GDR Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not) to the extent permitted by law.

29.4 In the event that the GDR Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceedings (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the GDR Depositary, the Company has agreed to use all reasonable endeavours to cooperate with the GDR Depositary in connection with such litigation, arbitration or Proceedings.

29.5 In the event that the Company is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceedings (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the GDR Depositary, or which contains allegations to such effect, upon notice from the Company, the GDR Depositary has agreed to use all reasonable endeavours to cooperate with the Company in connection with such litigation, arbitration or Proceedings.

29.6 The GDR Depositary irrevocably appoints The Bank of New York Mellon, London Branch, (Attention: The Manager) of 49th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the GDR Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the GDR Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

29.7 To the extent that the Company may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgement or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Company or its assets or revenues, the Company has agreed not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

30. **Arbitration and Submission**

30.1 Notwithstanding any other provision of these Conditions, the GDR Depositary agrees that each GDR Holder may elect, by notice in writing to the GDR Depositary issued no later than the filing of a defence in any Proceedings, that the Dispute be resolved by arbitration and not litigation. In such case, the Dispute shall be referred to arbitration under the Rules of the London Court of International Arbitration (the "**Rules**") and finally resolved by arbitration under the Rules which Rules are deemed to be incorporated by reference into this Condition. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof.

30.2 If any GDR Holder elects arbitration proceedings in accordance with Condition 30.1, the GDR Depositary and the GDR Holders agree that:

(a) The number of arbitrators shall be three, appointed by the London Court of International Arbitration in accordance with its Rules;

(b) The place of the arbitration shall be London;

(c) The language to be used in the arbitration proceedings shall be English; and

(d) The decision and award of the arbitration shall be final and binding on the parties from the day it is made.

30.3 The governing law of this arbitration agreement shall be the substantive law of England, excluding conflict of law rules.

30.4 If Proceedings have been initiated by the GDR Depositary in a court of competent jurisdiction at the time that any GDR Holder elects to submit the matter to arbitration in accordance with Condition 30.1, then the GDR Depositary agrees that it shall discontinue such Proceedings without delay unless the GDR Holder is deemed to have waived such right by substantially participating in the Proceedings without having raised its right under this Condition.

30.5 If any Dispute raises issues which are substantially the same as or connected with issues raised in a Dispute which has already been referred to arbitration (an "**Existing Dispute**"), or arises out of substantially the same facts as are the subject of an Existing Dispute, or a dispute, controversy or claim, arising out of or in connection with the Deposit Agreement or the Deed Poll, whether in tort, contract, statute or otherwise, including any question regarding their existence, validity, interpretation, breach or termination (in any such case a "**Related Dispute**" provided that such Related Dispute has been or is to be submitted to arbitration), the arbitrators appointed or to be appointed in respect of any such Existing Dispute shall also be appointed as the arbitrators in respect of any Related Dispute, save where the arbitrators consider such appointment to be inappropriate.

30.6 The arbitrators, upon the request of one of the parties to a Dispute or Related Dispute or a GDR Holder or the GDR Depositary which itself wishes to be joined in any reference to arbitration proceedings in relation to a Dispute or Related Dispute, may join any GDR Holder or any party to the Deposit Agreement, these Conditions or the Deed Poll to any reference to arbitration proceedings in relation to that Dispute or Related Dispute and may make a single, final award determining all Disputes and Related Disputes between them. Each of the GDR Holders and the GDR Depositary hereby consents to be joined to any reference to arbitration proceedings in relation to any dispute at the request of a party to that Dispute or Related Dispute, and to accept joinder of any party requesting to be joined in accordance with this Condition 30.6.

30.7 Where, pursuant to the above provisions, the same arbitrators have been appointed in relation to an Existing Dispute and one or more Related Disputes, the arbitrators may, with the agreement of all the parties concerned or upon the application of one of the parties, being a party to each of the Disputes, order that the whole or part of the matters at issue shall be heard together upon such terms or conditions as the arbitrators think fit.

30.8 The arbitrators shall have power to make such directions and any provisional, interim or partial awards as they consider just and desirable.

30.9 Nothing in these dispute resolution provisions shall be construed as preventing either party from seeking conservatory or similar interim relief in any court of competent jurisdiction.

30.10 The parties hereby agree to waive any right of appeal to any court of law or other judicial authority insofar as such waiver may be validly made.

30.11 Without prejudice to the powers of the arbitrators provided in the Rules, statute or otherwise, the arbitrators shall have power at any time, following the written request (with reasons) of any party at any time, and after due consideration of any written and/or oral response(s) to such request made within such time periods as the arbitrators shall determine, to make an award in favour of the claimant(s) (or the respondent(s) if a counterclaim) in respect of any claims (or counterclaims) if it appears to the arbitrators that there is no reasonably arguable defence to those claims (or counterclaims), either at all or except as to the amount of any damages or other sum to be awarded.

30.12 The GDR Depositary and the GDR Holders agree that in no circumstances will they request the arbitrators to, and the arbitrators shall have no authority to, exercise any power to award damages which are not calculated by reference to the party's actual costs or to award any loss of profit whatsoever or any consequential, special or punitive damages.

31. **Language**

Although the Deposit Agreement or these Conditions may be translated into the Slovenian language, the Slovenian version of the Deposit Agreement and these Conditions is for informational purposes only. In the event of any discrepancies between the English version and the Slovenian version of the Deposit Agreement or these Conditions, or any dispute regarding the interpretation of any provision in the English version or Slovenian version of the Deposit Agreement or these Conditions, the English version of the Deposit Agreement and these Conditions shall prevail and questions of interpretation shall be addressed solely in the English language.

18. SUMMARY OF THE PROVISIONS RELATING TO THE GLOBAL DEPOSITARY RECEIPTS WHILE IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Regulation S Master GDR in registered form and (ii) a single Rule 144A Master GDR in registered form. The Rule 144A Master GDR and the Regulation S Master GDR will be deposited with The Bank of New York Mellon, London Branch, as common depository for Euroclear and Clearstream (the "**Common Depository**") (and registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for the Common Depository) on the date the GDRs are issued.

The Regulation S Master GDR and the Rule 144A Master GDR contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the GDR Terms and Conditions of the GDRs set out in this document. The following is a summary of certain of those provisions. Words and expressions given a defined meaning in the GDR Terms and Conditions shall have the same meanings in this section unless otherwise provided in this section.

Exchange

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (i), (ii) or (iii) below in whole but not in part and until exchanged in full is subject to the GDR Terms and Conditions and the Deposit Agreement. The GDR Depositary will irrevocably undertake in the Master GDRs to deliver certificates in definitive registered form representing GDRs in exchange for the relevant Master GDR to the GDR Holders in the event that:

(i) Euroclear or Clearstream or any successor advises NLB in writing at any time that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days; or

(ii) Either Euroclear or Clearstream is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does, in fact do so and no alternative clearing system satisfactory to the GDR Depositary is available within 45 calendar days; or

(iii) the GDR Depositary has determined that, on the occasion of the next payment in respect of the Master GDRs, the GDR Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the Master GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the GDR Depositary shall have no obligation to so determine or to attempt to so determine.

within 60 calendar days of the occurrence of the relevant event. Any such exchange shall be at the expense (including printing costs) of NLB.

Upon any exchange of a Master GDR for GDRs in definitive registered form, or any exchange of interests between the Rule 144A Master GDR and the Regulation S Master GDR pursuant to Clause 4 of the Deposit Agreement, or any distribution of GDRs pursuant to GDR Terms and Conditions 5, 7 and 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the GDR Depositary on the register maintained by the GDR Depositary (which shall be maintained at all times outside the United Kingdom and the Republic of Slovenia,) whereupon the number of GDRs represented by the Master GDR shall be reduced or increased (as the case may be) accordingly. If the number of GDRs represented by a Master GDR is reduced to zero, such Master GDR shall continue in existence until the obligations of NLB under the Deposit Agreement and the obligations of the GDR Depositary pursuant to the Deposit Agreement and the GDR Terms and Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Regulation S Master GDR be made by the GDR Depositary through Euroclear and Clearstream and, in the case of GDRs represented by the Rule 144A Master GDR, will be made by the GDR Depositary through the Common Depository, on behalf of persons entitled thereto upon receipt of funds therefor from the Company. A free distribution or rights issue of Shares to the GDR Depositary on behalf of the GDR Holders will result in the records of the GDR Depositary being marked up to reflect the enlarged number of GDRs represented by the relevant Master GDR.

GDR Holders will have voting rights as set out in the GDR Terms and Conditions.

Surrender of GDRs

Any requirement in the GDR Terms and Conditions relating to the surrender of a GDR to the GDR Depositary shall be satisfied by the production by Euroclear or Clearstream (in the case of GDRs represented by the Regulation S Master GDR), or by the Common Depository (in the case of GDRs represented by the Rule 144A Master GDR, on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the GDR Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream. The delivery or production of any such evidence shall be sufficient evidence, in favour of the GDR Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all moneys or other property payable or distributable and to issue voting instructions in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Regulation S Master GDR is registered in the name of a nominee for a common depository holding on behalf of Euroclear and Clearstream, and the Rule 144A Master GDR is registered in the name of the Common Depository or its nominee, notices to GDR Holders may be given by the GDR Depositary by delivery of the relevant notice to Euroclear and Clearstream, for communication to persons entitled thereto in substitution for the notice requirements of Condition 23.

Information

For so long as any of the Rule 144A GDRs or the Shares remain outstanding and are "restricted securities" within the meaning of Rule 144(a) (3) under the Securities Act, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed to supply to the GDR Depositary such information in the English language and in such quantities as the GDR Depositary may from time to time reasonably request, as is required to be delivered to any GDR Holder or beneficial owner of Rule 144A GDRs or to any holder of Shares or prospective purchaser designated by such GDR Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the Securities Act, as amended, to permit compliance with Rule 144A in connection with resales of Rule 144A GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise will comply with the requirements of Rule 144A(d)(4) under the Securities Act.

Governing Law

The Master GDRs, and all non-contractual obligations arising from or connected with the Master GDRs, shall be governed by and construed in accordance with English law.

19. DESCRIPTION OF ARRANGEMENTS TO SAFEGUARD THE RIGHTS OF THE HOLDERS OF THE GLOBAL DEPOSITARY RECEIPTS

The GDR Depositary

The GDR Depositary is The Bank of New York Mellon, a wholly-owned subsidiary of The Bank of New York Mellon Corporation, a Delaware bank holding company that is a global banking and financial services company.

Rights of GDR Holders

Relationship of GDR Holders with the GDR Depositary

The rights of GDR Holders against the GDR Depositary are governed by the terms and conditions (the "**Conditions**") and the Deposit Agreement, which are governed by English law (except that the certifications to be given upon deposit or withdrawal (in Schedules 3 and 4 of the Deposit Agreement) are governed by the laws of the State of New York). The GDR Depositary and the Company are parties to the Deposit Agreement. GDR Holders have contractual rights in relation to cash or other Deposited Property (including Deposited Shares, which are Shares of the Company represented by GDRs) deposited with the GDR Depositary under the Deposit Agreement by virtue of the Deed Poll.

Voting

With respect to voting of Deposited Shares and other Deposited Property represented by GDRs, the Conditions and the Deposit Agreement provide that, if notified by the Company of and provided with relevant information in relation to shareholder meetings, and if so requested in writing by the Company, the GDR Depositary will send to any person who is a GDR Holder on the record date established by the GDR Depositary for that purpose voting materials and instructions for voting. The Deposit Agreement and the Conditions provide that the GDR Depositary will endeavour to exercise or cause to be exercised the voting rights with respect to Deposited Shares in accordance with the voting instructions it has received from GDR Holders, subject to applicable law.

Each GDR Holder is entitled to give instructions to the GDR Depositary to vote for or against, or abstain from voting on, each resolution specified in the agenda for the meeting. Each voting instruction from a GDR Holder must be in the form required by the GDR Depositary. Exercise of voting rights from GDR Holders will be subject in each case to applicable law and the GDR Depositary's determination of what is reasonably practicable, which may mean that in some cases the GDR Depositary cannot procure the exercise of any votes. See "*17. Terms and Conditions of the Global Depositary Receipts—Voting Rights*" for more information on the voting rights of GDR Holders.

Delivery of Shares

The Deposit Agreement and the Conditions provide that the Deposited Shares can only be delivered out of the GDR facilities (i) to, or to the order of, a GDR Holder upon surrender and cancellation of GDRs or (ii) in connection with a sale to pay taxes or certain other charges due to the GDR Depositary or following termination of the Deposit Agreement.

Rights of the Company

The Company has broad rights to remove the GDR Depositary under the terms of the Deposit Agreement, but no specific rights under the Deposit Agreement which are triggered in the event of the insolvency of the GDR Depositary.

Default of the GDR Depositary

If the GDR Depositary fails to pay cash or deliver non-cash assets to GDR Holders in the circumstances required by the Conditions or otherwise engages in a default for which it would be liable under the Conditions, the GDR Depositary will be in breach of its contractual obligations under the Conditions. In such a case, GDR Holders would have a claim under English law against the GDR Depositary to the extent that the GDR Depositary is in breach of its contractual obligations under the Conditions.

Insolvency of the GDR Depositary

Applicable insolvency law

If the GDR Depositary becomes insolvent, the insolvency proceedings will be governed by U.S. law applicable to the insolvency of banks.

Effect of applicable insolvency law in relation to cash

Any cash held by the GDR Depositary for GDR Holders under the Conditions is held by the GDR Depositary as banker. Under current U.S. law, it is expected that: (a) any cash held by the GDR Depositary as banker under the Conditions would constitute an unsecured obligation of the GDR Depositary; and (b) in relation to any amounts of cash held by the GDR Depositary pursuant to the Conditions and due to GDR Holders but not yet paid at the time of such insolvency, the GDR Holders will have only an unsecured claim in the GDR Depositary's insolvency for such cash, and that cash would also be available to satisfy claims of other general creditors of the GDR Depositary and of the Federal Deposit Insurance Corporation (FDIC).

Effect of applicable insolvency law in relation to non-cash assets

The Deposit Agreement states that the Deposited Shares and other non-cash assets which are held by the GDR Depositary for GDR Holders are held by the GDR Depositary as bare trustee and, accordingly, the GDR Holders will be tenants in common for such Deposited Shares and other non-cash assets. Under current U.S. law, it is expected that (a) any Deposited Shares and other securities held for the GDR Holders by the GDR Depositary should not constitute assets of the GDR Depositary that are available to general creditors of the GDR Depositary; and (b) in relation to any securities or other non-cash assets held by the GDR Depositary pursuant to the Deposit Agreement for the GDR Holders at the time of such insolvency, the GDR Holders will have ownership rights to such securities or other non-cash assets and will be able to request the GDR Depositary's liquidator to deliver such securities and other non-cash assets to the GDR Holders.

Under Slovenian law, any Deposited Shares and other securities held for the benefit of GDR Holders by the GDR Depositary should not constitute assets of the GDR Depositary that are available to general creditors of the GDR Depositary.

The Custodian

The Custodian is NLB, a legal entity established under Slovenian law. The Custodian provides certain services to the GDR Depositary under a custody agreement.

The Custodian will open a fiduciary account at the KDD in the name of the GDR Depositary as fiduciary. The securities will be held by the GDR Depositary on behalf of the GDR Holders. All Shares, including the Deposited Shares, will be held through the Slovenian Central GDR Depositary system managed by KDD.

Cash payments from the Company (which are expected to be denominated in EUR) will be received by the KDD, as paying agent, who will distribute such amounts to the entitled KDD participants, including the Custodian (into Custodian's separate omnibus bank account for clients' cash funds). Cash is then transferred by the Custodian into an account held in the GDR Depositary's name.

Relationship of GDR Holders with the Custodian

The GDR Holders do not have any contractual relationship with, or rights enforceable against, the Custodian.

Default of the Custodian

Failure to deliver cash and non-cash assets

If the Custodian (i) fails to comply with the instructions of the GDR Depositary with respect to the Deposited Shares or other non-cash assets held in the name of the GDR Depositary on a "*fiduciarni račun*", as such term is defined under Slovenian law, with KDD operated by the Custodian for the GDR Depositary as required by the GDR Depositary; (ii) fails to deliver cash to the account of the GDR Depositary as required under the custody agreement; or (iii) otherwise engages in a default for which it would be liable under the custody agreement, the Custodian will be in breach of its contractual obligations. In such case, the GDR Depositary would have a claim against the Custodian for the Custodian's breach of its contractual obligations. The GDR Depositary can also remove the Custodian and appoint a substitute or additional custodian and may exercise such rights if it deems necessary.

The GDR Depositary's liability

The GDR Depositary is only liable to GDR Holders for loss incurred by GDR Holders as a result of default by the Custodian if such loss arises from the wilful default, negligence or fraud of the GDR Depositary or that of its agents, officers, directors or employees.

The GDR Depositary's obligations

The GDR Depositary has no obligation to pursue a claim for breach of obligations against the Custodian on behalf of GDR Holders. The GDR Depositary is not responsible for, and will incur no liability in connection with, or arising from, default by the Custodian due to any act or omission to act on the part of the Custodian, except to the extent that there is loss or damage which arises from the wilful default, negligence or fraud of the GDR Depositary or that of its agents, officers, directors or employees.

Applicable law

The custody agreement is governed by Slovenian law.

Insolvency of the Custodian

Applicable insolvency law

If the Custodian becomes insolvent, Slovenian law will apply to the insolvency proceedings.

Effect of applicable insolvency law in relation to non-cash assets

As neither the Deposited Shares (nor any other securities will be held by the Custodian on behalf of the GDR Depositary), in the event of the Custodian's bankruptcy, the Deposited Shares (and such other securities, if any) would not form part of the Custodian's general insolvent estate. It is expected, instead, that the GDR Depositary's rights in respect of the Deposited Shares (and such other securities, if any) would not be affected.

Effect of applicable insolvency law in relation to cash

Unless the exemption described in the next paragraph applies, the Custodian is obliged under Slovenian law to hold a separate omnibus bank account for clients' cash funds through which it shall accept and make payments arising from transactions made for the clients' accounts relating to Deposited Shares, as well as manage clients' cash funds (this includes dividends received). Cash in this separate bank account is not considered an asset of the Custodian and does not become part of the general insolvent estate. The GDR Depositary will have a right to exclude cash in this bank account from the Custodian's general insolvent estate.

While under Slovenian law, custodians are generally obliged to segregate clients' cash fund accounts from such custodian's other cash assets, there is an exception for banks acting as custodians, pursuant to which such banks are not obliged to segregate their cash assets from clients' cash fund accounts. Therefore, if the Custodian will rely on such exemption, amounts held for the benefit of the GDR Holders on a client cash fund account may, in insolvency proceedings with respect to the Custodian, not represent their full entitlement.

The GDR Depositary's liability

The GDR Depositary is only liable to GDR Holders for loss incurred by GDR Holders as a result of the Custodian's insolvency if such loss arises from the wilful default, negligence or fraud of the GDR Depositary or that of its agents, officers, directors or employees.

The GDR Depositary's obligations

The GDR Depositary has no obligation to pursue a claim in the Custodian's insolvency on behalf of the GDR Holders. The GDR Depositary has no responsibility for, and will incur no liability in connection with or arising from, the insolvency of any custodian. In the event of the insolvency of the Custodian, the GDR Holders have no direct recourse to the Custodian under the Deposit Agreement or the GDR Depositary's agreement with the Custodian, though the GDR Depositary can also remove the Custodian and appoint a substitute or additional custodians and may exercise such rights if it deems necessary.

PERSONS HOLDING BENEFICIAL TITLE TO GDRs OR INTERESTS THEREIN ARE REMINDED THAT THE ABOVE DOES NOT CONSTITUTE LEGAL ADVICE AND IN THE EVENT OF ANY DOUBT REGARDING THE EFFECT OF THE DEFAULT OR INSOLVENCY OF THE DEPOSITARY OR THE CUSTODIAN, SUCH PERSONS SHOULD CONSULT THEIR OWN ADVISORS IN MAKING A DETERMINATION.

20. TAXATION

The following summary of certain U.S. federal income, United Kingdom and Slovenian tax consequences of ownership of the Securities is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Securities. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the Securities. Each prospective investor is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of the Securities, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

Slovenian Tax Considerations

Taxation of Dividends

Withholding tax

KDD or any other legal entity or individual conducting business which is both:

(a) a "**Slovenian Resident**", being (1) a person which is resident for taxation purposes in the Republic of Slovenia or (2) a person which is not resident for taxation purposes in the Republic of Slovenia when acting through a branch or a permanent establishment in the Republic of Slovenia; and

(b) an "**Intermediary**", being a person which receives payment of dividends (the "**Dividend Payment**") in respect of the Shares for the benefit of another person or persons (the "**Payee**") and forwards such payment to the Payee;

(hereinafter: the "**Slovenian Payer**") is required to deduct and withhold the amount of Slovenian corporate or personal income tax from Dividend Payments made to the certain categories of Payees, as shown in the below table:

Payee	Tax Rate	Exemption(s)
Individuals	25 per cent.	
Intermediaries	25 per cent.	• the Payee qualifies as Slovenian Payer (i.e. is Slovenian Resident); • the Intermediary is registered as an authorised foreign intermediary (*pooblaščeni tuji posrednik*) and provides the Slovenian Payer with the required information on beneficiaries of such payment;
Legal entities (other than Intermediaries)	15 per cent.	• the Payee is Slovenian resident which provides the Slovenian Payer with its tax identification number; • the Payee is permanent establishment in the Republic of Slovenia of non-resident legal entity which provides the Slovenian Payer with its tax identification number;

Payee	Tax Rate	Exemption(s)
		• the Payee is resident of another EU and/or EEA member state which is liable for income tax in the country of residence, provided that (1) the Dividend Payment does not constitute the income of its permanent establishment in the Republic of Slovenia; (2) it is unable to claim such tax in the country of residence; and (3) that the purpose of the transaction is not avoidance of tax; • the Payee is pension fund, investment fund or insurance undertaking authorised to implement the pension scheme, resident in another EU and/or EEA member state, provided that (1) the Dividend Payment does not constitute the income of its permanent establishment in the Republic of Slovenia; and (2) it is unable to claim such tax pursuant in the country of residence (even if such inability is attributable to the fact that 0 per cent. tax rate applies in that country); • the Payee is entitled to benefit from the common system of taxation applicable in the case of parent companies and subsidiaries of different EU member states.

For the purposes of Slovenian tax legislation, the GDR Depositary will qualify as an Intermediary which is neither a Slovenian Resident nor an authorised foreign intermediary (*pooblaščeni tuji posrednik*). Accordingly, the Dividend Payments paid by the Custodian (or any other Slovenian Payer) to the GDR Depositary will be subject to the deduction and withholding of Slovenian tax at the rate of 25 per cent. A GDR Holder, or a beneficial owner of a GDR will be considered as a Payee and will be entitled, if and to the extent applicable, to claim a refund of the withholding tax (see "-*Refund of Withholding Tax*" below).

Following the withdrawal of the United Kingdom from the EU, a Payee resident for taxation purposes in the United Kingdom will no longer be resident in an EU member state and will no longer be entitled to the exemptions applicable to the residents of other EU member states.

Application of Double Tax Treaties

If the Payee is not an Intermediary, Slovenian tax authorities may approve the application of a lower tax rate specified in the double tax treaty between the Republic of Slovenia and the country of residence of the Payee if the Slovenian Payer provides certain information on the Payee and a confirmation that the Payee is resident for taxation purposes in such country, issued by the tax authorities of such country.

Refund of Withholding Tax

A person, other than an Intermediary, which receives a Dividend Payment from which an amount Slovenian tax was deducted and withheld, is entitled to claim from the Slovenian tax administration a refund of the amount, if any, by which (a) the amount of Slovenian tax deducted and withheld from such Dividend Payment exceeds (b) the amount of Slovenian tax that would be deducted and withheld from such Dividend Payment if a Slovenian Payer would make the Dividend Payment directly to such person as a Payee (in which case such person can also request that a lower tax rate under the respective double tax treaty is applied).

Legal persons

Dividends in respect of the Shares received by a legal person which is Slovenian Resident are exempt from Slovenian corporate income tax (*davek od dohodkov pravnih oseb*).

Individuals

The amount of tax withheld from a Dividend Payment received by an individual constitutes the final amount of Slovenian Personal Income Tax (*dohodnina*) in respect of such Dividend Payment.

Taxation of Capital Gains

Legal persons

Capital gains (or, in certain circumstances, 50 per cent. thereof) earned on the sale or disposition of the Securities by a legal person which is a Slovenian Resident will be subject to Slovenian corporate income tax as a part of its overall income tax (currently levied at the rate of 19 per cent.).

Capital gains earned by a legal person which is not a Slovenian Resident and has no permanent establishment (*poslovna enota*) in the Republic of Slovenia are not subject to Slovenian taxation.

Individuals

According to the Slovenian Personal Income Tax Act (*Zakon o dohodnini* ("**ZDoh-2**")), capital gains earned from the sale or other disposition of the Securities by an individual are subject to Slovenian Personal Income Tax if such individual (a) is Slovenian Resident; or (b) has earned such capital gain from the sale or other disposition of the Shares and has at any time during the period of the last five years, directly or indirectly held Securities representing at least 10 per cent. of all Shares or had at least 10 per cent. of the voting rights in the Company.

Except as stated above, capital gains earned on the sale or disposition of the Securities by an individual who is not a Slovenian Resident are exempt from Slovenian taxation.

Taxation of Inheritance and Gifts

Pursuant to the Inheritance and Gift Tax Act (*Zakon o davku na dediščine in darila* ("**ZDDD**")), both individuals and legal persons may be subject to Slovenian inheritance and gift tax in case of the transfer of the Securities as a part of the estate of a deceased person or as a gift. The value of all transfers by the same person in one year is considered when ascertaining the taxable amount for such purposes.

Inheritance tax and gift tax is assessed by reference to the market value of property subject to taxation at the time of the occurrence of tax liability, decreased by debts, costs and charges relating to this property. In the case of movable property (such as the Securities), the tax base for inheritances and gifts is decreased by EUR 5,000.

Tax on inheritance and gifts is not paid by the heir or recipient of a gift of a first hereditary order (children and spouse).

Tax rates are progressive and differ depending on the hereditary order. Tax rates for inheritance and gift tax range:

(a) from 5 per cent. up to 14 per cent. for the second hereditary order (parents, siblings and their descendants);

(b) from 8 per cent. up to 17 per cent. for the third hereditary order (grandparents); and

(c) from 12 per cent. up to 39 per cent. for all subsequent hereditary orders (others).

Ownership of GDRs

For Slovenian income tax purposes, an owner of GDRs generally will be treated as the owner of the Shares represented by such GDRs. However, this summary of certain Slovenian tax consequences does not necessarily address all possible tax consequences relating to an investment in the GDRs, since the Slovenian

Tax Law does not explicitly determine the rules and conditions in reference to GDRs. You should consult your own tax adviser about tax consequences, eligibility of tax exemptions, application of Double Tax Treaties and refund of Withholding Tax relating to an investment in the GDRs.

Certain U.S. Federal Income Tax Considerations

The following summary is a general discussion of certain U.S. federal income tax considerations to U.S. Holders (as defined below) of acquiring, holding and disposing of the Securities. The following summary applies only to U.S. Holders that are the initial purchasers of the Securities pursuant to this Offering and that hold the Securities as capital assets for U.S. federal income tax purposes (generally, property held for investment). The discussion also does not address any aspect of U.S. federal taxation other than U.S. federal income taxation (such as the estate and gift tax or the Medicare tax). This summary does not address all tax considerations applicable to investors that own (directly or by attribution) 10 per cent. or more (by voting power or value) of our stock, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, investors liable for the alternative minimum tax, certain U.S. expatriates, individual retirement accounts and other tax deferred accounts, tax exempt organisations, dealers in securities or currencies, securities traders that elect mark-to market-tax accounting, investors that will hold the shares as part of constructive sales, straddles, hedging, integrated or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

The following summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), U.S. Treasury regulations thereunder, published rulings of the U.S. Internal Revenue Service (the "**IRS**") and judicial and administrative interpretations thereof, in each case as available on the date of this Prospectus. Changes to any of the foregoing, or changes in how any of these authorities are interpreted, may affect the tax consequences set out below, possibly retroactively. No ruling will be sought from the IRS with respect to any statement or conclusion in this discussion, and there can be no assurance that the IRS will not challenge such statement or conclusion in the following discussion or, if challenged, a court will uphold such statement or conclusion.

For purposes of the following summary, a "**U.S. Holder**" is a beneficial owner of Securities that is for U.S. federal income tax purposes: (i) an individual who is a citizen or resident of the United States, (ii) a corporation or entity taxable as a corporation created or organised in or under the laws of the United States or any state thereof or the District of Columbia, or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

If an entity or arrangement classified as a partnership for U.S. federal income tax purposes owns Securities, the U.S. federal income tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. An entity or arrangement classified as a partnership considering an investment in Securities, and partners in such partnership, should consult their own tax advisers about the U.S. federal income tax consequences of an investment in the Securities.

Prospective purchasers of Securities should consult their own tax advisers with respect to the U.S. federal, state, local and non U.S. tax consequences to them in their particular circumstances of acquiring, holding, and disposing of Securities.

The discussion below under "*—Distributions on Securities*" and "*—Sale, Exchange or Other Taxable Disposition of Securities*" is subject to the passive foreign investment company ("**PFIC**") rules discussed under "*—Passive Foreign Investment Companies*". See the discussion under "*—Passive Foreign Investment Companies*".

Ownership of GDRs in General

For U.S. federal income tax purposes, an owner of GDRs generally will be treated as the owner of the Shares represented by such GDRs. No gain or loss will be recognised if you exchange GDRs for the Shares represented by those GDRs. Your tax basis in such Shares will be the same as your tax basis in such GDRs, and the holding period in such Shares will include the holding period in such GDRs. You should consult your own tax adviser about how to calculate your tax basis and holding period if you acquire GDRs at different times or with different purchase prices.

Distributions on Securities

The gross amount of any distributions by us with respect to our Securities (including the amount of any taxes withheld) generally will be taxable to a U.S. Holder as ordinary dividend income to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Distributions in excess of current or accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder's basis in our Securities and thereafter as capital gain. Because we do not expect to maintain calculations of our earnings and profits in accordance with U.S. federal income tax principles, U.S. Holders should expect that a distribution will generally be treated as a dividend for U.S. federal income tax purposes. Dividends paid by us will not be eligible for the dividends received deduction provided under the Code for dividends received by certain U.S. corporate shareholders. With respect to non-corporate U.S. Holders, certain dividends received may be subject to reduced rates of taxation. Subject to generally applicable limitations, we expect dividends paid to non-corporate U.S. Holders to be eligible for reduced rates of taxation so long as a majority of our Shares are regularly traded on the LJSE and we are not classified as a PFIC in the year of the dividend or the precedent taxable year. See the discussion below under "*—Passive Foreign Investment Companies*". U.S. Holders should consult their own tax advisers to determine whether the reduced rate will apply to any dividends received from us.

Dividends received with respect to the Securities generally will be treated as foreign source income. A U.S. Holder will be entitled, subject to generally applicable limitations and conditions, to claim a U.S. foreign tax credit in respect of any Slovenian taxes withheld on dividends received on the Securities. U.S. Holders who do not elect to claim a credit for any foreign income taxes paid or accrued during the taxable year may instead claim a deduction of such taxes. If a U.S. Holder is eligible for benefits under the income tax treaty between the Republic of Slovenia and the United States (the "**Treaty**") or otherwise is entitled to a refund for the taxes withheld, such U.S. Holder will not be entitled to a foreign tax credit or deduction for the amount of any non-U.S. taxes withheld in excess of the maximum rate under the Treaty or for the taxes with respect to which such U.S. Holder can obtain a refund from the Slovenian taxing authorities. The rules relating to computing foreign tax credits or deducting foreign taxes are complex, and U.S. Holders are urged to consult their own tax advisers regarding the availability of foreign tax credits in their particular situation.

U.S. Holders should consult their own tax advisers about how to account for payments made or received in a currency other than the U.S. dollar.

Sale, Exchange or Other Taxable Disposition of Securities

A U.S. Holder generally will recognise U.S.-source capital gain or loss upon the sale, exchange or other taxable disposition of our Securities equal to the difference, if any, between the EUR amount realised on the sale, exchange or other taxable disposition of the Securities and the U.S. Holder's tax basis in the Securities (generally their cost in U.S. dollars). Any such gain or loss will be long-term capital gain or loss if the Securities have been held for more than one year. Certain non-corporate U.S. Holders may be eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. The deductibility of capital losses is subject to limitations.

U.S. Holders should consult their own tax advisers about how to account for payments made or received in a currency other than the U.S. dollar.

Passive Foreign Investment Companies

Special U.S. federal income tax rules apply to U.S. Holders that own, directly or indirectly, Securities of a PFIC. A non-U.S. corporation generally will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after taking into account the proportionate share of income and assets of 25 per cent. or more owned (by value, either directly or indirectly) subsidiaries, either (i) at least 75 per cent. of its gross income is "passive income"; or (ii) on average at least 50 per cent. of the average value (determined on a quarterly basis) of its assets is attributable to assets that produce or are held to produce passive income. For this purpose, passive income generally includes, amongst other items, dividends, interest, gains from certain commodities transactions, certain rents and royalties and gains from the disposition of passive assets. If a company is considered to be an active bank for purposes of the PFIC rules, its "banking income" generally is treated as active income even if it would otherwise be classified as passive income.

While the application of the relevant PFIC rules, especially with respect to non-U.S. banks is not completely clear, and the tests are based on factual information that can change, we do not expect to be classified as a PFIC for our prior taxable year, the year of the Offering or in the foreseeable future. However, no assurance can be given that we will not be classified as a PFIC for any given year.

If we were classified as a PFIC at any time during a U.S. Holder's holding period, such U.S. Holder could be subject to materially adverse tax consequences including being subject to greater amounts of tax on gains and certain distributions on the Securities as well as tax reporting obligations. U.S. Holders should consult their tax advisers about the consequences if we are classified as a PFIC.

Backup Withholding and Information Reporting

Information returns may be filed with the IRS in connection with distributions on the Securities and the proceeds from a sale exchange or other taxable disposition of the Securities. A U.S. Holder may be subject to U.S. backup withholding on these payments if it fails to provide its tax identification number and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is furnished to the IRS.

U.S. Holders should consult their own tax advisers regarding any additional tax reporting or filing requirements they may have as a result of acquiring, owning or disposing of the Securities including requirements related to the holding of certain foreign financial assets. Failure to comply with applicable reporting obligations could result in the imposition of substantial penalties.

United Kingdom taxation

The following is a general summary of certain UK tax considerations relating to the ownership and disposal of the Securities and does not address all possible tax consequences relating to an investment in the Securities. The comments below are of a general nature and are based on current UK law as applied in England and Wales (except where otherwise indicated) and the published practice of HMRC as at the date of this Prospectus, each of which is subject to change, possibly with retroactive effect. The summary only covers the principal UK tax consequences for the absolute beneficial owners of the Securities (and any dividends paid in respect of them) in circumstances where the dividends paid are regarded for UK tax purposes as those persons' own income (and not the income of some other person) and who are resident or, in the case of individuals, resident and domiciled, solely in the UK for tax purposes. Such absolute beneficial owners of the Securities are referred to in this summary as "*UK Holders*".

In addition, this summary only addresses the principal UK tax consequences for UK Holders who hold the Securities as capital assets or investments. It does not address the UK tax consequences that may be relevant to certain categories of holders, for example, trustees, brokers, dealers or traders in shares, securities or currencies, banks, financial institutions, insurance companies, investment companies, collective investment schemes, tax-exempt organisations, persons holding the Securities as part of hedging or conversion transactions or persons connected with the Company or who are or have been officers or employees of the Company, each of which may be subject to special rules.

Further, the summary assumes that: (i) a holder of the GDRs is for UK tax purposes, absolutely beneficially entitled to the underlying Shares and to the dividends on those Shares; (ii) the UK Holder does not control or hold, either alone or together with one or more connected persons, directly or indirectly, 10 per cent. or more of the shares and/or voting power or rights to income or capital of the Company; (including by virtue of a direct or indirect holding of the GDRs) (iii) there will be no register in the UK in respect of an interest in the GDRs or in the underlying Shares; (iv) the underlying Shares and the GDRs will not be held by, or issued, as applicable, by a depositary incorporated in the UK; and (v) neither the GDRs nor the underlying Shares will be paired with shares issued by a company incorporated in the UK.

THE FOLLOWING IS INTENDED ONLY AS A GENERAL GUIDE AND IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSIDERED TO BE, LEGAL OR TAX ADVICE TO ANY PARTICULAR HOLDER. YOU SHOULD SATISFY YOURSELF AS TO THE OVERALL TAX CONSEQUENCES INCLUDING THE CONSEQUENCES UNDER UK LAW AND HMRC'S PRACTICE AND, IF YOU ARE SUBJECT TO TAXATION IN A JURISDICTION OTHER THAN THE UK, THE CONSEQUENCES UNDER THE LAWS OF SUCH JURISDICTION OF ACQUISITION,

OWNERSHIP AND DISPOSITION OF THE SECURITIES IN YOUR OWN PARTICULAR CIRCUMSTANCES, BY CONSULTING YOUR OWN TAX ADVISERS.

Taxation of Dividends

Withholding Tax

Dividend payments in respect of the Securities will not be subject to UK withholding tax.

UK Holders are referred to the statements regarding Slovenian tax in "*Slovenian Tax Considerations– Taxation of Dividends*". The following paragraphs proceed on the basis that withholding tax will be levied in the Republic of Slovenia on dividend payments in respect of the Securities.

Credit for Slovenian withholding tax

If a UK Holder receives a dividend in respect of the Securities and the dividend is paid subject to Slovenian withholding tax, credit for such Slovenian withholding tax may be available for set-off against a liability to UK corporation tax or UK income tax on the dividend. The amount of such credit will normally be equal to the lesser of the amount withheld and the liability to UK tax on the dividend. Such credit will not normally be available for set-off against a UK Holder's liability to UK tax other than on the dividend and, to the extent that such credit is not set-off against UK tax on the dividend, the credit will be lost. Credit will not be available to the extent that the Slovenian withholding tax can be minimised or repaid by taking reasonable steps under a double tax treaty or a provision of Slovenian Tax law (see section "*Slovenian Tax Considerations—Taxation of Dividends*").

Individual UK Holders

All dividends in respect of the Securities received by an individual UK Holder, or an individual holder of Securities who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which such Securities are attributable, from the Company or from other sources will form part of such holder's total income for income tax purposes and will constitute the top slice of that income. A nil rate of income tax will apply to the first £2,000 of taxable dividend income received by such holder in a tax year. Income within the nil rate band will be taken into account in determining whether income in excess of the nil rate band falls within the basic rate, higher rate or additional rate tax bands. Where the dividend income is above the £2,000 dividend allowance, the first £2,000 of the dividend income will be charged at the nil rate and any excess amount will be taxed at 7.5 per cent. to the extent that the excess amount falls within the basic rate tax band, 32.5 per cent. to the extent that the excess amount falls within the higher rate tax band and 38.1 per cent. to the extent that the excess amount falls within the additional rate tax band.

Corporate UK Holders

A UK Holder who is within the charge to corporation tax, or a corporate holder of Securities which carries on a trade in the United Kingdom through a permanent establishment to which such Securities are attributable, will not normally be subject to corporation tax on any dividend received in respect of the Securities provided certain conditions for exemption are satisfied.

It is expected that the exemption will apply in most cases but such holders within the charge to corporation tax are strongly advised to consult their independent professional tax advisers as to whether the exemption is available, as the relevant legislation contains a number of complex conditions and anti-avoidance provisions.

Taxation of Capital Gains

The disposal or deemed disposal of all or part of the Securities by a UK Holder (or by an individual holder of Securities who carries on a trade, profession or vocation in the United Kingdom through a branch or agency, or a corporate holder of Securities which carries on a trade in the United Kingdom through a permanent establishment, to which such Securities are attributable) may give rise to a chargeable gain or an allowable loss for the purposes of UK capital gains tax (where such holder is an individual) or UK corporation tax on chargeable gains (where such holder is within the charge to corporation tax), depending on their circumstances and subject to any available exemption or relief.

Individual Holders

As regards individual holders, the principal factors that will determine the extent to which such gain will be subject to UK capital gains tax are the extent to which they realise any other capital gains in the tax year in which the disposal takes place, the extent to which they have incurred capital losses in that or any earlier tax year and the level of the annual allowance of tax-free gains in that tax year (the "**annual exemption**"). The annual exemption for individuals is £11,700 for the 2018/2019 tax year.

A taxable capital gain accruing on a disposal of Securities will be taxed at 20 per cent. (to the extent that the amount on which an individual is chargeable to capital gains tax exceeds the unused part of the individual's basic rate band for that tax year) or 10 per cent. (to the extent that the amount on which an individual is chargeable to capital gains tax does not exceed the unused part of the individual's basic rate band for that tax year).

An individual UK Holder who ceases to be resident in the United Kingdom or falls to be regarded as resident in a territory outside the UK for the purposes of double taxation relief arrangements ("**Treaty non-resident**") (as appropriate) for a period of five years or less and who disposes of his or her Securities during that period of temporary non-residence may be liable to UK capital gains tax on a chargeable gain accruing on such disposal on his or her return to the UK or upon ceasing to be regarded as resident outside the UK for the purposes of double taxation relief arrangements (as applicable) (subject to available exemptions or reliefs).

Corporate Holders

Holders within the charge to corporation tax on chargeable gains will be subject to UK corporation tax (at a rate of 19 per cent. as at the date of this Prospectus, due to reduce to 17 per cent. from 1 April 2020) on the proceeds received on a disposal of Securities less the sum of the base cost of their Securities plus incidental selling expenses.

Stamp Duty and Stamp Duty Reserve Tax

No UK stamp duty or stamp duty reserve tax ("**SDRT**") will arise in respect of (i) the issue of the GDRs, (ii) the delivery of the GDRs into Euroclear or Clearstream, Luxembourg, (iii) any dealings in the GDRs once they are delivered into such clearance service, where such dealings are effected in book-entry form in accordance with the procedures of such clearance service and not by written instrument of transfer, or (iv) any agreement to transfer full legal and beneficial ownership of the GDRs; and, subject to the considerations set out in the paragraph below in relation to UK stamp duty, no such taxes will arise in respect of (v) the sale of Shares pursuant to the Offer and (vi) the deposit of shares with or for the account of the GDR Depositary.

The transfer on sale of Securities (or an agreement to transfer an equitable interest only in Securities) may give rise to a liability to UK stamp duty at the rate of 0.5 per cent. of the amount or value of the consideration given for the sale or agreement to transfer. However, assuming that no document effecting a transfer of, or containing an agreement to transfer an equitable interest only in, Securities is either (i) executed in the UK or (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK (the term "matter or thing" is very wide and may include the involvement of UK bank accounts in payment mechanics), then no UK stamp duty should be payable on such a document.

Inheritance Tax

The Securities will be assets situated outside the United Kingdom for the purposes of United Kingdom inheritance tax provided that the Securities are not registered in any register kept in the United Kingdom. A gift of such assets by, or the death of, an individual UK Holder who is domiciled or is deemed to be domiciled in the United Kingdom may (subject to certain exemptions and reliefs) give rise to a liability to United Kingdom inheritance tax. Generally, United Kingdom inheritance tax is not chargeable on gifts to individuals if the transfer is made more than seven complete years prior to the death of the donor. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Where a holder is neither domiciled nor deemed domiciled (under certain rules relating to long residence or previous domicile) in the United Kingdom, neither a gift of such assets by the holder nor the death of such holder will give rise to a liability to United Kingdom inheritance tax.

21. SUBSCRIPTION AND SALE

General information about the Offering

The Selling Shareholder will offer for sale no less than 10,000,001 (excluding the Overallotment Option) and up to 14,999,999 (including the Overallotment Option) existing Shares, being existing ordinary shares in the share capital of the Company, in the form of Shares and GDRs, being GDRs representing the Shares against the deposit of Shares with the Custodian for the GDR Depositary, (with five GDRs representing one Share) representing approximately 50.0 – 74.99 per cent. of the total issued share capital of the Company.

Pursuant to the New Commitments (see "*6. Business—EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy—The European Commission's decision on state aid and Final EC Decision*"), the Selling Shareholder is required to sell at least 50 per cent. of the Shares plus one Share by 31 December 2018. In accordance with the State Assets Management Ordinance adopted pursuant to the ZSDH-1, the Republic of Slovenia shall retain a controlling interest of 25 per cent. plus one Share in the issued share capital of NLB and no shareholder may hold an interest in the issued share capital of NLB that is greater than the interest of the Republic of Slovenia (see "*16. Description of certain obligations and restrictions attaching to the Shares—Restriction on acquisition of Shares*").

In the event that the Selling Shareholder is unable to sell at least 10,000,001 Shares (excluding the Overallotment Option) in the Offering, the Offering will not proceed and Admission will not occur.

The Offer Securities will be offered at the Offer Price Range and will be sold at the Final Offer Price (see "*—Offer Price–Offer Price Range*" below).

The Selling Shareholder, and each of the Managers will enter into an Underwriting Agreement dated on or about the date of this Prospectus in relation to the sale and offer of Securities contemplated thereunder (the "**Underwriting Agreement**") (see "*27. General Information—Material Contracts—Underwriting Agreement*").

Allocation of the Offer Securities will take place, and the Final Offer Price and final number of Offer Securities sold will be publicly announced, on the business day following the last day of the Offer Period, expected to be on or about 9 November 2018 (the "**Allocation Date**") (see "*—Offer Price*" and "*—Allocation of the Offer Securities*" below).

The transfer of the Offer Shares will be settled and cleared through the KDD clearing system on the Closing Date (see "*—Settlement*" below). Dealings in the GDRs are expected to commence on the LSE on or around the Closing Date. For further details of the settlement of the Offer GDRs, see "*23. Clearing and Settlement—GDRs*".

Offer Tranches

Any Slovenian or foreign investor, individual or legal entity, provided that they are independent and unconnected to the Republic of Slovenia, may participate in the Offering, except for those investors whose subscription in the Offering would constitute a violation of applicable legislation. Investors who intend to acquire Offer Securities must be familiar, and comply with the laws applicable to the Offering in their jurisdictions and the restrictions set out in "*22. Selling and Transfer Restrictions*" below.

The Offering consists of two tranches: (1) a tranche of Securities (in the form of Shares and GDRs) will be wholly offered to Institutional Investors in the Institutional Tranche; and (2) a tranche of Securities (in the form of Shares and GDRs) will be offered in the Retail Tranche in a public offering to Retail Investors in the Republic of Slovenia.

Approximately 10 per cent. of the Offer Securities (no less than 1,000,000 and up to 1,499,999 Shares in the form of Shares or GDRs) (subject to the terms set out in "*—Allocation of Offer Securities within the Retail Tranche*" below) will be offered in the Retail Tranche and remaining approximate 90 per cent. of the Offer Securities (no less than 9,000,001 and up to 13,500,000 Shares in the form of Shares or GDRs) will be offered in the Institutional Tranche. The Selling Shareholder, in consultation with the Joint Global Coordinators, may re-allocate Securities from either the Institutional Tranche to the Retail Tranche or from the Retail Tranche to the Institutional Tranche depending on the level of subscription of each tranche. The final size of each Offer Tranche will be decided by the Selling Shareholder upon the recommendation of the Joint Bookrunners, based on the level of subscriptions.

For the purposes of this Prospectus:

"**Institutional Investors**" means (i) credit institutions, (ii) investment firms, (iii) undertakings for collective investments (collective investment schemes, investment companies and/or investment management companies), (iv) insurance companies, (v) pension funds and management companies of such funds, (vi) traders, (vii) trust companies, (viii) international financial institutions (IFIs), and (ix) other financial institutions, including depositary banks, including qualified investors (*dobro poučeni vlagatelji*) as defined in ZTFI.

"**Retail Investors**" means any individuals or legal entities who do not meet the above criteria to qualify as Institutional Investors.

The Offering is structured as an offering of Offer Securities (1) to the public and to Institutional Investors in the Republic of Slovenia in reliance on Regulation S under the Securities Act and in reliance on ZTFI; (2) in the United States to certain qualified institutional buyers as defined in, and in reliance on, Rule 144A under the Securities Act or another exemption from the registration requirements of the Securities Act; and (3) outside the United States and the Republic of Slovenia in offshore transactions in reliance on Regulation S under the Securities Act.

The total commission payable to the Managers is up to EUR 5.7 million (without VAT).

Offer Period

The Offering will be open for subscription between 29 October 2018 to 8 November 2018 inclusive, namely at total of seven business days in the Republic of Slovenia (the "**Offer Period**") as follows:

(1) under the Retail Tranche from 29 October 2018 to 7 November 2018 inclusive, namely six business days in the Republic of Slovenia (the "**Retail Offer Period**"); and

(2) under the Institutional Tranche from 29 October 2018 to 8 November 2018 inclusive, namely seven business days in the Republic of Slovenia.

For the purpose of this section, "**business day**" means Monday through Friday other than national holidays. The Selling Shareholder may extend the Offer Period or change other dates related to the Offering, in compliance with Slovenian legislation.

Offer Price

Offer Price Range

Offer Shares are offered at the Offer Price Range of EUR 51.50 to EUR 66.00 per Share.

Offer GDRs are offered at the Offer Price Range of EUR 10.30 to EUR 13.20 per GDR.

Retail Investors must subscribe for Offer Shares at the fixed price of EUR 66.00 per Share and for Offer GDRs at the fixed price of EUR 13.20 per Offer GDR (i.e. the top of the Offer Price Range).

Institutional Investors may validly subscribe for Offer Securities at any price within the Offer Price Range (including the bottom and the top of the price range).

Payment of the subscription price for Offer Shares by investors must be made as set out in "*Subscription of Offer Shares by Retail Investors—Payment Evidence for subscriptions by Retail Investors*" and "*Subscription of Offer Shares and Offer GDRs by Institutional Investors*" below.

Bank charges or any other charges, including any applicable commissions of the relevant market institutions, relating to the payment of the subscription price shall be borne separately by the investors. Such charges cannot be quantified by the Company, the Selling Shareholder, or the Managers.

Final Offer Price

The Final Offer price will be set at the same level for both Institutional Investors and Retail Investors.

The Final Offer Price and the final number of Securities offered in the Institutional Tranche and the Retail Tranche is expected to be announced on or around the Allocation Date: (i) through the Company's website (www.nlb.si), (ii) on the Selling Shareholder's website (www.sdh.si) as a link to the prospectus published on the NLB's website, (iii) as a press release on the LJSE website (www.ljse.si) (SeoNET) and (iv) through the Regulatory News Service of the LSE (RNS). The Pricing Notification will also be available free of charge at the registered office of NLB at Trg Republike 2, SI – 1000 Ljubljana, Republic of Slovenia.

Proceeds of the Offering and Expenses

The total amount of gross proceeds from the Offering will be equal to the total amount of sold Shares (in the form of Shares and GDRs) multiplied by the Final Offer Price per Share.

All expenses of the Offering will be borne by the Selling Shareholder and the Company, as applicable. No commissions, fees or expenses in connection with the Offering will be charged to investors by the Selling Shareholder.

Subscription of Offer Shares and Offer GDRs by Institutional Investors

By subscribing in the Offering, each Institutional Investor confirms having read this Prospectus, having accepted the terms and conditions set out in this Prospectus and having made the subscription according to the terms included in this Prospectus.

During the Offer Period, a book building process for the Offer Securities will be carried out. During the book building process, the Managers will gauge the level of interest in the Offering on the part of the Institutional Investors and the price sensitivity of such investors in relation to the Offer Securities. Institutional Investors will be required to specify the number of Offer Securities which they would be prepared to acquire and the related price for such Offer Securities. Such number of Offer Securities and the price at which such investors express their interest will be recorded in a book managed by the Joint Bookrunners (the "**Book**"). Institutional Investors may submit multiple subscriptions for the Offer Securities.

Institutional Investors will pay brokerage fees in accordance with the relevant investment services agreement concluded with a Manager or an affiliate of such manager.

Subscriptions of Offer Securities within the Institutional Tranche can be made only through the Managers. Institutional Investors can subscribe for Offer Securities during the entire Offer Period, during the working hours of the Managers. Subscriptions for Offer Securities by Institutional Investors will be collected in the Book. Neither the contents of the Book nor any information related to subscriptions for Offer Securities by Institutional Investors (including, but not limited to, the subscription level) will be publicly announced. No minimum subscription requirement applies to Institutional Investors.

Allocations shall be announced to Institutional Investors on the Allocation Date. The payment for the allocated Shares or GDRs must be made at the Closing Date at the latest. In circumstances where, during the period starting on Allocation Date and until the Closing Date, any Institutional Investor does not provide the payment evidence required by the Managers, the Managers will re-allocate the relevant Offer Securities to other Institutional Investors.

Subscription of Offer Shares by Retail Investors

By subscribing for Offer Shares, each Retail Investor confirms having read this Prospectus, having accepted the terms and conditions set out in this Prospectus and having made the subscription according to the terms included in this Prospectus.

The Retail Tranche of the Offering is directed to all natural and legal persons in the Republic of Slovenia who do not qualify as qualified investors pursuant to the laws of the Republic of Slovenia (and who is thus a Retail Investor).

The minimum subscription for Offer Shares by a Retail Investor must be for no less than 10 Shares. Retail Investors may submit multiple subscriptions.

Retail Investors will pay fees in accordance with the relevant investment services agreement concluded with NLB.

Time schedule and locations for subscriptions within the Retail Tranche

Subscriptions for Offer Shares by Retail Investors can be made during the Retail Offer Period, on each business day during working hours of each Branch as indicated in the table "*—Subscription of Offer Shares by Retail Investors—Distribution network for Retail Investors*" below, except for the first day of the Retail Offer Period on which subscriptions can only be made starting at 9:00 (Central European time) and the last day of the Retail Offer Period, on which subscriptions can only be made until 13:00 (Central European time).

Subscription orders corresponding to each subscription for Offer Shares made by Retail Investors will be registered, during the Retail Offer Period, in the application system managed by the Domestic Co-Lead Manager which will receive and validate such subscriptions, as applicable.

Subscription Form for Retail Investors

A subscription for Offer Shares by a Retail Investor is made by (i) filling in a Subscription Form (which includes the order for receipt of Shares), (ii) providing the requested documents (see "*—Subscription of Offer Shares by Retail Investors—Subscription Documents for Retail Investors*" below), and (iii) completion of the Payment Evidence (as defined below) requirement. The Subscription Form will be available at the locations set out in "*—Subscription of Offer Shares by Retail Investors—Distribution network for Retail Investors*" below or as otherwise communicated by NLB.

Retail Investors who wish to purchase Offer Shares will be required to hold a securities brokerage account with NLB or may apply to open such an account subject to usual account opening procedures of NLB. Such account may be opened during the Offer Period.

Subscription Forms related to Offer Shares for which:

- the amount transferred into the NLB Collection Account (the "**NLB Collection Account**") is not equal to the number of Offer Shares subscribed by that Retail Investor multiplied by the top of the Offer Price Range; or
- the subscription procedures as set out in this prospectus were not complied with,

will not be validated. Subscriptions that are not validated will not be considered in the allocation process. Investors whose Subscription Forms were not validated will be notified accordingly and the amounts paid will be returned to them in the account referred to in the Subscription Form within five business days from the end of the Offer Period, less any charges and costs applicable in accordance with standard terms of business.

Payment Evidence for subscriptions by Retail Investors

Subscriptions for Offer Shares by Retail Investors will be validated only if Subscription Forms are accompanied by the documents listed at "*Subscription of Offer Shares by Retail Investors—Subscription Documents for Retail Investors*" below and by execution of payment of the subscribed amount to the NLB Collection Account with a proper payment reference code ("**Payment Evidence**").

The amounts transferred by Retail Investors, representing the value of the subscribed Offer Shares, will not bear interest in favour of such Retail Investors.

Each payment order is equivalent to a subscription and combining several payment orders for one single valid subscription is not possible.

If the amount transferred by a Retail Investor into the NLB Collection Account is higher than the top of the Offer Price Range multiplied by the number of Offer Shares indicated by that Retail Investor in the Subscription Form, the subscription will only be validated for the number of Offer Shares mentioned in the

Subscription Form. In circumstances where the amount transferred to the NLB Collection Account is lower than the subscribed amount, the Subscription Form will be invalidated for the entire amount subscribed.

No Manager will be liable if, for reasons outside its control, the NLB Collection Account is not effectively credited with the amounts representing the value of the subscriptions before 14:00 (Central European time) on the last day of the Retail Offer Period.

Subscription Documents for Retail Investors

In order to be accepted, Subscription Forms for Offer Shares subscribed for by Retail Investors must be accompanied by the documents set out below (in addition to completing the Payment Evidence requirement).

Residents of the Republic of Slovenia	
Natural person (of age):	• Valid personal identification document (passport, personal ID card or driving licence*); • Number of the transaction account to which potential reimbursement of money will be executed; • Number of the securities account with NLB; • Tax number; and • National identification number (EMŠO).
Legal representative (parent or custodian) for a child under 18 years of age:	• Original copy of extract from the Birth Register (for inspection); • Valid personal identification document of the parent/custodian and the child (if the latter has one, it may be a copy); • Original copy of the Decision of the Social Work Centre on custody, if the subscription is made by the custodian (for inspection); • Number of the transaction account to which potential reimbursement of money will be executed; • Number of the securities account of the child with NLB; • Tax number of the child; and • National identification number of the child (EMŠO).
Authorised person for a natural person of age:	• Original power of attorney (for delivery); • Valid personal identification document (passport, personal ID card or driving licence*) of the authorised person and the issuer of power of attorney (of the latter it may be a copy); • Number of the transaction account to which potential reimbursement of money will be executed; • Number of the securities account of the authorised person with NLB;

	• Tax number of the person granting authorization; and • National identification number (EMŠO) of the person granting authorization.
Legal representative for a natural person of age:	• Original copy of the Decision of the Social Work Centre on legal representation, if the subscription is made by the legal representative (for inspection); • Valid identification document (personal ID card or passport or driving licence*) of the legal representative and the natural person of age (if the latter has one, it may be a copy); • Original copy of extract from the Birth Register of the natural person of age (if the natural person of age does not have a valid personal ID) (for inspection); • Number of the transaction account to which potential reimbursement of money will be executed; • Number of the securities account of the natural person of age with NLB; • Tax number of the natural person of age; and • National identification number (EMŠO) of the natural person of age.
Legal entity:	• Original copy of extract on registration from the Slovenian Business Register or by AJPES (Agency of the Republic of Slovenia for Public Legal Records and Related Services), which may not be older than 30 days (for delivery); • Original power of attorney (or copy of the general authorisation) of the legal representative/s of the legal entity, if the shares are subscribed by an authorised person and not by the legal representative of the legal entity, as evident from the copy from the Business Register or AJPES register (for delivery); • Valid identification document (personal ID card or passport or driving licence*) of the legal representative or the person authorised by the company; • Number of the transaction account to which potential reimbursement of money will be executed; • Number of the securities account of the legal person with NLB; • Tax number of the legal entity; • Legal Entity Identifier (LEI); and • Information about the actual owner with an insight into the original or certified documentation from business, judicial or other public registry (disclosure of actual owners).

Independent Entrepreneur:	• Original copy of extract on registration from the Slovenian Business Register or by AJPES (Agency of the Republic of Slovenia for Public Legal Records and Related Services), which may not be older than 30 days (for delivery); • Original power of attorney of the independent entrepreneur, if the shares are subscribed by an authorised person and not by the independent entrepreneur, as evident from the copy from the Business Register or AJPES register (for delivery); • Valid identification document of the independent entrepreneur or the person authorised by the independent entrepreneur; • Number of the transaction account to which potential reimbursement of money will be executed; • Number of the securities account of the independent entrepreneur with NLB; • Tax number of the independent entrepreneur; and • Legal Entity Identifier (LEI) of the independent entrepreneur.
Non-residents of the Republic of Slovenia	
Natural person:	• Valid personal identification document (passport); • Number of the transaction account (resident or non-resident) to which potential reimbursement of money will be executed; • KID code (natural person, non-resident of the Republic of Slovenia, obtains it from KDD) or eventual unique PIN (in Slovene: EMŠO); • Number of the securities account of the subscriber with NLB; • National identification number of the natural person; and • Slovenian tax number of the natural person.
Authorised person for a natural person:	• Original power of attorney in the Slovene language (otherwise, a translation into the Slovene language must be attached) (for delivery); • Valid personal identification document (passport, personal ID card) of the authorised person and the issuer of authorisation (of the latter it may be a copy); • Number of the transaction account (resident or non-resident) to which potential reimbursement of money will be executed;

	• KID code of the issuer of authorization (non-resident natural person obtains it from KDD) or eventual unique PIN (in Slovene: EMŠO); • Number of the securities account of the issuer of authorization with NLB; • National identification number; and • Slovenian tax number of the natural person/ issuer of authorisation.
Legal entity:	• Original copy of certificate of incorporation of the legal entity from the Business Register or another register, managed by an institution competent for registration of companies, which may not be older than 30 days, and which clearly states the legal representative(s) who signed the authorisation specified below (in the second item of this paragraph) (for delivery); • Original power of attorney (or copy of the general authorisation) in the Slovene language (otherwise, a translation into the Slovene language must be attached), if shares are subscribed by the authorised person and not by the legal representative of the legal entity (for delivery); • Valid ID of the legal representative (passport) or the authorised person (passport for a non-resident; passport, personal ID card or driving licence* for a resident); • Number of the transaction account (resident or non-resident) to which potential reimbursement of money will be executed; • KID code (non-resident legal entity obtains it from KDD) or eventual Slovenian identification number (in Slovene: matična številka); • Number of the securities account of the legal entity with NLB; • Legal Entity Identifier (LEI); • Slovenian tax number of the legal entity (if assigned); and • Information about the actual owner with an insight into the original or certified documentation from business, judicial or other public registry (disclosure of actual owners).
*In the event that the driving licence does not indicate the address of the holder of the document, alternative proof of address should be provided.	

The entity through which an investor subscribes is entitled to request any additional documents for the purpose of carrying out its duty to comply with the "know your customer" rules, based on its internal norms and procedures of client identification.

Documents in a language other than Slovene or English submitted by an investor, legal person or entity with no legal personality shall be accompanied by a certified translation thereof in Slovene or English certified by an appointed court interpreter.

Distribution network for Retail Investors

No	Subscription point	City	Address	Working Hours	Phone
1	NLB Quick Service and Consulting Branch	Ljubljana	Trg republike 2	8.00-18.00	+386 (01) 476 39 00
2	NLB Šiška Branch	Ljubljana	Celovška cesta 89	8.30-13.00; 15.00-17.00	+386 (01) 476 57 00
3	NLB Bežigrad Branch	Ljubljana	Linhartova cesta 3	8.30-13.00; 15.00-17.00	+386 (01) 300 23 00
4	NLB Domžale 1 Branch	Domžale	Ljubljanska cesta 62	8.00-18.00	+386 (01) 724 53 00
5	NLB Koper Branch	Koper	Pristaniška ulica 45	8.00-13.00; 15.30-17.00	+386 (05) 610 30 23
6	NLB Kranj Branch	Kranj	Koroška cesta 21	8.00-12.00; 14.30-17.00	+386 (04) 287 41 11
7	NLB Maribor Branch	Maribor	Titova cesta 2	8.00-12.00; 14.30-17.00	+386 (02) 234 45 35
8	NLB Murska Sobota Branch	Murska Sobota	Trg zmage 7	8.00-12.00; 14.00-16.30	+386 (02) 515 40 00
9	NLB Seidlova Branch	Novo mesto	Seidlova cesta 3	8.00-18.00	+386 (07) 339 13 30
10	NLB Rudarska Branch	Velenje	Rudarska 3	8.00-12.00; 14.30-17.00	+386 (03) 899 52 00

Subscription of Offer GDRs by Retail Investors

The minimum subscription for Offer GDRs by a Retail Investor must be for no less than 50 Offer GDRs.

Subscriptions for Offer GDRs by Retail Investors can be made only through NLB as the Domestic Co-Lead Manager, at NLB Investment Banking and Custody, Brokerage and Treasury Sales, Trg Republike 2, 1520 Ljubljana. Retail Investors who wish to purchase GDRs will be required to hold a securities brokerage account with NLB or may apply to open such account, subject to usual account opening procedures of NLB. Such accounts may be opened during the Offer Period.

Retail Investors can subscribe for Offer GDRs during the entire Retail Offer Period, on each business day between 09:00 – 15:00 (Central European time) and between 09:00 – 13:00 (Central European time) on the last day of the Retail Offer Period. Valid subscriptions for Offer GDRs by Retail Investors will be collected in NLB's internal records.

A subscription for Offer GDRs by a Retail Investor is made by:

(1) filing a Subscription Form (which includes the order for receipt of GDRs), which will be available at NLB, as the Domestic Co-Lead Manager, at NLB Investment Banking and Custody, Brokerage and Treasury Sales, Trg Republike 2, 1520 Ljubljana or as otherwise communicated by the Domestic Co-Lead Manager.

(2) effecting the payment for the subscribed Offer GDRs has been transferred into the NLB Collection Account, provided that such amount is credited before the close of the last business day of the Retail Offer Period.

The payment order must contain only the name and address of the Retail Investor and payment reference code. The account number to be filled in by a Retail Investor in the Subscription Form must be the number of the account out of which the subscription amount is effectively transferred to the NLB Collection Account.

Investors must take into account possible transfer fees and, if applicable, account opening fees. Each payment order is equivalent to a single subscription and combining more than one payment order for one single valid subscription is not permitted.

The amounts transferred by Retail Investors, representing the value of the subscribed Offer GDRs, will not bear interest in favour of such Retail Investors; and

(3) the applicable documentation listed at "*Subscription of Offer Shares by Retail Investors—Subscription Documents for Retail Investors*" above.

Subscription Forms related to Offer GDRs for which (a) the EUR amount transferred into the NLB Collection Account is not equal or higher than the number of Offer GDRs subscribed for by that Retail Investor multiplied by the top of the Offer Price Range, or (b) the subscription procedures were not complied with, will not be validated. Subscriptions for Offer GDRs that are not validated will not be considered in the allocation process. Retail Investors whose Subscription Forms for Offer GDRs were not validated will be notified accordingly and the amounts paid will be returned to them in the account referred to in the Subscription Form within five business days from the end of the Offer Period.

If the EUR amount transferred by a Retail Investor into the NLB Collection Account is higher than the top of the Offer Price Range multiplied by the number of Offer GDRs indicated by that Retail Investor in the Subscription Form, the subscription will only be validated for the number of Offer GDRs mentioned in the Subscription Form. In circumstances where the EUR amount transferred to the NLB Collection Account or is lower than the subscribed amount, the Subscription Form will be invalidated for the entire amount subscribed.

No Manager will be liable if, for reasons outside its control, the indicated NLB Collection Account is not effectively credited with the amount representing the value of the subscription before 14:00 (Central European time) of the last banking day of the Retail Offer Period.

Change and Withdrawal of Subscriptions

Institutional Investors may change or withdraw their initial subscription for Offer Securities until the last day of the Offer Period (inclusive). The change of subscriptions will be subject to the same submission, processing and validation requirements as the ones for the initial subscription.

Retail Investors may not change or withdraw any subscriptions for Offer Securities.

If the Prospectus is subject to an amendment, subscriptions may be withdrawn by any investor within two business days from the date when the respective amendment to the Prospectus was published. In such case, Retail Investors may withdraw their subscriptions for Offer Securities by filling in a revocation form at the Domestic Co-Lead Manager.

If subscriptions are withdrawn, investors shall be reimbursed the entire amount paid by them corresponding to the withdrawn subscriptions, in each case less any eventual bank transfer commissions and any applicable commissions of the relevant market institutions, to the bank account indicated by each investor for the reimbursement of any such amounts, within five business days as of the date the relevant subscriptions have been withdrawn by the investors. No interest shall be payable to investors in respect of such amounts.

If an investor has indicated more than one account for the reimbursement of any such amounts, the whole amount may be reimbursed to only one of the accounts indicated by the investor. The Managers will not be liable for any failure to transfer the amounts corresponding to withdrawn subscriptions which occurred as a result of the information provided by an investor for such purposes having been incomplete or incorrect.

Allocation of the Offer Securities

The Offer Securities will be allocated to investors by the Selling Shareholder upon consultation with the Joint Global Coordinators which is expected to occur on or around the Allocation Date. The final number of the Securities and the final size of each tranche will be decided on the Allocation Date by the Selling Shareholder upon consultation with the Joint Global Coordinators, based on the level of subscriptions. As part of the allocation process, the Selling Shareholder may reject any subscriptions for Securities at its sole discretion.

Approximately 10 per cent. of the Offer Securities (1,000,000 and up to 1,499,999 Shares in the form of Shares or GDRs) (subject to the terms set out in "*—Allocation of Offer Securities within the Retail Tranche*" below) will be offered in the Retail Tranche and remaining approximate 90 per cent. of the Offer Securities (no less than 9,000,001 and up to 13,500,000 Shares in the form of Shares or GDRs) will be offered in the Institutional Tranche. The Selling Shareholder, in consultation with the Joint Global Coordinators, may re-allocate Shares from either the Institutional Tranche to the Retail Tranche or from the Retail Tranche to the Institutional Tranche depending on the level of subscription of each tranche.

Allocation of Offer Securities within the Retail Tranche

If the number of Offer Securities validly subscribed within the Retail Tranche is lower than, or equal to, the Offer Securities allocated to the Retail Tranche (as determined on the Allocation Date), each Retail Investor in the Retail Tranche will receive the number of subscribed Offer Securities. In case of an oversubscription in the Retail Tranche, allocations to orders placed in the Retail Tranche will be reduced *pro rata* for each Retail Investor up to the aggregate number of Offer Securities in the Retail Tranche (for each of the Shares and GDRs). All fractional allocations will be rounded down.

On the Allocation Date the Domestic Co-Lead Manager will notify the Joint Bookrunners of the final number of Offer Securities validly subscribed for in the Retail Tranche and, upon such notification the Joint Bookrunners will confirm to the Domestic Co-Lead Manager the preliminary number of Offer Securities allocated to the Retail Tranche. Upon receipt of such confirmation of the preliminary number of Offer Securities allocated to the Retail Tranche from the Joint Bookrunners, the Domestic Co-Lead Manager will calculate the final number of the Offer Securities allocated to that Retail Tranche with all fractional allocations rounded down. Remaining fractional Offer Securities will be aggregated and such remaining Offer Securities will be allocated to the Institutional Tranche.

If the Final Offer Price is lower than the price paid by a Retail Investor for each Offer Security that it subscribed for and/or the number of securities allocated to such Retail Investor is lower than the number of Securities subscribed for by it, an amount equal to the difference between (a) the total consideration paid in advance by such Retail Investor for the Offer Securities that it subscribed for and (b) the number of Offer Securities sold to such Retail Investor multiplied by the Final Offer Price, will be returned to such Retail Investor, in each case less any eventual bank transfer commissions and any applicable commissions of the relevant market institutions, to the bank account indicated by each investor in the subscription form submitted in relation to the subscription of Offer Securities (the "**Subscription Form**") within five business days from the end of the Offer Period. No interest shall be payable to investors in respect of such amounts.

Retail Investors who wish to purchase Shares or GDRs will be required to hold a securities brokerage account with NLB or may apply to open such account, subject to usual account opening procedures of NLB. Such accounts may be opened during the Offer Period.

The Shares and GDRs allocated to Retail Investors will be transferred into such Retail Investors' NLB brokerage accounts as indicated in their subscription form after the Closing Date.

Retail Investors who do not have an existing brokerage account with NLB may for the purpose of subscribing to the Retail Tranche open such an account during the Retail Offer Period. NLB will not charge any fees, costs or expenses in relation to account opening. In the event such an investor is allocated Shares or GDRs during the Offering, such investor may transfer purchased Shares or GDRs to a brokerage account held with another investment firm. If such transfer is executed by 30 November 2018 NLB will not charge any fees related to transfer of the Shares/GDRs or account closing fee at NLB. All other brokerage fees and costs in respect of the relevant account will be charged according to the current NLB fee schedule. After 30 November 2018, all brokerage fees and other expenses, including transfer and account opening/closing fees, will be charged according to the NLB fee schedule. Retail Investors should inform themselves about any transfer fees charged by their respective third party investment firm to which they would like to transfer the Shares or GDRs.

Allocation of Offer Securities within the Institutional Tranche

The number of Offer Securities allocated to each Institutional Investor will be determined by the Selling Shareholder in consultation with the Joint Global Coordinators, on the basis of the Book (as defined in "*Subscription of Offer Shares and Offer GDRs by Institutional Investors*" above).

By subscribing in the Offering, Institutional Investors acknowledge and agree that they may be allocated fewer Offer Securities than they have subscribed for or they may receive no Offer Securities at all. Institutional Investors also acknowledge and agree that they will have no right to request, and the Selling Shareholder and the Managers shall have no obligation to disclose, the reasons for their allocation and pricing decisions.

Settlement

Settlement of the Offer Shares will be made through the KDD settlement system within three business days from the Allocation Date (the "**Closing Date**", expected to be on or around 14 November 2018).

For the purpose of seeking admission of 74,999,995 GDRs, consisting of (a) the GDRs to be issued in connection with the Offering and (b) any additional GDRs to be issued from time to time against the deposit of Shares (to the extent permitted by law) with the Custodian, to listing on the standard segment of the Official List and to trading on the LSE's main market for listed securities, the GDRs will be issued on the business day immediately prior to the Closing Date and held by the Joint Global Coordinators in a custody account opened on behalf of the Selling Shareholder until the Closing Date.

Payment for the GDRs is expected to be made in euros in same-day funds through the facilities of Euroclear and Clearstream on the Closing Date. For further details of the settlement of the Offer GDRs, see "*23. Clearing and Settlement—GDRs*".

Lock-up Provisions

Pursuant to the Underwriting Agreement, each of the Selling Shareholder and NLB has agreed with the Managers that neither it, nor any person acting on its or their behalf will, from the date hereof up to and including 180 days from the Closing Date, without the prior written consent of the Joint Global Coordinators:

(i) directly or indirectly, issue (in the case of NLB only), offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any Shares, or any securities convertible into or exercisable or exchangeable for Shares (including, for the avoidance of doubt, GDRs), or file any registration statement under the Securities Act or any similar document with any other securities regulator, stock exchange, or listing authority with respect to any of the foregoing; or

(ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any Shares or other securities of NLB, whether any such transaction described in (i) to (ii) above is to be settled by delivery of Shares or other securities, in cash or otherwise; or

(iii) publicly announce such an intention to effect any such transaction.

In the case on the Selling Shareholder only, the above restrictions shall not apply in respect of Offer Shares or GDRs sold pursuant to the Offering (including pursuant to the Overallotment Option) and shall not prohibit the Selling Shareholder from:

(i) accepting a takeover offer made to holders of issued Shares or GDRs on terms which treat all such holders alike;

(ii) executing and delivering an irrevocable commitment or undertaking to accept a general offer as is referred to in sub-paragraph (i) above;

(iii) selling or otherwise disposing of Shares pursuant to any offer by the Company to purchase its own Shares or GDRs which is made on identical terms to all holders of Shares or GDRs in the Company; and

(iv) transferring or disposing of Shares in accordance with any order made by a court with competent jurisdiction.

The above restrictions shall also not prevent the Selling Shareholder from entering into the Securities Lending Agreement (as defined below).

Stabilisation

In connection with the Offering, WOOD & Company Financial Services, a.s., acting as Stabilising Manager in relation to the Offer Shares, and Citigroup Global Markets Limited, acting as Stabilising Manager in relation to the Offer GDRs (or persons acting on behalf of the Stabilising Managers) may (but will be under no obligation to), to the extent permitted by applicable law, overallot the Offer Securities (provided that, in the case of any Offer Securities to be admitted to trading on the LSE or LJSE, the aggregate number of Offer Securities allotted does not exceed 110 per cent. of the aggregate number of the Offer Securities) or effect transactions with a view to supporting the market price of the Securities during the Stabilisation Period at a level higher than that which might otherwise prevail. However, stabilisation action may not necessarily occur.

Any stabilisation action may begin on or after the Closing Date and, if begun, may be ended at any time but must end no later than 30 calendar days after the Closing Date. Any stabilisation action or overallotment must be conducted by the Stabilising Managers (or persons acting on their behalf) in accordance with all applicable laws and rules and will be undertaken at the offices of the Stabilising Managers (or persons acting on their behalf) and on the LSE and LJSE.

The Underwriting Agreement provides that the Stabilising Managers may, for purposes of the stabilising transactions, over-allot Offer Securities up to a maximum of 10 per cent. of the total number of Offer Securities sold in the Offering. The Underwriting Agreement provides that to the extent that the Stabilising Managers earn any profit directly from stabilising transactions, the Stabilising Managers will remit the aggregate amount of any such profits to the Selling Shareholder. All losses incurred by the Stabilising Managers in the course of the stabilising transactions are for the account of and shared *pro rata* by the Managers.

In connection with the Overallotment Option, up to a maximum of 10 per cent. of the total number of Offer Securities have been made available by the Selling Shareholder to the Stabilising Managers for the account of the Managers through a securities loan to be entered into on or around the date of the Pricing Agreement (the "**Securities Lending Agreement**").

Other Relationships

The Managers are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities.

In addition, NLB will act as the Domestic Co-Lead Manager in this Offering and offer Retail Shares and Retail GDRs to retail investors and in such role it may have interests that may not be aligned, or could potentially conflict, with the interests of the rest of the Group.

The Managers and their respective affiliates have engaged in transactions with, and performed various investment banking, commercial banking, financial advisory and other services for, the Company and the Selling Shareholder and their respective affiliates, for which they received customary fees. The Managers and their respective affiliates may provide such services for the Company and the Selling Shareholder and their respective affiliates in the future.

In connection with the Offering, each of the Managers and any affiliate, acting as an investor for its own account may take up Offer Securities and in that capacity may retain, purchase or sell for its own account such Offer Securities and any related investments and may offer or sell such Offer Securities or other investments otherwise than in connection with the Offering. Accordingly, references in this Prospectus to the Offer Securities being offered or placed should be read as including any offering or placement of Offer Securities to the Managers and any affiliate acting in such capacity. None of the Managers intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. In addition, in connection with the Offering, certain of the Managers may enter into financing arrangements with investors, such as share swap arrangements or lending arrangements where securities are used as collateral, which could result in such Managers acquiring shareholdings in the Company.

22. SELLING AND TRANSFER RESTRICTIONS

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Securities, or distribution of this Prospectus or any supplementary prospectus or any amendment or supplement thereto in connection with the proposed resale of the Securities or any other offering material in any country or jurisdiction where action for that purpose is required or doing so may be restricted by law. Accordingly, the Securities may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the Securities may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the offer and sale of the Securities offered in the Offering, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to subscribe for or purchase any of the Offer Securities offered hereby to any person in any jurisdiction where it is unlawful to make such offer or solicitation in such jurisdiction.

No person has been authorised to give any information or to make any representation not contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorised by the Managers. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the NLB Group's affairs since the date hereof or that the information contained in this Prospectus is correct as of a date after its date.

Subscribers for or purchasers of the Offer Securities may be required to pay stamp duty and other charges in accordance with the laws and practices of the country of subscription for or purchase, as the case may be, in addition to the Final Offer Price.

No Public Offering outside the Republic of Slovenia

This Prospectus may only be distributed to the public and the Offer Securities may only be offered for sale or purchase in the Republic of Slovenia in compliance with the ZTFI and Regulation (EC) No 809/2004 of 29 April 2004 implementing Prospectus Directive with respect to information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and the dissemination of advertisements, and other applicable mandatory provisions of law, as amended.

European Economic Area ("EEA")

This Prospectus has been prepared on the basis that any offer of Offer Securities in any EEA member state other than offers (the "**Permitted Public Offers**") which are contemplated in the Prospectus in the Republic of Slovenia once the Prospectus has been approved by the competent authority in the Republic of Slovenia and published and notified to the relevant competent authorities in accordance with the Prospectus Directive, and in respect of which the Selling Shareholder has consented in writing to the use of the Prospectus, will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a Prospectus for offers of Offer Securities. Accordingly any person making or intending to make an offer in a EEA member state of Offer Securities which are the subject of the offering contemplated in this Prospectus, other than the Permitted Public Offers, may only do so in circumstances in which no obligation arises for the Selling Shareholder, any of the Managers to publish a Prospectus pursuant to Article 3 of the Prospectus Directive or supplement a Prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Selling Shareholders nor the Managers have authorised, nor do they authorise, the making of any offer (other than Permitted Public Offers) of Offer Securities in circumstances in which an obligation arises for the Selling Shareholder or the Managers to publish or supplement a prospectus for such offer.

In relation to each EEA member state, with effect from and including the Relevant Implementation Date, each Manager has represented and agreed that it has not made and will not make an offer (other than a Permitted Public Offer) of Offer Securities to the public in that EEA member state, except that, with effect from and including the Relevant Implementation Date, the Offer Securities may be offered to the public in that EEA member state under the following exemptions under the Prospectus Directive:

(i) to any individual or legal entity which is a qualified investor as defined in the Prospectus Directive;

(ii) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Managers for any such offer; or

(iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the Offer Securities shall result in a requirement for the publication by the Selling Shareholder, or any Manager of a Prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

The Slovenian-language version of this Prospectus has been approved by the SMA but, save for its notification to the United Kingdom FCA, it has not been, and will not be, approved by or notified to any other competent authority of the EEA.

For the purposes of this Prospectus, the expression offer of Offer Securities to the public in relation to any of the Offer Securities in any EEA member state means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Securities to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Securities as the same may be varied in that EEA member state by any measure implementing the "Prospectus Directive" in the EEA member state.

Each person in a EEA member state, other than, in the case of paragraph (a), persons receiving Permitted Public Offers, who receives any communication in respect of, or who acquires any Offer Securities under, the offers to the public contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with each Manager and the Selling Shareholder and the Company that:

(a) it is a "qualified investor" within the meaning of the law in that EEA member state implementing Article 2(1)(e) of the Prospectus Directive;

(b) in the case of any Offer Securities acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Offer Securities acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any EEA member state other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Managers has been given to the offer or resale; or (ii) where Offer Securities have been acquired by it on behalf of persons in any EEA member state other than qualified investors, the offer of those Offer Securities to it is not treated under the Prospectus Directive as having been made to such persons.

The Company, the Selling Shareholder, the Managers, their affiliates and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement, and agreement.

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended ("**MiFID II**"); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the "**MiFID II Product Governance Requirements**"), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any "manufacturer" (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the Offer Securities have been subject to a product approval process, which has determined that the Offer Securities are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the "**Target Market Assessment**"). Notwithstanding the Target Market Assessment, distributors should note that: the price of the Offer Securities may decline and investors could lose all or part of their investment; the Offer Securities offer no guaranteed income and no capital protection; and an investment in the Offer Securities is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Offering. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the Managers will only approach investors who meet the criteria of professional clients and eligible counterparties in EEA member states other than the Republic of Slovenia.

For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Offer Securities. Each distributor is responsible for undertaking its own target market assessment in respect of the Offer Securities and determining appropriate distribution channels.

United Kingdom

The original version of this Prospectus in Slovenian-language has been approved by the SMA but has not been, and will not be, approved by or notified to the United Kingdom FCA. It is expected that the Prospectus, accompanied by an English-language translation hereof, will be passported into the United Kingdom.

Each Manager has represented, warranted and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the sale of any of the Offer Securities in circumstances in which section 21(1) of the FSMA does not apply to the Selling Shareholder; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Offer Securities in, from or otherwise involving the United Kingdom.

United States

None of the GDRs or the Shares described in this Prospectus has been or will be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and, subject to certain exceptions, may not be offered or sold within the United States except under exemption from the registration requirements of the Securities Act. In connection with the Offering, information concerning the Offering will be provided only: (i) outside of the United States in offshore transactions (as defined in Regulation S) in accordance with Regulation S; and (ii) to QIBs in the United States as defined under and in accordance with Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements thereof. In addition, until 40 days after the commencement of the Offering, any offer or sale of Securities within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or otherwise than pursuant to the exemption from the registration requirement under the Securities Act.

Neither the U.S. Securities and Exchange Commission nor any state securities commission in the United States nor any other U.S. regulatory authority has approved or disapproved of the Securities offered in the Offering or determined that this Prospectus is accurate or complete. Any representation to the contrary is a criminal offence in the United States.

Any offers and sales of the Securities in the United States will be conducted by broker-dealers registered with the U.S. Securities and Exchange Commission.

Regulation S

Each purchaser of the Offer Securities outside the United States, by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged as follows:

(i) It (a) is aware that the sale of the Offer Securities is being made pursuant to and in accordance with Rule 903 or 904 of Regulation S; (b) is, or at the time such Offer Securities are purchased will be, the beneficial owner of those Offer Securities; and (c) is, and the person, if any, for whose account it is acquiring such Offer Securities is, located outside the United States (within the meaning of Regulation S) and is purchasing the Offer Securities in an offshore transaction meeting the requirements of Regulation S.

(ii) It is not the Company's or the Selling Shareholder's affiliate or a person acting on behalf of such an affiliate.

(iii) It understands that the Offer Securities have not been and will not be registered under the Securities Act and may not be offered, resold, pledged or otherwise transferred except (a) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S; or (b) to a person whom the seller and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, in each case in accordance with any applicable securities laws of any state of the United States.

(iv) It acknowledges that the Company, the Selling Shareholder, the Managers and the Company's respective affiliates will rely upon the truth and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs.

Rule 144A

Each purchaser of the Offer Securities within the United States, by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged as follows:

(i) It acknowledges that the Offer Securities have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer.

(ii) It is:

(a) a QIB;

(b) aware, and each beneficial owner of such Offer Securities has been advised, that the sale to it is being made in reliance on Rule 144A; and

(c) acquiring such Offer Securities for its own account or for the account of a QIB.

(iii) It agrees (or if it is acting for the account of another person, such person, has confirmed to it that such person agrees) that it (or such person) will not offer, resell, pledge or otherwise transfer those Offer Securities except (a) to a person whom it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A; (b) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S; or (c) in accordance with Rule 144 under the Securities Act (if available), in each case in accordance with any applicable securities laws of any state of the United States. The purchaser will, and each subsequent holder is required to, notify any subsequent purchaser from it of those Offer Securities of the resale restrictions referred to in (a), (b) and (c) above. No representation can be made as to the availability of the exemption provided by Rule 144 for resale of the Offer Securities.

(iv) Notwithstanding anything to the contrary in the foregoing paragraphs, the Offer Securities may not be deposited into any unrestricted depositary facility established or maintained by a depositary bank, unless and until such time as those Offer Securities are no longer "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.

(v) If it is acquiring Offer Securities for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

(vi) It acknowledges that the Company, the Selling Shareholder, the Managers and the Company's respective affiliates will rely upon the truth and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs.

Purchasers are hereby notified that sellers of the Offer Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Australia

No document in relation to the offering of the Securities has been, or will be, lodged with, or registered by, the Australian Securities and Investments Commission in relation to the offering of Securities. Accordingly, no Securities may be, directly or indirectly, offered or sold within Australia or offered or sold to a resident of Australia.

Canada

The Securities may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Securities must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment hereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal adviser.

Pursuant to section 3A.3 of NI 33-105, the Managers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this Offering.

Hong Kong

No Securities have been or will be offered or sold in Hong Kong, by means of any document other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance, or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance.

No advertisement, invitation or document relating to the Securities has been issued or has been in the possession of any person for the purposes of issue, nor will any such advertisement, invitation or document be issued or be in the possession of any person for the purpose of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Japan

The Securities offered hereby have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the "**Financial Instruments and Exchange Law**"). Accordingly, in connection with the Offering made hereby, no Securities may, directly or indirectly, be offered or sold in Japan, or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and other relevant laws and regulations of Japan.

Switzerland

The Securities may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("**SIX**") or on any other stock exchange or regulated trading facility in Switzerland.

This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Securities or the Offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the Offering, the NLB Group or the Securities have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Offer Securities will not be supervised by, the Swiss Financial Market Supervisory Authority ("**FINMA**"), and the offer of Securities has not been and will not be authorised under the Swiss Federal Act on Collective Investment Schemes ("**CISA**"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Securities.

23. CLEARING AND SETTLEMENT

Shares

Settlement and delivery of Shares

Shares allocated to the Institutional Investors and Retail Investors shall be transferred by the Managers, to the securities accounts of such investors on or about the Closing Date. Upon receipt of the Shares, each investor shall be entitled to transfer the Shares from its securities account to other investor's securities accounts. The final amount payable by an investor for the Shares will be calculated by multiplying the number of Shares allocated to such investor with the Final Offer Price. Any amounts previously paid by a Retail Investor in excess of the amount due in respect of the Shares allocated to him/it will be released to the respective Retail Investor within five business days from the end of the Offer Period less any eventual bank transfer commissions and any applicable commissions of the relevant market institutions, to the bank account indicated by each investor for the reimbursement of any such amounts. In the event that an investor's subscription order is rejected, the funds will be released in full five business days from the end of the Offer Period less any charges and costs applicable in accordance with standard terms of business.

Registration and form

The Shares have been issued as registered book-entry (dematerialised) securities as entries within the Central Register maintained by KDD, which is authorised and supervised by the SMA and provides central securities deposit services, clearance and settlement of securities transactions and maintenance of the Central Register of dematerialised securities and their holders in accordance with the applicable Slovenian legislation. Consequently, securities exist as an electronic entry in a securities account with KDD and this entry is the proof of a title to securities.

The Central Register also serves as the share register and only persons holding the Shares directly at their accounts with KDD will be considered by the Company as the holders of such Shares. Persons holding their Shares indirectly (e.g. through omnibus accounts maintained by investment firms) will not be considered as the legal owners of such Shares and will only be able to exercise the rights under such Shares if such rights will be transferred to them by the person holding the Shares on their behalf at its account with KDD.

Settlement and transfer

KDD will automatically settle all transactions in the Shares concluded on the LJSE on a delivery versus payment basis, the Shares being delivered only if the purchase price is paid. The ownership transfer of the Shares will be registered on a T+2 basis (for the purpose of the Offering, the shares will be registered on a T+3 basis with "T" being the Allocation Date) by debiting/crediting the relevant accounts.

Any other transfer of the Shares between accounts held with KDD will be registered in the Central Register on the basis of an order submitted by the transferor to the KDD member operating the transferor's account and a matching order submitted by the transferee to the KDD member operating the transferee's account.

KDD is directly integrated into TARGET2-Securities, the Pan-European technical platform for settlement of securities trading in central bank money managed by Eurosystem.

Clearance and settlement procedures for Shares

Initial settlement

For a description of the settlement procedures applicable to the transfers of the Shares within the Offering, see "*21. Subscription and Sale*".

Secondary market trading

For a description of the transfer restrictions relating to the Shares, see "*22. Selling and Transfer Restrictions*".

General

None of the Selling Shareholder, the Company, the Managers or their respective agents will have any responsibility for the performance by the KDD or its respective participants of their respective obligations under the rules and procedures governing their operations at the date of this Prospectus.

Dividends

See "*4. Dividend Policy*".

Voting Rights

NLB will identify the holders of Shares eligible to participate at a shareholders' meeting based on the information in the Central Register and provided by KDD. To be eligible to vote at a shareholders' meeting, the holder may, among others, be required to obtain NLB's approval to acquire its Shares, and shall provide evidence that it held Shares (directly or indirectly) at the end of the record date, being a day which is four business days before a shareholders' meeting and must comply with the instructions set out in the notice by which the meeting is convened.

GDRs

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear and Clearstream to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

Settlement and delivery of GDRs

GDRs allocated to the Institutional Investors and Retail Investors shall be transferred by the Managers, to the securities accounts of such investors on or about the Closing Date. Upon receipt of the GDRs, each investor shall be entitled to transfer the GDRs from its securities account to other investor's securities accounts. The final amount payable by an investor for the GDRs will be calculated by multiplying the number of GDRs allocated to such investor with the Final Offer Price. Any amounts previously paid by a Retail Investor in excess of the amount due in respect of the GDRs allocated to him/it will be released to the respective Retail Investor within five business days from the end of the Offer Period. In the event that an investor's Subscription Order is rejected, the funds will be released in full within five business days from the end of the Offer Period.

Settlement and transfer

Custodial and depositary links have been established between Euroclear and Clearstream to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, amongst other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including the Managers, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective clients may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the GDR Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

Registration and form

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Regulation S Master GDR and by the Rule 144A Master GDR held by The Bank of New York Mellon, London Branch as common depository and nominee for Euroclear and Clearstream. As necessary, the GDR Depositary will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear and Clearstream. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream.

The aggregate holdings of book-entry interests in the GDRs in Euroclear and Clearstream will be reflected in the book-entry accounts of each such institution. Euroclear and Clearstream, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and clients having interests in the book-entry interests in the GDRs. The GDR Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depository for Euroclear and Clearstream. The GDR Depositary will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear or Clearstream are credited to Euroclear or Clearstream as the case may be.

The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream is 42 Avenue J.F Kennedy, L-1855 Grand Duchy of Luxembourg, Luxembourg.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear or Clearstream and certain fees and expenses payable to the GDR Depositary in accordance with the terms of the Deposit Agreement and the GDR Terms and Conditions. See "*17. Terms and Conditions of the Global Depositary Receipts*".

Global clearance and settlement procedures

Initial settlement

The GDRs will be in global form evidenced by the two Master GDRs. Investors electing to hold book-entry interests in GDRs through Euroclear or Clearstream accounts will follow the settlement procedures applicable to depositary receipts.

Secondary market trading

For a description of the transfer restrictions relating to the GDRs, see "*17. Terms and Conditions of the Global Depositary Receipts*" and "*22. Selling and Transfer Restrictions*".

Trading between Euroclear and Clearstream participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream and will be settled using the normal procedures applicable to depositary receipts.

General

Although the foregoing sets forth the procedures of Euroclear and Clearstream in order to facilitate the transfers of interests in the GDRs among participants of Euroclear and Clearstream, none of Euroclear or Clearstream are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Managers, the Selling Shareholder, the GDR Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations.

24. INFORMATION RELATING TO THE GDR DEPOSITARY

The GDR Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Department of Financial Services. The GDR Depositary was constituted in 1784 in the State of New York. It is a wholly-owned subsidiary of The Bank of New York Mellon Corporation, a New York bank holding company. The principal office of the GDR Depositary is located at 240 Greenwich Street, New York, New York 10286. Its principal administrative offices are located at 240 Greenwich Street, New York, New York 10286. A copy of the GDR Depositary's articles of association, as amended, together with copies of The Bank of New York Mellon Corporation's most recent financial statements and annual report are available for inspection at the principal office of the GDR Depositary located at 240 Greenwich Street, New York, NY 10286 and at The Bank of New York Mellon, One Canada Square, London E14 5AL.

GDR Holders may contact The Bank of New York Mellon in its capacity as depositary as GDR Depositary for the GDRs with questions relating to the transfer of GDRs on the books of the GDR Depositary, which shall be maintained at the GDR Depositary's principal administrative establishment located at 240 Greenwich Street, New York, NY 10286 and at The Bank of New York Mellon, One Canada Square, London E14 5AL.

25. INDEPENDENT AUDITORS

Ernst & Young d.o.o., Dunajska cesta 111, Ljubljana, independent auditors, have audited the financial statements of NLB and the NLB Group as of and for the years ended December 31, 2017, 2016 and 2015 prepared in Slovene language and provided unqualified audit opinions on those financial statements as stated in the English language translations of their audit reports appearing herein. The audit reports relating to the NLB financial statements as of and for the years ended December 31, 2017, 2016 and 2015 were unqualified but did contain an emphasis of matter paragraph with respect the uncertainty related to the outcome of the lawsuits filed against NLB by two Croatian banks which have not yet been decided. Ernst & Young d.o.o., Ljubljana also reviewed in accordance with International Standard on Review Engagement 2410 the NLB Group's unaudited financial statements as of and for the six months ended 30 June 2018, with comparative information for the six months ended 30 June 2017, as stated in the English language translation of their review report included herein. With respect to such review, Ernst & Young d.o.o., Ljubljana has reported that a review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable them to obtain assurance that they would become aware of all significant matters that might be identified in an audit and, accordingly, they do not express an audit opinion. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. Ernst & Young d.o.o., Ljubljana is a limited liability company organised in Ljubljana and is registered with Agency of the Republic of Slovenia for public legal records and related services under company number 5716888, and is registered with the Slovenian Institute of Auditors.

26. LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for the Company with respect to U.S. law by Clifford Chance Europe LLP and English law by Clifford Chance LLP and with respect to Slovenian law by Odvetniki Vidmar Zemljarič.

Certain legal matters in connection with the Offering will be passed upon for the Managers with respect to U.S. and English law by Shearman & Sterling (London) LLP and with respect to Slovenian law by Simon Gabrijelčič, odvetnik.

27. GENERAL INFORMATION

1. **Listing and Trading**

It is expected that the Shares will be admitted to trading on the regulated market of the LJSE on or around the Closing Date. It is expected that the GDRs will be admitted, subject only to the issue of the Regulation S Master GDR and the Rule 144A Master GDR, to listing on the Official List by the United Kingdom FCA on or around 14 November 2018. Application will be made for the GDRs to be traded on the London Stock Exchange through its international order book on or around the Closing Date. Transactions in GDRs will normally be effected for delivery on the third working day after the day of the transaction.

2. **Authorisations**

The Company has obtained all consents, approvals and authorisations required under Slovenian law in connection with the Underwriting Agreement, the Deposit Agreement, the issue of the GDRs and listing of Shares on the regulated market of the LJSE and the listing of the GDRs on the Official List and the admission to trading of the GDRs on the LSE's main market for listed securities.

3. **Documents Available for Inspection**

Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the registered offices of the Company for the life of this Prospectus, and in electronic form on the on the Company's website (www.nlb.si):

- this Prospectus;
- the *Statut*; and
- the Financial Statements, including the independent auditor's reports thereon.
- The registered office of the Company is located at Trg republike 2, SI-1000 Ljubljana, Republic of Slovenia.

4. **Security Codes**

Shares ISIN: SI0021117344

Ljubljana Stock Exchange Share trading symbol: NLBR

Regulation S GDR ISIN: US66980N2036

Regulation S GDR CUSIP: 66980N 203

Rule 144A GDR ISIN: US66980N1046

Rule 144A GDR CUSIP: 66980N 104

London Stock Exchange GDR trading symbol: NLB

5. **Final Offer Price**

Shares and GDRs have an accountable-par value and are priced in euro. The Final Offer Price will be determined based on the results of the book building exercise conducted by the Managers. The Final Offer Price and the final number of Securities offered in the Institutional Tranche and the Retail Tranche is expected to be announced on or around the Allocation Date, which is expected to be on or around 9 November 2018: (i) through the Company's website (www.nlb.si), (ii) on the Selling Shareholder's website (www.sdh.si) as a link to the Pricing Notification published on the NLB's website, (iii) as a press release on the LJSE website (www.ljse.si) (SeoNET) and (iv) through the Regulatory News Service of the LSE (RNS). The Pricing Notification will also be available free of charge at the registered office of NLB at Trg Republike 2, SI – 1520 Ljubljana, Republic of Slovenia.

6. **GDR Depositary**

GDR Holders may contact The Bank of New York Mellon, as GDR Depositary with questions relating to the transfer of GDRs on the books of the GDR Depositary, which shall be maintained at the GDR Depositary's office at 240 Greenwich Street, New York, NY 10286, with a copy to: The Bank of New York Mellon, 225 Liberty Street, New York, NY 10286.

If definitive certificates are issued in exchange for the Master GDRs, the Company will appoint an agent in the United Kingdom.

7. **Significant Change**

Except as described in "*8. Operating and Financial Review—Recent Developments*", there has been no significant change in the financial condition or operating result of the Company since 30 June 2018, the end of the last financial period for which financial information has been published.

8. **Significant subsidiaries**

As at 30 June 2018, the Company is a parent company of a banking group that comprises 31 consolidated subsidiaries which were consolidated into the Company's financial statements. These companies undertake various types of activities including investment management, leasing, banking and other finance activities. The Company has, on occasion, acquired companies operating in specific areas of the financial services sector which then became centres for launching its new business products. Further detail on the Company's subsidiaries as at 30 June 2018 is provided below.

NLB is the holding company of the NLB Group which consists of NLB and its consolidated subsidiaries, associates and joint ventures. These companies engage in various businesses, including investment management, banking and other financial services. NLB has from time to time acquired companies active in special fields of the financial services sector and became the centres for launch of new business products.

Name of NLB Group member	Jurisdiction of incorporation	NLB's share (per cent.) [1]	Industry
Core Members			
NLB Banka a.d., Banja Luka	Bosnia and Herzegovina	99.85	Universal banking
NLB Banka d.d, Sarajevo	Bosnia and Herzegovina	97.34	Universal banking
NLB Banka sh.a. Prishtina	Kosovo	81.21	Universal banking
NLB Banka a.d. Skopje	Macedonia	86,97	Universal banking
NLB Banka a.d. Podgorica	Montenegro	99.83[2]	Universal banking
NLB Crna Gora	Montenegro	100	Real estate management
Bankart d.o.o., Ljubljana	Republic of Slovenia	39.44	Data processing and related activities
NLB Skladi, upravljanje premoženja, d.o.o.	Republic of Slovenia	100	Investment fund management
NLB Vita, življenjska zavarovalnica, d.d., Ljubljana	Republic of Slovenia	50	Life and accident insurance
Skupna pokojninska družba, d.d., Ljubljana	Republic of Slovenia	28.13[3]	
NLB banka a.d., Beograd	Serbia	99.997	Universal banking
NLB Srbija d.o.o., Belgrade	Serbia	100	Real estate management
Non-Core Members			
NLB Leasing d.o.o. Sarajevo	Bosnia and Herzegovina	100	Universal leasing
Prvi faktor, d.o.o., Sarajevo (in liquidation)	Bosnia and Herzegovina	100[4]	Factoring
CBS Invest d.o.o., Sarajevo	Bosnia and Herzegovina	100	
BH-RE d.o.o., Sarajevo	Bosnia and Herzegovina	100[5]	Real estate
Sophia Portfolio BV	Netherlands	0 [6]	
Optima Leasing, d.o.o., Zagreb, (in liquidation)	Croatia	100[7]	Financial leasing and operating leasing
OL Nekretnine, d.o.o., Zagreb (in liquidation)	Croatia	100[5]	Real estate management
Prvi faktor d.o.o., Zagreb (in liquidation)	Croatia	100[4]	Factoring

Name of NLB Group member	Jurisdiction of incorporation	NLB's share (per cent.) (1)	Industry
REAM d.o.o., Zagreb	Croatia	100	Real estate management
NLB InterFinanz Praha s.r.o., Prague (in liquidation)	Czech Republic	100(8)	
LHB Aktiengesellschaft	Germany	100	Management of own Assets and receivables
NLB Lizing d.o.o.e.l. Skopje (in liquidation)	Macedonia	100	Universal leasing
NLB Leasing Podgorica d.o.o., Podgorica (in liquidation)	Montenegro	100	Financial leasing
REAM d.o.o., Podgorica	Montenegro	100	Real estate management
Tara Hotel d.o.o. Budva	Montenegro	100(9)	Hotel
NLB Leasing d.o.o., Ljubljana (in liquidation)	Republic of Slovenia	100	Universal leasing
Prospera plus d.o.o., Ljubljana (in liquidation)	Republic of Slovenia	100	Catering, basic and protocol-related services
Prvi faktor, d.o.o., Ljubljana (in liquidation)	Republic of Slovenia	50	Factoring
PRO-REM d.o.o., Ljubljana (in liquidation)	Republic of Slovenia	100	Real estate management
S-REAM d.o.o., Ljubljana	Republic of Slovenia	100	Real estate management
ARG - Nepremičnine d.o.o., Horjul	Republic of Slovenia	75	Real estate management
NLB InterFinanz, d.o.o., Belgrade (in liquidation)	Serbia	100(8)	
NLB Leasing d.o.o. Belgrade (in liquidation)	Serbia	100	Financial leasing
Prvi faktor – faktoring, d.o.o., Beograd (in liquidation)	Serbia	95(10)	Factoring
REAM d.o.o., Beograd	Serbia	100	Real estate management
SR-RE d.o.o., Beograd	Serbia	100	Real estate
SPV2 DOO Beograd	Serbia	100	Real estate management
NLB InterFinanz AG Zurich (in liquidation)	Switzerland	100	International trade financing

1 As current, unless otherwise stated.
2 Share in voting rights.
3 As of September 2018 NLB is no longer a shareholder in Skupna.
4. Prvi faktor Ljubljana (in liquidation) has a 100 per cent. share.
5 PRO-REM Ljubljana (in liquidation) has a 100 per cent. share.
6 As part of the agreement on the management of Sophia Portfolio BV, NLB has certain influence on the management of the company, although it does not own any shares therein.
7 NLB Leasing Ljubljana (in liquidation) has a 100 per cent. share.
8 NLB InterFinanz Zurich (in liquidation) has a 100 per cent. share.
9 NLB InterFinanz Zurich (in liquidation) has an 86.05 per cent. share, NLB has a 12.71 per cent. share, and NLB Banka Podgorica has a 1.24 per cent. share.
10 Prvi faktor Ljubljana (in liquidation) has a 90 per cent. share, NLB d.d. 5 per cent. and SID 5 per cent. share.

9. Persons with substantial interest

The Republic of Slovenia holds all Shares and NLB is not aware of any other person who, directly or indirectly, has an interest in the NLB's capital or voting rights that must be notified under the laws of the Republic of Slovenia.

10. Material Contracts

The following selected contracts have been entered into by the Company and are, or may be, material or contain provisions under which the Company has an obligation or entitlement which is, or may be, material to the Company as of the date of this Prospectus. The following selected contracts are not intended to represent all of the material contracts of the Company.

10.1 *Underwriting Agreement*

The Selling Shareholder, NLB and the Managers will enter into the Underwriting Agreement and each Manager will severally agree to purchase the Offer Securities, subject to the execution of pricing agreements between the Selling Shareholder, NLB and the Managers in relation to the Final Offer Price on or around the date of the Pricing Notification.

Pursuant to the Underwriting Agreement, NLB and the Selling Shareholder will give certain customary representations and warranties (including, as appropriate, in relation to NLB's business, financial statements and legal compliance in relation to the Securities and in relation to the contents of this Prospectus) and indemnities to the Managers in connection with the Offering. The obligations of the parties to the Underwriting Agreement will be subject to certain conditions that are typical for an agreement of this nature, including, amongst others, the accuracy of the representations and warranties in the Underwriting Agreement and the execution of pricing agreements between the Selling Shareholder, NLB and the Managers in relation to the Final Offer Price on or around the date of the Pricing Notification.

In consideration for the services to be performed by the Managers, the Managers will receive from the Selling Shareholder an aggregate fee of up to approximately EUR 5.7 million (without VAT).

The Underwriting Agreement also contains the lock-up arrangements set out in "*21. Sale and Subscription—Lock-up provisions*".

The Joint Global Coordinators (acting on behalf of the Managers) will be able to terminate the Underwriting Agreement at any time prior to the Closing Date in certain specified circumstances that are typical for an agreement of this nature. These will include, but are not limited to:

(i) the occurrence of certain material changes the in condition (financial, operational, regulatory, legal or otherwise) or in the earnings, financial and trading position, business affairs or prospects of NLB and its subsidiaries considered as one enterprise and certain changes in financial, political or economic conditions;

(ii) a withdrawal, suspension, limitation or other material distribution to the listing and trading of the Offer Securities; and

(iii) the occurrence of changes in laws or regulations that would, in the *bona fide* judgement of the Joint Global Coordinators, have a material adverse effect on NLB or the Group or that makes it, or is likely to make it, impracticable to proceed with the Offering; or is likely to result in the unsuccessful completion of the Offering.

11. Working Capital Statement

The Company is of the opinion that it has sufficient working capital for its present requirements, that is, for at least the 12 months following the date of publication of this Prospectus**.**

12. Legal Proceedings

Save as described in "*6. Business*", there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the NLB Group is aware) during the last 12 months which may have, or have had in the recent past, significant effects on the NLB Group or the NLB Group's financial position or profitability.

13. Erratum and updates to the Registration Document

On page 3, the first full paragraph, of the registration document relating to the Company for the purposes of the Prospectus Directive approved by the SMA on 3 October 2018 and published on 8 October 2018 (the "**Registration Document**"), should read "Additionally, political instability and a lack of government efficiency in the Republic of Slovenia or frequent changes […] with a universal income tax (whereas a schedular tax is currently applied) […] while the announced intention to introduce of a minimum corporate income tax […] disruptive protests, all of which may undermine favourable political conditions for the NLB Group." instead of "Additionally, political instability and a lack of government efficiency in the Republic of Slovenia, including struggles to form a government that appeared in the last parliamentary elections, or frequent changes […] with a universal income tax (as opposed to the progressive tax which is currently applied) […] while the introduction of a minimum corporate income tax […] disruptive protests, and the privatisation process (including with respect of the offering) may lead to division in the current government coalition, all of which may undermine favorable political conditions for the NLB Group.".

On page 4, the first full paragraph, of the Registration Document, "Are you in favour of NATO and EU membership, and accepting the name agreement between the Republic of Macedonia and Greece?" A negative outcome in this referendum could have material negative effect on development of the country, and thus may impact NLB Banka Skopje." has been subsequently updated to read "The results of the referendum question, "Are you in favour of NATO and EU membership, and accepting the name agreement between the Republic of Macedonia and Greece?", have been called into question on constitutional grounds as a result of the turnout of eligible voters being below 50 percent, which has led to ongoing uncertainty with regards to the name change. In addition, as a result of the referendum result being non-binding, its ratification will still require two-thirds approval of the parliament. The Macedonian Prime Minister Zoran Zaev has vowed to push forward with the changes in parliament despite the assertions that the result is invalid. Ongoing uncertainty regarding the referendum and any potential negative outcome in this respect could have material negative effect on development of the country, and thus may impact NLB Banka Skopje".

On page 4, the fourth full paragraph, of the Registration Document, " On 7 October 2018, Bosnia and Herzegovina held a general election where the national Presidency and House of Representatives, as well as the respective Presidents and legislatures of the Republika Srpska and the Federation of Bosnia and Herzegovina and the legislatures of the ten cantons of the Federation of Bosnia and Herzegovina were elected. The ballot was seen by many as a test for Bosnia and Herzegovina to determine if it will progress toward European Union membership and NATO integration or remain held back by the aforementioned ethnic rivalries and instability. However, the election results are unlikely to ease Bosnia and Herzegovina's political crisis. " has been added as an update.

Reflecting that the Registration Document did not take into account the consequences of this Offering on the Selling Shareholder's shareholding, on page 10, the third full paragraph, of the Registration Document, should read "In accordance with the New Commitments […] state aid. A reopening of the proceedings may occur […] ownership in NLB." instead of "In accordance with the New Commitments, if it were to fail to reduce its shareholding in NLB by at least 50 per cent. plus one share by 31 December 2018 or […] as state aid. A reopening of the proceedings may occur even in the event of a successful public offer where less than 50 per cent. plus one share of NLB is sold by the Republic of Slovenia by 31 December 2018 […] ownership in NLB.".

Reflecting that the Registration Document did not take into account the consequences of this Offering on the Selling Shareholder's shareholding, on page 11, the first full paragraph, of the Registration Document, should read "If the Republic of Slovenia were to fail to reduce its shareholding in NLB by 31 December 2019 to 25 per cent., plus one Share […] as state aid. A reopening of the proceedings may occur or […] ownership in NLB." instead of "If the Republic of Slovenia were to fail to reduce its shareholding in NLB by at least 50 per cent. plus one share by 31 December 2018, or if it were to fail to reduce its shareholding in NLB by 31 December 2019 to 25 per cent., plus one share […] state aid. A reopening of the proceedings may occur even in the event of a successful public offer where less than 50 per cent. plus one share of NLB is sold by the Republic of Slovenia by 31 December 2018 or […] ownership in NLB.".

On page 13, the second full paragraph, of the Registration Document, "In April 2018, Fitch assigned NLB a BB long-term credit rating (outlook Rating watch evolving), in May 2018 S&P […]" has subsequently been updated to read "In April 2018, Fitch assigned NLB a BB long-term credit rating (outlook Rating watch evolving) that was affirmed in October 2018, in May 2018, S&P […]".

On page 16, the fourth full paragraph, of the Registration Document, should read "[…] Abanka, by the end of 2019 in accordance with the EC commitments would further consolidate the Republic of Slovenia's banking system. As reported in the media, the private equity fund Apollo, who already owns the majority of NKBM's shares, OTP and Erste have been mentioned as a potential buyer of Abanka's shares […]" instead of "[…] Abanka, by the end of 2019 in accordance with the EC Commitments would further consolidate the Republic of Slovenia’s banking system. As reported in the media, only the private equity fund Apollo, who already owns the majority of NKBM's shares, has been mentioned as a potential buyer of Abanka's shares […]".

On page 19, the fifth full paragraph, of the Registration Document, should read "In addition, although all NLB Group banking members have established an IT back-up location, many of these locations, including that of NLB, are geographically close to the primary location, and as a result a catastrophic event, such as a severe earthquake, at these locations or at the location […]" instead of "In addition, although the NLB Group banking members have established an IT back-up location, a catastrophic event, such as a severe earthquake, at this location or at the location […]".

On page 22, the fourth full paragraph, of the Registration Document, "[…] and two civil actions or claims for damages in the total amount of EUR 12,246,895.06." has subsequently been updated to read "[…] and four civil actions or claims for damages, of which two are still pending, in the total amount of EUR 10,664,935 million plus default interest".

On page 22, the seventh full paragraph, of the Registration Document, should read "[…] NLB Montenegro discovered certain irregularities in the loan underwriting process and filed a criminal charge against anonymous persons in this case in 2014 […]" instead of "[…] NLB Montenegro discovered certain irregularities in the loan underwriting process and had previously filed a criminal charge against anonymous persons in this case in 2014 […]".

On page 23, the first partial paragraph, of the Registration Document, should read "This indictment is not yet final, with the date of an initial hearing with the High Court in Montenegro determining the merits of the indictment yet to be announced. […] NLB Montenegro initiated the filing of a criminal charge against persons-then-unknown in 2014 and it does not believe that it should be subject to fines in relation to these proceedings, and therefore has no provisions in relation to these proceedings. However, there can be no assurance that the High Court of Montenegro would not take a different position." instead of "This indictment is not yet final, with an initial hearing with the High Court in Montenegro to determine the merits of the indictment to be scheduled to take place on 5 October 2018, for which a decision is currently pending. […] Because, as described above, NLB Montenegro initiated the filing of a criminal charge against persons-then-unknown in 2014, it does not believe that it should be held liable in relation to these proceedings, and has therefore no provisions in relation to these proceedings. However, there can be no assurance that the High Court of Montenegro would not take a different position.".

On page 26, the first full paragraph, of the Registration Document, should read "In May 2015, […] the principal value of EUR 254.76 plus default interest in the amount of approximately EUR 327.00, which exceeds the principal amount […]" instead of "In May 2015, […] the principal value of EUR 254.76 plus default interest […]".

On page 27, following the fourth full paragraph, of the Registration Document, "In accordance with the ZVKNNLB and the Agreement with the Fund, NLB requested a reimbursement from the Fund of the enforced amount from the first negative final judgment from May 2015, as described above. Pursuant to its request, the Fund acted in accordance with the terms of the signed Agreement with the Fund NLB received the payment from the Fund on 5 October 2018 in the amount of EUR 3,461.31." has been added as an update.

On page 29, the fourth full paragraph, of the Registration Document, should read "As at 30 June 2018, the exposure from such loans was EUR 227.2 million, which represented approximately 12 per cent. of the retail loan portfolio." instead of "As at 30 June 2018, the exposure from such loans was EUR 207.3 million, which represented approximately 11 per cent. of the retail loan portfolio.".

On page 32, the fifth full paragraph, of the Registration Document, "It must be fulfilled by 31 March 2019 at the latest." has subsequently been updated to read "It must be fulfilled by 31 March 2019 at the latest, and NLB expects the MREL requirement to be covered by CET1, existing MREL-eligible senior debt and other eligible liabilities.".

On page 36, the sixth full paragraph, of the Registration Document, should read "[…] may therefore result in further financial costs." instead of "[…] may therefore result in further financial costs, depending on the development of the TPP.".

On page 37, the fourth full paragraph, of the Registration Document, should read "[…] granted a special tax status to the NLB for a period of 3 years (until 9 March 2021) […]" instead of "[…] granted a special tax status to the NLB for a period of 5 years (until 9 March 2021) […]".

On page 40, the first full paragraph, of the Registration Document, "The Company intends to pay a dividend in line with the New Commitments at the level of 100 per cent. of net profit in the amount of up to EUR 270.6 million (which consists of EUR 189.1 million of profit for the fiscal year 2017 and EUR 81.5 million of retained profit of NLB from previous years). This dividend will be submitted to the General Assembly for approval only once the ECB lifts its restriction on the distribution of dividends imposed on the basis of the Council Regulation (EU) No 1024/2013 (as discussed below) or for conditional approval pending the outcome of the ECB's decision. NLB expects the ECB approval to occur before the end of 2018. Assuming that the ECB lifts the restriction on the distribution for the full amount of the dividend as described above, New Shareholders of NLB will not receive the dividend from profit for the fiscal year 2017 and retained profit from previous years." has been subsequently updated to read "The Company paid a dividend on 22 October 2018 to the registered Shareholders of NLB as of 19 October 2018 in line with the decision of the General Meeting of NLB's Shareholders dated 12 October 2018 and in line with the New Commitments in the amount of EUR 270.6 million (which consists of 100 per cent. of net profit for the fiscal year 2017 in the amount of EUR 189.1 million and EUR 81.5 million of retained profit of NLB from previous years). Investors in the Offering will not receive this dividend.".

On page 40, the fourth full paragraph, of the Registration Document, should read "The New Commitments relating to the distribution of dividends remain applicable until the reduction of the Republic of Slovenia's shareholding in NLB to 25 per cent. plus one Share, provided that if the Divestiture Trustee is awarded a mandate to reduce the Republic of Slovenia's shareholding, they cease to apply from 31 December 2018 onward. The same applies if the Republic of Slovenia reduces its shareholding in NLB to 25 per cent. plus one Share by 31 December 2018." instead of "The New Commitments relating to the distribution of dividends remains applicable until the reduction of the Republic of Slovenia's shareholding in NLB by at least 75 per cent. plus one Share or, if applicable, until the Divestiture Trustee is awarded a mandate to reduce the Republic of Slovenia's shareholding.".

On page 41, the fourth full paragraph, of the Registration Document, "Assuming that the ECB lifts the restriction on the distribution for the full amount of the dividend as described above, New Shareholders will not receive the dividend from profit for the fiscal year 2017 and retained profit from previous years." has been subsequently updated to read "Following ECB decision no. ECB-SSM-2018-SINLB-5 dated 9 October 2018 lifting the restriction on the distribution for the full amount of the dividend (as described below) and the resulting payment of the dividend (as described above), investors in the Offering will not receive the dividend from profit for the fiscal year 2017 and retained profit from previous years.".

In the table on page 41 of the Registration Document, the third column "2017" of the rows "Dividends distributed to Shareholders (*EUR thousands*)", "Gross dividend per Share (*EUR/share*)", "Dividends distribution rate – NLB on a stand-alone basis" and "Dividends distribution rate – on a consolidated basis" have been subsequently updated to read "270,600", "13.53", "143%" and "120%" instead of "0", "0", "0%" and "0%", respectively, the footnote "(1) Consists of EUR 189.1 million of profit for the fiscal year 2017 and EUR 81.5 million of retained profit from previous years." has been added in reference to the dividends distributed to Shareholders for 2017, and the footnote "(1) The dividend distribution rate to Shareholders […]" has been updated to "(2) The dividend distribution rate to Shareholders […]".

Reflecting that the Registration Document did not take into account the consequences of this Offering of GDRs on the Company's dividend policy, on page 41, following the table on the same page, of the Registration Document, the paragraph "To the extent that the Company declares and pays dividends, owners of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Shares underlying the GDRs subject to the terms of the Deposit Agreement." has been subsequently added as an update.

On page 42, the first full paragraph, of the Registration Document, "Based on such changed circumstances and according to the above mentioned decision of the ECB, NLB has applied for the approval of ECB to make the proposal to the General Assembly (Shareholders) of NLB for distributing dividends in the total amount of profit for the fiscal year 2017 and retained profit from previous years)." has been subsequently updated to read "Based on such changed circumstances and according to the above-mentioned decision of the ECB, NLB applied for the approval of the ECB to make the proposal to the General Meeting of NLB's Shareholders for distributing dividends in the total amount of net income for the fiscal year 2017 and retained profit from previous years. With the decision no. ECB-SSM-2018-SINLB-5 dated 9 October 2018, the ECB permitted the distribution of the dividends in the amount of net income for the fiscal year 2017 and retained profit from previous years and lifted the general restriction on dividends distributions. In accordance with the decision of the ECB, NLB proposed this dividend distribution to the General Meeting of NLB's Shareholders, following which the Shareholders approved the distribution of the dividends in the amount of net income for the fiscal year 2017 and retained profit from previous years.".

On page 42, the second full paragraph, of the Registration Document, "It is expected that NLB will also include its profits […] and consequently not to distribute this amount as dividend. The declaration […]." has been subsequently updated to read " It is expected that NLB will also partially include its profits […] and consequently not to distribute this amount as dividend. In addition, NLB has agreed with the ECB that it will include a portion of its profit for the financial year ending 31 December 2018 that is sufficient to maintain the NLB Group's total capital ratio above 17 per cent. As a result, it is expected that the Management Board of NLB will propose to the Supervisory Board of NLB and to the General Meeting of NLB's Shareholders the allocation of that portion of the year-end profits into retained earnings, and consequently not to distribute such amount as dividend. The declaration […].".

On page 43, the fifth full paragraph, of the Registration Document, should read "[…] EUR 1,797 million and EUR 1,654 million in Shareholders' equity (without non-controlling interest) as at 30 June 2018 and 31 December 2017, respectively." instead of "[…] EUR 1,797 million and EUR 1,654 million in shareholders' equity as at 30 June 2018 and 31 December 2017, respectively.".

On the second table on page 45 of the Registration Document, the third column "NLB Banka, Banja Luka" of the row "Capital adequacy" should read "16.7%" instead of "16.6%", and the last column "NLB Banka, Belgrade" of the rows "Cost-to-income ratio" and "Loans-to-deposit ratio (net)" should read "77.2%" and "99.1%" instead of "77.3%" and "98.9%", respectively.

On page 47, the first full paragraph, of the Registration Document, should read "48 per cent. of the NLB Group's net profit attributable to owners of the parent for 2015 were paid out in August 2016 and 58 per cent. of the NLB Group's net profit attributable to owners of the parent for 2016 were paid out in April 2017" instead of "48 per cent. of the NLB Group's net profit for 2015 were paid out in August 2016 and 58 per cent. of the NLB Group's net profit for 2016 were paid out in April 2017".

On page 47, the fifth full paragraph, of the Registration Document, should read "[…] a sale of a corporate NPE in the gross amount of EUR 75 million of claims in Serbia […]" instead of "[…] a sale of a corporate and SME NPE in the gross amount of EUR 79.4 million of claims in Serbia […]".

On page 56, the last partial paragraph, of the Registration Document, should read "As referred to above […] 50 per cent. by 31 December 2017 […]" instead of " As referred to above […] 50 per cent. plus one Share by 31 December 2017 […]".

In the table on page 75, footnote (3), of the Registration Document, should read "[…] a EUR 4.0 million and EUR 3.5 million for the years ended 30 June 2018, 30 June 2017, 31 December 2017, 31 December 2016 and 2015, respectively." instead of "EUR 4.0 million, EUR 3.5 million and EUR 4.1 million for the years ended 30 June 2018, 30 June 2017, 31 December 2017, 31 December 2016, 2015 and 2014, respectively.".

On page 76, the first partial paragraph, of the Registration Document, should read "[…] a 9.2 per cent. increase compared to the previous year […]" instead of "[…] a 9.4 per cent. increase compared to the previous year […]".

In the table on page 82 of the Registration Document, the column "Total assets (standalone)" of the row "REAM Entities" should read "75" instead of "67".

On page 91, following the fourth full paragraph, of the Registration Document, "In accordance with the ZVKNNLB and the Agreement with the Fund, NLB requested a reimbursement from the Fund of the enforced amount from the first negative final judgment from May 2015, as described above. Pursuant to its request, the Fund acted in accordance with the terms of the signed Agreement with the Fund NLB received the payment from the Fund on 5 October 2018 in the amount of EUR 3,461.31." has been added as an update.

On page 91, the last partial paragraph, of the Registration Document, should read "In May 2015, […] the principal value of EUR 254.76 plus default interest in the amount of approximately EUR 327.00, which exceeds the principal amount and costs of the proceedings totalling HRK 15,781.25 (approximately EUR 2,122.00). Different interpretations in the application of the interest rate and methods of interest calculation are possible and the Croatian courts apply different practices in the application of the interest rates, and as a result, a decision on the accrued interests on the principal amount in other proceedings (if negative for NLB) could be different, either higher or lower, than as was the case in this particular proceeding. Additionally, the applicable interest rate is different for each currency of the original claim." instead of "In May 2015, […] the principal value of EUR 254.76 plus default interest and costs of the proceedings totalling HRK 15,781.25 (approximately EUR 2,122.00).".

On page 92, following the first partial paragraph, of the Registration Document, "NLB has already received the reimbursement of the enforced amount from the Fund in full (see the last paragraph above in "Background")." has been added as an update.

On page 94, the fourth full paragraph, which reads "NLB is also involved […] by the end of 2019." should be deleted to reflect the rejection of the plaintiff's appeal and final judgment by the court.

On page 95, the first partial paragraph, of the Registration Document, should read "This indictment is not yet final, with the date of an initial hearing with the High Court in Montenegro determining the merits of the indictment yet to be announced. […] NLB Montenegro initiated the filing of a criminal charge against persons-then-unknown in 2014 and it does not believe that it should be subject to fines in relation to these proceedings, and therefore has no provisions in relation to these proceedings. However, there can be no assurance that the High Court of Montenegro would not take a different position." instead of "This indictment is not yet final, with an initial hearing with the High Court in Montenegro to determine the merits of the indictment to be scheduled to take place on 5 October 2018, for which a decision is currently pending. […] Because, as described above, NLB Montenegro initiated the filing of a criminal charge against persons-then-unknown in 2014, it does not believe that it should be held liable in relation to these proceedings, and has therefore no provisions in relation to these proceedings. However, there can be no assurance that the High Court of Montenegro would not take a different position.".

On page 112, the fifth full paragraph, of the Registration Document, "[…] NPE ratio (based on EBA methodology) of less than 5 per cent. as part of the targets set by NLB's management as a part of the five-year plan for 2017-2021." has been subsequently updated to read "[…] NPE ratio (based on EBA methodology) of 3-4 per cent. as part of the targets set by NLB's management as a part of the five-year plan for 2019-2023.".

On page 120, the fourth full paragraph, of the Registration Document, "In 2018, seven branches were renovated, and an additional 17 branches are planned to be renovated. The renovation of the remaining 93 branches is planned until 2020." has been subsequently updated to read "In 2018, nine branches were renovated through September, and an additional four branches are planned to be renovated by the end of the year. The renovation of the remaining branches is planned until 2020.".

On page 120, the fourth full paragraph, of the Registration Document, should read "[…] hybrid integration platform and digital banking platforms." instead of "[…] hybrid integration platform. As of the date of this Document, NLB is in the final stage of contracting the implementation of these digital banking platforms.".

On page 120, the sixth full paragraph, of the Registration Document, "In April 2018, Fitch assigned NLB a BB long-term credit rating (outlook Rating watch evolving), in May 2018 S&P […]" has subsequently been updated to read "In April 2018, Fitch assigned NLB a BB long-term credit rating (outlook Rating watch evolving) that was affirmed in October 2018, in May 2018, S&P […]".

On page 120, following the seventh full paragraph, of the Registration Document, a subsection entitled "Current trading and prospects" has been added as an update.

On page 131, the first full paragraph, of the Registration Document, should read "[…] profit-before-tax of 21.9 per cent., 14.9 per cent., 13.6 per cent. and 52.3 per cent. […]" instead of "[…] profit-before-tax of 21.3 per cent., 14.5 per cent., 13.3 per cent. and 50.9 per cent. […]".

In the first full table on page 136 of the Registration Document, the first column "2017" of the row "Coverage ratio of NPLs with impairments on all loans" should read "67.8%" instead of "71.2".

On page 138, the second full paragraph, of the Registration Document, should read "The NLB Group's net interest margin was 2.6 per cent. in 2017, 2.6 per cent. in 2016 and 2.8 per cent. for the year ended 31 December 2015." instead of "The NLB Group's net interest margin decreased to 2.6 per cent. in 2017 from 2.6 per cent. in 2016 and 2.8 per cent. for the year ended 31 December 2015.".

On page 146, the first full paragraph, of the Registration Document, should read "[…] contributed 16.4 per cent., 31.3 per cent., 8.8 per cent. and 42.6 per cent., respectively, of the NLB Group's total Core net income. This corresponded to a contribution to the NLB Group's Core profit-before-tax of 25.6 per cent., 20.2 per cent., 13.3 per cent. and 49.5 per cent. from Corporate Banking […]" instead of "[…] contributed 17 per cent., 32 per cent., 9 per cent. and 43 per cent., respectively, of the NLB Group's total Core net income. This corresponded to a contribution to the NLB Group's Core profit-before-tax of 24 per cent., 19 per cent., 12 per cent. and 46 per cent. from Corporate Banking […]".

On the first table on page 149 of the Registration Document, the fourth column "2015" of the rows "Impairments and provisions", "Net gains from equity investments in subsidiaries, associates, and joint ventures" and "Result before tax" should read "(9,795)", "4,486" and "38,658" instead of "(9,796)", "4,485" and "38,656", respectively.

In the first table on page 150 of the Registration Document, the fourth and fifth columns "2015" and "YoY" of the row "Impairments and provisions" should read "218" and "(76)%" instead of "183" and "(71)%", respectively, and the column "2015" of the row "Results before tax" should read "57,551" instead of "57,616", and the column "31 December 2015" of the row "Segment assets" should read "3,350,804" instead of "3,351,547".

In the second table on page 150 of the Registration Document, the fifth column "YoY" of the row "of which Result of minority shareholders" should read "62%" instead of "-".

On page 151, the third full paragraph, of the Registration Document, should read "[…] while 2015 ended with a loss of EUR 70.3 million, […]" instead of "[…] while 2015 ended with a loss of EUR 70.1 million, […]".

On page 153, the third full paragraph, of the Registration Document, should read "[…] of which EUR 12,171 million and EUR 345 million were contributed by core and non-core operations […]" instead of "[…] of which EUR 12,171 million and EUR 335 million were contributed by core and non-core operations […]".

On page 230, the fifth full paragraph, of the Registration Document, should read "[…] According to the current Statut all Supervisory Board members are required to be independent experts, which is in accordance with the New Commitments requiring the Republic of Slovenia to allocate all of the seats and voting rights on the supervisory board and its committees to independent experts (and requiring the Republic of Slovenia has to ensure compliance with such Commitment). […]" instead of "[…] According to the current Statut three quarters of the Supervisory Board members are required to be independent experts, whereas in accordance with the New Commitments Slovenia has to allocate all of the seats and voting rights on the supervisory board and its committees to independent experts (and the Republic of Slovenia has to ensure compliance with such Commitment). […]".

On page 230, the sixth full paragraph, of the Registration Document, "The agreement enters into force with the first day of trading of the Shares of the Company on the Prime market of the LJSE […]." has been subsequently updated to read "The agreement enters into force with the first day of trading of the Shares of the Company on the Standard market or the Prime market of the LJSE […]."

On page 231, the eleventh full paragraph, of the Registration Document, should read "[…] in several banks in Central and Southeastern Europe, Russia and Central Asia." instead of "[…] in several banks in Central and Southeastern Europe and Russia.".

On page 232, the fifth full paragraph, of the Registration Document, should read "He currently works as Sales Director at BAWAG in Vienna." instead of "He currently works as the Director of Corporate and Real Estate at BAWAG in Vienna.".

On page 226, the tenth full paragraph, of the Registration Document, should read "[…] four civil actions or claims for damages, of which two are still pending (in the total amount of EUR 10.7 million plus default interest)." instead of "[…] two civil actions or claims for damages (in the total amount of approximately EUR 12.2 million.".

On page 244, the fourth full paragraph, of the Registration Document, should read "NLB does not provide for variable remuneration in the form of shares, nor do stock option plans and comparable financial instruments make up the majority of the variable remuneration of any member of the NLB Management Board. NLB complies with the Guidelines of the Bank of Slovenia […]" instead of "NLB does not have variable part of remuneration given as Shares, nor do stock option plans and comparable financial instruments stand for the majority of a member of the NLB follows the Guidelines of the Bank of Slovenia […]".

On page 254, the first full paragraph, of the Registration Document, should read "The tough interest earning environment […]" instead of "The tough earning environment […]".

On page 274, the second full paragraph, of the Registration Document, "The EBA expects to publish the results of the exercise by 2 November 2018." has been deleted.

On page 285, the fifth full paragraph, of the Registration Document, "The agreement enters into force with the first day of trading of the Shares of the Company on the Prime market of the LJSE […]." has been subsequently updated to read "The agreement enters into force with the first day of trading of the Shares of the Company on the Standard market or the Prime market of the LJSE […]."

28. PERSONS RESPONSIBLE

The Company and the Selling Shareholder, acting through SSH (the Selling Shareholder in respect only of information about itself, SSH, the Shares and the Offering), as the case may be, accept responsibility for the information contained in this Prospectus. To the best of the Company's and the Selling Shareholder's knowledge (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

On behalf of **NOVA LJUBLJANSKA BANKA D.D., LJUBLJANA**

Blaž Brodnjak, President of the Management Board

Digitally signed by Blaž Brodnjak
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Andreas Burkhardt, Member of the Management Board

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Archibald Kremser, Member of the Management Board

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László Pelle, Member of the Management Board

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On behalf of **THE REPUBLIC OF SLOVENIA**

Lidia Glavina, President of the Management Board of SSH

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Vanessa Grmek, Member of the Management Board of SSH

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29. DEFINITIONS AND GLOSSARY OF SELECTED TERMS

The following definitions apply throughout this document unless the context requires otherwise:

"**Additional Shares**"	The additional shares (being up to 10 per cent. of the total number of Offer Shares) which the Managers, may require the Selling Shareholder to sell at the Offer Price in connection with the Overallotment Option
"**Admission**"	Admission (1) of the Shares to trading on the Prime Market of the LJSE (or the Standard Market sub-segment if admission to the Prime Market sub-segment is not possible); and (2) of 74,999,995 GDRs, consisting of (a) the GDRs to be issued in connection with the Offering and (b) any additional GDRs to be issued from time to time against the deposit of Shares (to the extent permitted by law) with the Custodian, to the Official List and to trading on the LSE's main market for listed securities
"**Affected Investors**"	Investors who lost their investments in the Qualified Liabilities as a result of the Bail-In
"**Allocation Date**"	Expected to be on or about 9 November 2018
"**Agreement on Succession**"	Agreement on Succession, signed in Vienna on 29 June 2001
"**AJPES**"	Agencija Republike Slovenije za javnopravne storitve in evidence *(Agency of the Republic of Slovenia for Public Legal Records and Related Services)*
"**ALCO**"	Assets and Liabilities Committee
"**AML**"	Anti-money laundering
"**Audited Financial Statements**"	NLB and NLB Group's audited financial statements as of and for the years ended 31 December 2017, 2016 and 2015
"**AZN**"	Agencija za zavarovalni nadzor (Insurance Supervision Agency)
"**Bail-In**"	Termination of all of NLB's obligations in respect of its share capital and subordinated financial instruments in accordance with the Bank of Slovenia Decision
"**BAMC**"	Družba za upravljanje terjatev bank, d.d. *(Bank Assets Management Company)*
"**Bank of Slovenia Decision**"	Decision of Banka Slovenije on extraordinary measures No. 24.20-021/13-010 dated 17 December 2013
"**Banking Act**"	means ZBan-1 or ZBan-2, as applicable
"**BCBS**"	Basel Committee on Banking Supervision
"**BPV**"	Basis Point Value
"**BRRD**"	The Directive No 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms
"**CET1**"	Common Equity Tier 1
"**CFT**"	Countering Financing of Terrorism
"**CGU**"	Cash-Generating Units

"**Closing Date**"	Expected to be on or around 14 November 2018
"**CoCo**"	Contingent Convertible Capital Instrument
"**Commitments**"	Commitments provided by the Republic of Slovenia to the EC on 13 December 2013 and as amended on 11 May 2017
"**Companies Act**"	Zakon o gospodarskih družbah (ZGD-1), the Slovenian Companies Act
"**Company**" or "**NLB**"	Nova Ljubljanska banka d.d., Ljubljana
"**Compliance and Integrity Centre**"	The compliance and integrity organisational unit in NLB
"**Constitutional Act**"	Ustavni zakon o dopolnitvah ustavnega zakona za izvedbo Temeljne ustavne listine o samostojnosti in neodvisnosti Republike Slovenije (UZITUL-A), the Amendments to the Constitutional Law for the Implementation of the Basic Constitutional Charter on the Independence and Sovereignty of the Republic of Slovenia
"**Constitutional Court**"	Ustavno Sodišče Republike Slovenije *(Constitutional Court of the Republic of Slovenia)*
"**COSO**"	Committee of Sponsoring Organisations of the Treadway Commission
"**Council**"	The Council of the EU
"**Court of Audit Act**"	Zakon o računskem sodišču (ZRacS-1), the Slovenian Court of Audit Act
"**CRD IV**"	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms
"**CRD IV Package**"	CRD IV and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013
"**Custodian**"	NLB as custodian for The Bank of New York Mellon
"**Deposit Agreement**"	the deposit agreement dated on or before the Closing Date between NLB and The Bank of New York Mellon
"**Deposited Property**"	all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares
"**Deposited Shares**"	Shares represented by the GDRs and held in the name of the GDR Depositary on "*fiduciarni račun*", as such term is defined under Slovenian law, with KDD operated by the Custodian on behalf of the GDR Depositary
"**Domestic Co-Lead Manager**"	NLB acting in its capacity as domestic co-lead manager
"**DGS**"	Deposit Guarantee Scheme
"**EBA**"	European Banking Authority
"**EC**"	European Commission
"**ECB**"	European Central Bank

"EEA"	European Economic Area
"Electronic Signatures Regulation"	Regulation (EU) No. 910/2014 on e-identification and trust services for electronic transactions in the internal market.
"EMIR"	Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories
"EMU"	European Monetary Union
"ESM/EFSF"	The European Stability Mechanism, The European Financial Stability Facility
"EU"	European Union
"EU DGSD"	Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes
"EU member state"	A member state of the EU
"EUR"	The lawful currency of the member states of the Eurozone
"Eurozone"	The region comprising the EU member states that have adopted the euro
"FATCA"	The U.S. Foreign Account Tax Compliance Act
"FATF"	Financial Action Task Force
"Final EC Decision"	EC Decision SA.33229 (2018/N-4) (ex 2017/C-3) of 10 August 2018 – Amendment of the restructuring commitments of Nova Ljubljanska banka d.d.
"Financial Statements"	The Interim Financial Statements together with the Audited Financial Statements
"FSMA"	United Kingdom Financial Services and Markets Act 2000
"FTE"	Full-Time equivalent
"FURS"	Finančna uprava Republike Slovenije (Financial Authority of the Republic of Slovenia)
"GDP"	Gross domestic product
"GDRs"	Global depositary receipts
"GDR Depositary"	The Bank of New York Mellon, as depositary
"GDR Holder"	Holder of GDRs.
"Group"	Nova Ljubljanska banka d.d., Ljubljana and its consolidated subsidiaries, associates and joint ventures
"G-SII"	Global Systemically Important Institutions
"HMRC"	HM Revenue and Customs
"IAS"	International Accounting Standards
"IAS 39"	IAS 39 Financial Instruments: Recognition and Measurement

"**ICAAP**"	Internal Capital Adequacy Assessment Process
"**ICSD**"	International Central Securities Depository
"**IFRS**"	International Financial Reporting Standards
"**IFRS 9**"	IFRS 9 Financial Instruments
"**IGA**"	Intergovernmental Agreement
"**ILAAP**"	Internal Liquidity Adequacy Assessment Process
"**IMD2**"	Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation and Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (as applicable)
"**IMF**"	International Monetary Fund
"**Institutional Investors**"	(i) Credit institutions, (ii) investment firms, (iii) undertakings for collective investments (collective investment schemes, investment companies and/or investment management companies), (iv) insurance companies, (v) pension funds and management companies of such funds, (vi) traders, (vii) trust companies, (viii) international financial institutions (IFIs), and (ix) other financial institutions, including depositary banks, including qualified investors (dobro poučeni vlagatelji) as defined in ZTFI
"**Institutional Tranche**"	The tranche of Securities (in the form of Shares and GDRs) which will be wholly offered to Institutional Investors
"**Interim Financial Statements**"	NLB and NLB Group's unaudited financial statements as of and for the six months ended 30 June 2018, with comparative information for the six months ended 30 June 2017 (reviewed in accordance with International Standard on Review Engagements 2410)
"**IVS**"	International Valuation Standards
"**Joint Bookrunners**"	Deutsche Bank AG London Branch, J.P. Morgan Securities plc and Citigroup Global Markets Limited
"**Joint Global Coordinators**"	Deutsche Bank AG London Branch and J.P. Morgan Securities plc
"**KDD**"	Central Securities Clearing Corporation (KDD d.d. or KDD – *Centralna klirinško depotna družba, delniška družba*)
"**LCR**"	Liquidity Coverage Ratio
"**LJSE**"	Ljubljana Stock Exchange (Ljubljanska borza, d.d.)
"**Ljubljanska banka**"	Ljubljanska banka d.d., Ljubljana
"**Ljubljanska banka Zagreb Branch**"	Ljubljanska banka, Zagreb Branch
"**LSE**"	London Stock Exchange plc
"**LTD**"	Loan-to-Deposit Ratio
"**Management Board**"	NLB's management board

"**Managers**"	Deutsche Bank AG London Branch, J.P. Morgan Securities plc, Citigroup Global Markets Limited, WOOD & Company Financial Services, a.s. and the Domestic Co-Lead Manager
"**MARM**"	Market Abuse Risk Management
"**MREL**"	Minimum requirement for own funds and eligible liabilities
"**National Resolution Fund**"	The Bank Resolution Fund established by *Zakon o organu in skladu za reševanje bank* (Bank Resolution Authority and Fund Act)
"**New Commitments**"	Commitments provided by the Republic of Slovenia to the EC on 13 July 2018
"**NLB Banja Luka**"	NLB Banka, Banja Luka
"**NLB Group**"	the Group
"**NSFR**"	Net Stable Funding Ratio
"**Offer GDR**"	GDRs which represent the Offer Shares
"**Offer Securities**"	The Offer Shares together with the Offer GDRs
"**Offer Shares**"	Shares comprising the Offering
"**Offer Tranches**"	The Retail Tranche and the Institutional Tranche
"**Offering**"	An offering by the Selling Shareholder acting through SSH of Offer Securities
"**Official List**"	Official List of the United Kingdom FCA
"**Overallotment Option**"	The option granted by the Selling Shareholder to the Managers, exercisable within 30 calendar days after the Closing Date, pursuant to which the Managers may require the Selling Shareholder to sell at the Offer Price the Additional Shares
"**Payment Accounts Directive**"	Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features
"**Permitted Public Offers**"	Offers of Offer Securities in any EEA member state once the Prospectus has been approved by the competent authority in the Republic of Slovenia and published and notified to the relevant competent authorities in accordance with the Prospectus Directive, and in respect of which the Selling Shareholder has consented in writing to the use of the Prospectus.
"**Privredna banka Zagreb**"	Privredna banka Zagreb d.d.
"**Prospectus Directive**"	Directive 2003/71/EC as amended (together with any applicable implementing measures in all EEA member states)
"**QIB**"	Qualified institutional buyer (as defined in Rule 144A under the Securities Act)
"**Regulation S**"	Regulation S under the Securities Act
"**Regulation S Master GDR**"	Regulation S Master Global Depositary Receipt evidencing the Regulation S GDRs

"**Regulation S Offering**"	The offering of Securities outside the United States in reliance on Regulation S
"**Restricted Securities**"	For the purposes of Rule 144A GDRs, restricted securities within the meaning of Rule 144(a)(3) under the Securities Act
"**Retail Investors**"	Persons who are not Institutional Investors
"**Retail Tranche**"	The tranche of Securities (in the form of Shares and GDRs) which will be offered in a public offering in the Republic of Slovenia to Retail Investors.
"**Rule 144A**"	Rule 144A under the U.S. Securities Act of 1933
"**Rule 144A GDRs**"	The GDRs offered and sold in the United States
"**Rule 144A Master GDR**"	Rule 144A Master Global Depositary Receipt evidencing the Rule 144A GDRs
"**Rule 144A Offering**"	The offering of Securities in the United States in reliance on Rule 144A or another exemption from, or a transaction not subject to, the registration requirements under the Securities Act
"**RWA**"	Total risk exposure amount or risk weighted assets
"**SSH**"	Slovenski državni holding d.d.
"**Securities Act**"	U.S. Securities Act of 1933, as amended
"**Securities Lending Agreement**"	A securities loan agreement through which a maximum of 10 per cent. of the total number of Offer Securities have been made available by the Selling Shareholder to the Stabilising Manager for the account of the Managers
"**Selling Shareholder**"	The Republic of Slovenia, acting through its sovereign holding company, SSH
"**SEPA Migration Regulation**"	Regulation (EU) 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro.
"**Shareholders**"	The shareholders of NLB
"**Shares**"	The ordinary shares of the Company
"**SIPO**"	Urad Republike Slovenije za intelektualno lastnino (the Slovenian Intellectual Property Office)
"**Skupna**"	Skupna pokojninska družba d.d. Ljubljana
"**SMA**"	Agencija za trg vrednostnih papirjev (*the Securities Market Agency)*
"**Sole Shareholder**"	The Republic of Slovenia, acting through its sovereign holding company Slovenski državni holding d.d.
"SSH"	Slovenski državni holding d.d.
"**Stabilisation Period**"	The period beginning on the Closing Date and, if begun, may be ended at any time but must end no later than 30 calendar days after the Closing Date for the purposes of stabilising transactions

"Stabilising Managers"	WOOD & Company Financial Services, a.s., in relation to the Offer Shares, and Citigroup Global Markets Limited, in relation to the Offer GDRs
"Statut"	Statut Nove Ljubljanske banke d.d., Ljubljana, the Company's constitutional document
"Supervisory Board"	NLB's supervisory board
"Slovenian Takeover Act"	Zakon o prevzemih (ZPre-1), the Slovenian Takeover Act
"TSCR"	Total SREP Capital Requirement
"Tax Compliance Agreement"	On 2 June 2014, the Republic of Slovenia concluded an Agreement to Improve International Tax Compliance and to Implement FATCA (the "Tax Compliance Agreement") with the United States that entered into force on 1 July 2014, which further defines the obligations of Slovenian financial institutions and FURS (the Financial Administration of the Republic of Slovenia) related to FATCA implementation
"Transferred Deposits"	Deposits in various foreign currencies with Ljubljanska banka Zagreb Branch that were transferred to Privredna banka Zagreb and Zagrebačka banka by their original depositors
"**U.S. Dollar**" or "**USD**"	The lawful currency of the United States
"Underwriting Agreement"	The underwriting agreement entered into between the Company, the Selling Shareholder and the Managers dated on or about the date of this Prospectus
"United Kingdom FCA"	United Kingdom Financial Conduct Authority
"**United Kingdom**" or "**UK**"	The United Kingdom of Great Britain and Northern Ireland
"**United States**" or "**U.S.**" or "**US**"	The United States of America
"ZBan-1"	Zakon o bančništvu (ZBan-1) the Slovenian Banking Act which was applicable from 1 January 2007 to 25 June 2016
"ZBan-2"	Zakon o bančništvu (ZBan-2) the Slovenian Banking Act which is applicable since 13 May 2015
"ZDavP-2"	Zakon o davčnem postopku (ZDavP-2), the Slovenian Tax Procedure Act
"ZDIJZ"	Zakon o dostopu do informacij javnega značaja (ZDIJZ) the Slovenian Public Information Access
"ZlntPK"	Zakon o integriteti in preprečevanju korupcije (ZIntPK) the Integrity and Prevention of Corruption Act Integrity and Prevention of Corruption Act
"ZOSRB-A"	Zakon o organu in skladu za reševanje bank (ZOSRB) the Bank Resolution Authority and Fund Act
"ZPotK-2"	Zakon o potrošniških kreditih (ZPotK-2), the Consumer Credit Act
"ZPPOGD"	Zakon o prejemkih poslovodnih oseb v gospodarskih družbah v večinski lasti Republike Slovenije in samoupravnih lokalnih skupnosti

"**ZSDH-1**"	Zakon o Slovenskem državnem holdingu (ZSDH-1), the Slovenian Sovereign Holding Act
"**ZSJV**"	Zakon o sistemu jamstva za vloge (ZSJV), the Slovenian Deposit Guarantee Scheme Act
"**ZTFI**"	Zakon o trgu finančnih instrumentov (ZTFI), the Slovenian Markets in Financial Instruments Act
"**ZUKSB**"	Zakon o ukrepih Republike Slovenije za krepitev stabilnosti bank (ZUKSB) the Act Regulating Measures of the Republic of Slovenia to Strengthen the Stability of Banks.
"**ZVKNNLB**"	Zakon za zaščito vrednosti kapitalske naložbe Republike Slovenije v Novi Ljubljanski banki d.d., Ljubljana (ZVKNNLB), Act on the Protection of the Value of Capital Investment of the Republic of Slovenia in NLB

In this document, words denoting any gender include all genders (unless the context otherwise requires).

30. INDEX TO FINANCIAL STATEMENTS

Independent auditor's report

EY
Building a better working world

This is a translation of the original report in Slovene language

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying condensed separate interim financial statements of Nova Ljubljanska banka, d.d. ("the Bank") and condensed consolidated interim financial statements of NLB Group ("the Group") which comprise of the separate statement of financial position and consolidated statement of financial position as at 30 June 2018, the separate income statement and consolidated income statement, the separate statement of comprehensive income and consolidated statement of comprehensive income, the separate statement of changes in equity and consolidated statement of changes in equity, the separate statement of cash flows and consolidated statement of cash flows for the period then ended and a summary of significant accounting policies and other explanatory information ("interim financial information").

Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard (IAS 34), 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standard (IAS 34), 'Interim Financial Reporting', as adopted by the European Union.

Ljubljana, 7 September 2018

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

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

Simon Podvinski
Certified Auditor

Condensed income statement

in EUR thousand

	Notes	NLB Group six months ended June 2018 unaudited	NLB Group six months ended June 2017 unaudited restated	NLB six months ended June 2018 unaudited	NLB six months ended June 2017 unaudited restated
Interest income, using the effective interest method		171,503	174,867	85,366	89,429
Interest income, not using the effective interest method		3,625	3,879	3,663	3,879
Interest and similar income	4.1.	175,128	178,746	89,029	93,308
Interest and similar expenses	4.1.	(23,449)	(30,179)	(11,809)	(17,378)
Net interest income		**151,679**	**148,567**	**77,220**	**75,930**
Dividend income	4.2.	97	142	49,680	42,082
Fee and commission income	4.3.	105,997	100,630	65,276	62,459
Fee and commission expenses	4.3.	(26,438)	(24,877)	(14,992)	(13,905)
Net fee and commission income		**79,559**	**75,753**	**50,284**	**48,554**
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	4.4.	565	11,814	282	11,420
Gains less losses from financial assets and liabilities held for trading	4.5.	3,918	5,680	820	3,061
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	4.6.	1,641	-	2,588	-
Gains less losses from financial assets and liabilities designated at fair value through profit or loss		(56)	18	(56)	-
Fair value adjustments in hedge accounting		257	(1,374)	257	(1,374)
Foreign exchange translation gains less losses		326	1,022	(2)	170
Gains less losses on derecognition of assets other than held for sale		1,370	1,470	56	180
Other operating income	4.7.	8,310	12,890	3,810	7,032
Other operating expenses	4.8.	(16,765)	(15,101)	(10,360)	(8,830)
Administrative expenses	4.9.	(126,323)	(125,268)	(77,103)	(77,034)
Depreciation and amortisation		(13,642)	(13,787)	(8,715)	(8,936)
Provisions for other liabilities and charges	4.10.	3,378	5,229	628	4,382
Impairment charge	4.11.	10,993	20,391	11,342	11,517
Share of profit from investments in associates and joint ventures (accounted for using the equity method)		2,538	2,736	-	-
Gains less losses from non-current assets held for sale	4.12.	12,147	202	8,809	345
Profit before income tax		**119,992**	**130,384**	**109,540**	**108,499**
Income tax	4.13.	(10,603)	(8,093)	(6,205)	(3,181)
Profit for the period		**109,389**	**122,291**	**103,335**	**105,318**
Attributable to owners of the parent		104,847	117,919	103,335	105,318
Attributable to non-controlling interests		4,542	4,372	-	-
Earnings per share/diluted earnings per share (in EUR per share)		5.24	5.90	5.17	5.27

Condensed income statement – for three months ended June for NLB Group

in EUR thousand

	Notes	NLB Group three months ended June 2018 unaudited	NLB Group three months ended June 2017 unaudited restated
Interest income, using the effective interest method		86,231	86,018
Interest income, not using the effective interest method		2,027	2,371
Interest and similar income	4.1.	88,258	88,389
Interest and similar expenses	4.1.	(11,584)	(15,153)
Net interest income		**76,674**	**73,236**
Dividend income	4.2.	86	133
Fee and commission income	4.3.	54,390	51,819
Fee and commission expenses	4.3.	(14,163)	(13,467)
Net fee and commission income		**40,227**	**38,352**
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	4.4.	159	120
Gains less losses from financial assets and liabilities held for trading	4.5.	2,332	3,164
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	4.6.	1,021	-
Gains less losses from financial assets and liabilities designated at fair value through profit or loss		(50)	(62)
Fair value adjustments in hedge accounting		238	(451)
Foreign exchange translation gains less losses		240	193
Gains less losses on derecognition of assets other than held for sale		880	1,172
Other operating income	4.7.	3,994	5,490
Other operating expenses	4.8.	(13,068)	(11,340)
Administrative expenses	4.9.	(63,719)	(64,643)
Depreciation and amortisation		(6,848)	(6,913)
Provisions for other liabilities and charges	4.10.	1,203	2,928
Impairment charge	4.11.	10,360	(1,826)
Share of profit from investments in associates and joint ventures (accounted for using the equity method)		1,360	1,642
Gains less losses from non-current assets held for sale	4.12.	(51)	79
Profit before income tax		**55,038**	**41,274**
Income tax	4.13.	(6,346)	(3,286)
Profit for the period		**48,692**	**37,988**
Attributable to owners of the parent		47,164	36,364
Attributable to non-controlling interests		1,528	1,624

Condensed income statement – for three months ended June for NLB

in EUR thousand

	Notes	NLB three months ended June 2018 unaudited	NLB three months ended June 2017 unaudited restated
Interest income, using the effective interest method		42,989	43,124
Interest income, not using the effective interest method		2,038	2,371
Interest and similar income	4.1.	45,027	45,495
Interest and similar expenses	4.1.	(5,800)	(8,902)
Net interest income		**39,227**	**36,593**
Dividend income	4.2.	41,145	30,880
Fee and commission income	4.3.	33,375	32,019
Fee and commission expenses	4.3.	(7,901)	(7,665)
Net fee and commission income		**25,474**	**24,354**
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	4.4.	130	128
Gains less losses from financial assets and liabilities held for trading	4.5.	686	1,792
Gains less losses on non-trading financial assets mandatorily at fair value through profit or loss	4.6.	1,633	-
Gains less losses from financial assets and liabilities designated at fair value through profit or loss		(50)	-
Fair value adjustments in hedge accounting		238	(451)
Foreign exchange translation gains less losses		43	(429)
Gains less losses on derecognition of assets other than held for sale		144	(37)
Other operating income	4.7.	2,095	2,732
Other operating expenses	4.8.	(9,737)	(8,126)
Administrative expenses	4.9.	(38,804)	(39,670)
Depreciation and amortisation		(4,366)	(4,497)
Provisions for other liabilities and charges	4.10.	1,251	3,259
Impairment charge	4.11.	12,419	561
Gains less losses from non-current assets held for sale	4.12.	(51)	222
Profit before income tax		**71,477**	**47,311**
Income tax	4.13.	(4,638)	(919)
Profit for the period		**66,839**	**46,392**

Condensed statement of comprehensive income

in EUR thousand

	Note	NLB Group		NLB	
		six months ended		six months ended	
		June 2018	June 2017	June 2018	June 2017
		unaudited		unaudited	
Net profit for the period after tax		**109,389**	**122,291**	**103,335**	**105,318**
Other comprehensive income/(loss) after tax		**(5,612)**	**(11,389)**	**(3,410)**	**(13,001)**
Items that will not be reclassified to income statement					
Fair value changes of equity instruments measured at fair value through other comprehensive income		**1,325**	**-**	**325**	**-**
Share of other comprehensive income/(losses) of entities accounted for using the equity method		**18**	**(2)**	**-**	**-**
Income tax relating to components of other comprehensive income	5.16.	**(54)**	**-**	**(53)**	**-**
Items that may be reclassified subsequently to income statement					
Foreign currency translation		**(1,554)**	**1,702**	**-**	**-**
Translation gains/(losses) taken to equity		(1,554)	1,702	-	-
Debt instruments measured at fair value through other comprehensive income		**(3,764)**	**-**	**(4,545)**	**-**
Valuation gains/(losses) taken to equity		(4,006)	-	(4,559)	-
Transferred to income statement		242	-	14	-
Available-for-sale financial assets		**-**	**(15,464)**	**-**	**(16,050)**
Valuation gains/(losses) taken to equity		-	(3,661)	-	(4,630)
Transferred to income statement	4.4. and 4.11.	-	(11,803)	-	(11,420)
Share of other comprehensive income/(losses) of entities accounted for using the equity method		**(2,800)**	**(801)**	**-**	**-**
Income tax relating to components of other comprehensive income	5.16.	**1,217**	**3,176**	**863**	**3,049**
Total comprehensive income for the period after tax		**103,777**	**110,902**	**99,925**	**92,317**
Attributable to owners of the parent		99,324	106,450	99,925	92,317
Attributable to non-controlling interests		4,453	4,452	-	-

Condensed statement of comprehensive income – for three months ended June for NLB Group

in EUR thousand

	NLB Group	
	three months ended	
	June 2018	June 2017
	unaudited	unaudited
Net profit for the period after tax	**48,692**	**37,988**
Other comprehensive income after tax	**(3,286)**	**827**
Items that will not be reclassified to income statement		
Fair value changes of equity instruments measured at fair value through other comprehensive income	**(164)**	**-**
Share of other comprehensive income/(losses) of entities accounted for using the equity method	**5**	**-**
Income tax relating to components of other comprehensive income	**(41)**	**-**
Items that may be reclassified subsequently to income statement		
Foreign currency translation	**(1,176)**	**1,142**
Translation gains/(losses) taken to equity	(1,176)	1,142
Debt instruments measured at fair value through other comprehensive income	**(1,500)**	**-**
Valuation gains/(losses) taken to equity	(1,745)	-
Transferred to income statement	245	-
Available-for-sale financial assets	**-**	**430**
Valuation gains/(losses) taken to equity	-	539
Transferred to income statement	-	(109)
Share of other comprehensive income/(losses) of entities accounted for using the equity method	**(978)**	**(864)**
Income tax relating to components of other comprehensive income	**568**	**119**
Total comprehensive income for the period after tax	**45,406**	**38,815**
Attributable to owners of the parent	43,905	37,194
Attributable to non-controlling interests	1,501	1,621

Condensed statement of comprehensive income – for three months ended June for NLB

in EUR thousand

	NLB	
	three months ended	
	June 2018	June 2017
	unaudited	unaudited
Net profit for the period after tax	**66,839**	**46,392**
Other comprehensive income after tax	**(1,208)**	**186**
Items that will not be reclassified to income statement		
Fair value changes of equity instruments measured at fair value through other comprehensive income	**263**	**-**
Income tax relating to components of other comprehensive income	**(41)**	**-**
Items that may be reclassified subsequently to income statement		
Debt instruments measured at fair value through other comprehensive income	**(1,765)**	-
Valuation gains/(losses) taken to equity	(1,768)	-
Transferred to income statement	3	-
Available-for-sale financial assets	-	**230**
Valuation gains/(losses) taken to equity	-	358
Transferred to income statement	-	(128)
Income tax relating to components of other comprehensive income	**335**	**(44)**
Total comprehensive income for the period after tax	**65,631**	**46,578**

Condensed statement of financial position

in EUR thousand

		NLB Group			NLB		
		30 Jun 2018	1 Jan 2018	31 Dec 2017	30 Jun 2018	1 Jan 2018	31 Dec 2017
	Notes	unaudited	unaudited	audited	unaudited	unaudited	audited
Cash, cash balances at central banks and other demand deposits at banks	5.1.	1,298,731	1,255,824	1,256,481	660,851	569,943	570,010
Financial assets held for trading	5.2.a)	67,458	72,189	72,189	67,459	72,180	72,180
Non-trading financial assets mandatorily at fair value through profit or loss	5.3.a)	25,752	31,404	-	25,746	31,239	-
Financial assets designated at fair value through profit or loss	5.3.b)	-	-	5,003	-	-	634
Financial assets measured at fair value through other comprehensive income	5.4.	1,876,219	1,656,365	-	1,484,016	1,285,276	-
Financial assets measured at amortised cost							
- debt securities	5.6.a)	1,265,726	1,301,413	-	1,129,743	1,178,088	-
- loans and advances to banks	5.6.b)	453,724	509,970	-	448,569	461,830	-
- loans and advances to customers	5.6.c)	7,037,953	6,956,362	-	4,522,241	4,594,286	-
- other financial assets	5.6.d)	62,783	67,046	-	59,877	38,915	-
Available-for-sale financial assets	5.5.	-	-	2,276,493	-	-	1,777,762
Loans and advances							
- debt securities	5.7.a)	-	-	82,133	-	-	82,133
- loans and advances to banks	5.7.b)	-	-	510,107	-	-	462,322
- loans and advances to customers	5.7.c)	-	-	6,912,333	-	-	4,587,477
- other financial assets	5.7.d)	-	-	66,077	-	-	38,389
Held-to-maturity investments	5.9.	-	-	609,712	-	-	609,712
Derivatives - hedge accounting		695	1,188	1,188	695	1,188	1,188
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,669	719	719	1,669	719	719
Investments in subsidiaries		-	-	-	350,445	349,945	349,945
Investments in associates and joint ventures		42,331	43,765	43,765	6,932	6,932	6,932
Tangible assets							
Property and equipment		184,643	188,355	188,355	85,490	87,051	87,051
Investment property	5.10.	51,130	51,838	51,838	9,266	9,257	9,257
Intangible assets		32,674	34,974	34,974	21,747	23,911	23,911
Current income tax assets		711	599	2,795	-	-	2,196
Deferred income tax assets	5.12.	21,146	19,745	18,603	21,017	20,318	19,758
Other assets	5.11.	88,614	93,349	93,349	10,905	8,692	8,692
Non-current assets classified as held for sale		4,227	11,631	11,631	1,602	2,564	2,564
TOTAL ASSETS		**12,516,186**	**12,296,736**	**12,237,745**	**8,908,270**	**8,742,334**	**8,712,832**
Trading liabilities	5.2.b)	11,509	9,502	9,502	11,505	9,398	9,398
Financial liabilities measured at fair value through profit or loss	5.3.	9,264	5,815	635	9,152	5,166	635
Financial liabilities measured at amortised cost							
- deposits from banks and central banks	5.14.	39,083	40,602	40,602	55,480	72,072	72,072
- borrowings from banks and central banks	5.14.a)	268,543	279,616	279,616	252,499	260,747	260,747
- due to customers	5.14.	10,018,043	9,878,378	9,878,378	6,879,432	6,810,967	6,810,967
- borrowings from other customers	5.14.a)	65,037	74,286	74,286	4,928	5,726	5,726
- subordinated liabilities	5.14.b)	15,029	27,350	27,350	-	-	-
- other financial liabilities	5.14.c)	119,438	111,019	111,019	81,429	71,534	71,534
Derivatives - hedge accounting		26,132	25,529	25,529	26,132	25,529	25,529
Liabilities of disposal group classified as held for sale		-	440	440	-	-	-
Provisions	5.15.	87,187	93,989	88,639	65,493	67,232	70,817
Current income tax liabilities		7,257	3,908	2,894	6,489	1,014	-
Deferred income tax liabilities	5.12.	2,746	2,558	1,096	-	-	-
Other liabilities	5.17.	12,337	9,467	9,596	6,914	4,057	4,181
TOTAL LIABILITIES		**10,681,605**	**10,562,459**	**10,549,582**	**7,399,453**	**7,333,442**	**7,331,606**
EQUITY AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT							
Share capital		200,000	200,000	200,000	200,000	200,000	200,000
Share premium		871,378	871,378	871,378	871,378	871,378	871,378
Accumulated other comprehensive income		19,170	24,744	26,752	21,234	24,688	25,699
Profit reserves		13,522	13,522	13,522	13,522	13,522	13,522
Retained earnings		692,640	587,742	541,901	402,683	299,304	270,627
		1,796,710	**1,697,386**	**1,653,553**	**1,508,817**	**1,408,892**	**1,381,226**
Non-controlling interests		37,871	36,891	34,610	-	-	-
TOTAL EQUITY		**1,834,581**	**1,734,277**	**1,688,163**	**1,508,817**	**1,408,892**	**1,381,226**
TOTAL LIABILITIES AND EQUITY		**12,516,186**	**12,296,736**	**12,237,745**	**8,908,270**	**8,742,334**	**8,712,832**

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

László Pelle
Member of the
Management Board

Archibald Kremser
Member of the
Management Board

Andreas Burkhardt
Member of the
Management Board

Blaž Brodnjak
Chief Executive
Officer

Ljubljana, 7 September 2018

Condensed statement of changes in equity

in EUR thousand

NLB Group	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance as at 31 December 2017	200,000	871,378	26,752	13,522	541,901	1,653,553	34,610	1,688,163
Impact of adopting IFRS 9	-	-	(2,008)	-	45,841	43,833	2,281	46,114
Restated opening balance under IFRS 9	200,000	871,378	24,744	13,522	587,742	1,697,386	36,891	1,734,277
- Net profit for the period	-	-	-	-	104,847	104,847	4,542	109,389
- Other comprehensive income	-	-	(5,523)	-	-	(5,523)	(89)	(5,612)
Total comprehensive income after tax	-	-	(5,523)	-	104,847	99,324	4,453	103,777
Dividends paid	-	-	-	-	-	-	(3,133)	(3,133)
Other*	-	-	(51)	-	51	-	(340)	(340)
Balance as at 30 June 2018	**200,000**	**871,378**	**19,170**	**13,522**	**692,640**	**1,796,710**	**37,871**	**1,834,581**

* Other relates to a decrease in non-controlling interest due to the sale of NLB Nov Penziski Fond, Skopje.

in EUR thousand

NLB Group	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance as at 1 January 2017	200,000	871,378	29,968	13,522	380,444	1,495,312	30,347	1,525,659
- Net profit for the period	-	-	-	-	117,919	117,919	4,372	122,291
- Other comprehensive income	-	-	(11,469)	-	-	(11,469)	80	(11,389)
Total comprehensive income after tax	-	-	(11,469)	-	117,919	106,450	4,452	110,902
Dividends paid	-	-	-	-	(63,780)	(63,780)	(3,725)	(67,505)
Balance as at 30 June 2017	**200,000**	**871,378**	**18,499**	**13,522**	**434,583**	**1,537,982**	**31,074**	**1,569,056**

in EUR thousand

NLB	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Total equity
Balance as at 31 December 2017	200,000	871,378	25,699	13,522	270,627	1,381,226
Impact of adopting IFRS 9	-	-	(1,011)	-	28,677	27,666
Restated opening balance under IFRS 9	200,000	871,378	24,688	13,522	299,304	1,408,892
- Net profit for the period	-	-	-	-	103,335	103,335
- Other comprehensive income	-	-	(3,410)	-	-	(3,410)
Total comprehensive income after tax	-	-	(3,410)	-	103,335	99,925
Other	-	-	(44)	-	44	-
Balance as at 30 June 2018	**200,000**	**871,378**	**21,234**	**13,522**	**402,683**	**1,508,817**

in EUR thousand

NLB	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Total equity
Balance as at 1 January 2017	200,000	871,378	34,581	13,522	145,313	1,264,794
- Net profit for the period	-	-	-	-	105,318	105,318
- Other comprehensive income	-	-	(13,001)	-	-	(13,001)
Total comprehensive income after tax	-	-	(13,001)	-	105,318	92,317
Dividends paid	-	-	-	-	(63,780)	(63,780)
Balance as at 30 June 2017	**200,000**	**871,378**	**21,580**	**13,522**	**186,851**	**1,293,331**

Condensed statement of cash flows

in EUR thousand

	NLB Group		NLB	
	six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017
	unaudited		unaudited	
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	203,809	198,948	116,571	115,492
Interest paid	(24,050)	(27,794)	(12,827)	(15,199)
Dividends received	1,809	4,348	40,469	27,417
Fee and commission receipts	106,637	100,674	65,078	62,174
Fee and commission payments	(28,195)	(26,596)	(15,267)	(14,248)
Realised gains from financial assets and financial liabilities not measured at fair value through profit or loss	716	11,976	462	11,574
Net gains/(losses) from financial assets and liabilities held for trading	4,394	2,315	1,189	(187)
Payments to employees and suppliers	(129,251)	(122,098)	(81,869)	(77,224)
Other income	11,756	14,654	6,428	7,348
Other expenses	(14,842)	(14,926)	(10,223)	(9,105)
Income tax (paid)/received	(5,377)	(3,834)	1,045	2,082
Cash flows from operating activities before changes in operating assets and liabilities	**127,406**	**137,667**	**111,056**	**110,124**
(Increases)/decreases in operating assets	**(281,254)**	**(54,863)**	**(141,490)**	**38,080**
Net (increase)/decrease in trading assets	6,392	(34,454)	6,392	(34,454)
Net (increase)/decrease in financial assets designated at fair value through profit or loss	-	946	-	-
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss	9,768	-	12,351	-
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income	(233,629)	-	(211,502)	-
Net (increase)/decrease in available-for-sale financial assets	-	(53,673)	-	(46,071)
Net (increase)/decrease in loans and receivables measured at amortised cost	(71,570)	28,527	50,990	117,610
Net (increase)/decrease in other assets	7,785	3,791	279	995
Increases/(decreases) in operating liabilities	**133,573**	**20,342**	**54,883**	**16,231**
Net increase/(decrease) in financial liabilities designated at fair value through profit or loss	(691)	-	(691)	-
Net increase/(decrease) in deposits and borrowings measured at amortised cost	133,953	19,182	54,882	15,786
Net increase/(decrease) in other liabilities	311	1,160	692	445
Net cash from operating activities	**(20,275)**	**103,146**	**24,449**	**164,435**
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts from investing activities	**181,853**	**57,184**	**171,441**	**55,972**
Proceeds from sale of property and equipment	2,014	1,220	5	8
Proceeds from disposals of subsidiaries and associates	18,671	238	10,268	238
Proceeds from disposals of debt securities measured at amortised cost	161,131	-	161,131	-
Proceeds from disposals of held-to-maturity financial assets	-	55,403	-	55,403
Proceeds from sale of non-current assets held for sale	37	323	37	323
Payments from investing activities	**(140,328)**	**(52,365)**	**(136,785)**	**(59,861)**
Purchase of property and equipment	(8,916)	(4,136)	(6,344)	(2,146)
Purchase of intangible assets	(5,828)	(6,680)	(4,357)	(5,382)
Purchase of subsidiaries and increase in subsidiaries' equity	-	-	(500)	(10,784)
Purchase of debt securities measured at amortised cost	(125,584)	-	(125,584)	-
Purchase of held-to-maturity financial assets	-	(41,549)	-	(41,549)
Net cash from investing activities	**41,525**	**4,819**	**34,656**	**(3,889)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments from financing activities	**(15,094)**	**(67,430)**	**-**	**(63,780)**
Dividends paid	(3,116)	(67,430)	-	(63,780)
Repayments of subordinated debt	(11,978)	-	-	-
Net cash from financing activities	**(15,094)**	**(67,430)**	**-**	**(63,780)**
Effects of exchange rate changes on cash and cash equivalents	(2,611)	(5,366)	(402)	(7,661)
Net increase/(decrease) in cash and cash equivalents	**6,156**	**40,535**	**59,105**	**96,766**
Cash and cash equivalents at beginning of period	**1,475,714**	**1,449,275**	**662,419**	**670,682**
Cash and cash equivalents at end of period	**1,479,259**	**1,484,444**	**721,122**	**759,787**

in EUR thousand

		NLB Group		NLB	
		30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	Notes	unaudited	audited	unaudited	audited
Cash and cash equivalents comprise:					
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	1,299,272	1,256,481	660,926	570,010
Loans and advances to banks with original maturity up to 3 months		110,343	148,784	60,196	92,409
Financial assets measured at fair value through other comprehensive income with original maturity up to 3 months		69,644	-	-	-
Available for sale financial assets with original maturity up to 3 months		-	70,449	-	-
Total		**1,479,259**	**1,475,714**	**721,122**	**662,419**

Notes to the condensed interim financial statements

1. General information

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

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

The ultimate controlling party of NLB is the Republic of Slovenia, which was the sole shareholder as at 30 June 2018 and 31 December 2017.

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

2. Summary of significant accounting policies

2.1. Statement of compliance

These condensed interim financial statements have been prepared in accordance with IAS 34 "Interim financial reporting" and should be read in conjunction with the annual financial statements of NLB Group and NLB for the year ended 31 December 2017, which have been prepared in accordance with the International Financial Reporting Standards (hereinafter: 'IFRS') as adopted by the European Union.

2.2. Accounting policies

The same accounting policies and methods of computation were followed in the preparation of these consolidated condensed interim financial statements as for the year ended 31 December 2017, except for accounting standards and other amendments effective for annual periods beginning on 1 January 2018 that were endorsed by the EU.

Accounting standards and amendments to existing standards that were endorsed by the EU, and adopted by NLB Group from 1 January 2018

In July 2014, the IASB issued IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a new approach to financial instruments classification and measurement, a new more forward-looking expected loss model, and amends the requirements for hedge accounting. IFRS 9 is mandatorily effective for annual periods beginning on or after 1 January 2018, with early application permitted. In October 2017, the IASB issued the Amendment to IFRS 9: Pre-payment Features with Negative Compensation that are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. The amendment allows certain pre-payable financial assets with a negative compensation pre-payment option to be measured at an amortised cost or fair value through other comprehensive income, if the prepayment amount substantially represents the reasonable compensation and unpaid principal and interest. Reasonable compensation may be positive or negative. Prior to this amendment financial assets with this negative compensation feature would have failed the exclusive payments of principal and interest test and be mandatorily measured at fair value through profit or loss. This amendment does not impact the NLB Group's financial statements.

In accordance with the transition requirements of IFRS 9, comparative amounts have not been restated (note 2.3.).

Classification and measurement under IFRS 9

From a classification and measurement perspective, IFRS 9 requires all debt financial assets to be assessed based on a combination of the Group's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories of financial assets have been replaced by:

- financial assets, measured at amortised costs (AC),
- financial assets at fair value through other comprehensive income (FVOCI),
- financial assets held for trading (FVTPL), and
- non-trading financial assets, mandatorily at fair value through profit or loss (FVTPL).

Financial assets are measured at AC if they are held within a business model for the purpose of collecting contractual cash flows ('held to collect'), and if cash flows are solely payments of principal and interest on the principal amount outstanding.

Debt financial instruments are measured at FVOCI if they are held within a business model for the purpose of both collecting contractual cash flows and selling ('held to collect and sell'), and if cash flows are solely payments of principal and interest on the principal amount outstanding. FVOCI results in the debt instruments being recognised at fair value in the statement of financial position and at AC in the income statement. Gains and losses, except for expected credit losses and foreign currency translations, are recognised in other comprehensive income until the instrument is derecognised. At derecognition of the debt financial instrument, the cumulative gains and losses previously recognised in other comprehensive income are reclassified to the income statement.

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement, except for dividends that are recognised in the income statement.

All other financial assets are mandatorily measured at FVTPL, including financial assets within other business models such as financial assets managed at fair value or held for trading, and financial assets with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding. In the Statement of Financial Position they are presented in line "Financial assets held for trading" or "Non-trading financial assets mandatorily at fair value through profit or loss". In some cases, fair value of assets can be negative (for example fair value of undrawn credit commitments). In such cases are negative fair values included in line 'Financial liabilities at fair value through profit or loss'.

Like IAS 39, IFRS 9 includes an option to designate financial assets at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognising the gains or losses on them on different bases.

The accounting for financial liabilities remained the same as the requirements of IAS 39, except for the treatment of gains or losses arising from bank's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

NLB Group and NLB elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting requirements in accordance with IAS 39. However, the Bank will implement the revised hedge accounting disclosures that are required by the IFRS 9 related amendments to IFRS 7 "Financial Instruments: Disclosures" in the 2018 Annual Report. Embedded derivatives are under IFRS 9, and no longer separated from the host's financial assets. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

Assessment of NLB Group's business model

NLB Group has determined its business model separately for each reporting unit within the NLB Group.It is based on observable factors for different portfolios that best reflect how the Group manages groups of financial assets to achieve its business objective, such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to key management personnel,
- the risks that affect the performance of the business model and, in particular, the way those risks are managed,
- how the managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets or on collection of contractual cash flows),
- the expected frequency, value, and timing of sales.

The business model assessment is based on reasonably expected scenarios without taking worst-case and stress case scenarios into account. In general, the business model assessment of the Group can be summarised as follows:

- loans and deposits given are included in a business model 'held to collect' since the primary purpose of NLB Group for the loan portfolio is to collect the contractual cash flows,
- debt securities are divided into three business models:
  - the first group of debt securities presents "held for trading" category
  - the second group of debt securities are held under a business model "held to collect and sale" with the aim of collecting the contractual cash flows and sale of financial assets, and forms part of the Group's liquidity reserves
  - the third part of debt securities is held within the business model for holding them in order to collect contractual cash flows.

With regard to debt securities within the ‘held to collect’ business model, the sales which are related to the increase of the issuers’ credit risk, concentrations risk, sales made close to the final maturity, or sales order to meet liquidity needs in a stress case scenario are permitted. Other sales, which are not due to an increase in credit risk may still be consistent with a held to collect business model if such sales are incidental to the overall business model and;

- are insignificant in value both individually and in aggregate, even when such sales are frequent;
- are infrequent even when they are significant in value.

Review of instruments’ contractual cash flow characteristics (the SPPI test – solely payment of principal and interest on the principal amount outstanding)

The second step in the classification of the financial assets in portfolios being ‘held to collect’ and ‘held to collect and sell’ relates to the assessment of whether the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g. due to repayment. The interest must represent only the consideration for the time value of money, credit risk, other basic lending risks, and a profit margin consistent with basic lending features. If the cash flows introduce more than de minimis exposure to risk or volatility that is not consistent with basic lending features, the financial asset is mandatorily recognised at FVTPL.

NLB Group reviewed the portfolio within ‘held to collect’ and ‘held to collect and sale’ for standardised products on a level of a product sample and for non-standardised products on a single exposure level. The Group established a procedure for SPPI identification as part of regular investment process with defined responsibilities for primary and secondary controls. Special emphasis was put on new and non-standardised characteristics of the loan agreements.

At the transition to IFRS 9, as at 1 January 2018, NLB Group identified only a few exposures that did not pass the SPPI test and are therefore measured mandatorily at fair value through profit or loss.

Accounting policy for modified financial assets

The accounting policy for modified financial assets differentiates between modifications of contractual cash flows that occur from commercial reasons and those occurring due to financial difficulties of a client. Modifications of financial assets due to commercial reasons present the derecognition event. In relation to clients in financial difficulties, significant modifications lead to a derecognition event, whereas modifications that are not significant (where exposure to risks remains broadly the same) do not lead to derecognition. For the latter, NLB Group recognises modification gain or loss.

Impairment of financial instruments

IFRS 9 requires the shift from an incurred loss model to an expected loss model that provides an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. The expected loss model requires NLB Group to recognise not only credit losses that have already occurred, but also losses that are expected to occur in the future. An allowance for expected credit losses (ECL) is required for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

The allowance is based on the expected credit losses associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset (LECL). When determining whether the risk of default has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical data, experience, and expert credit assessment and incorporation of forward-looking information.

Classification into stages

NLB Group prepared a methodology for ECL defining the criteria for classification into stages, transition criteria between stages, risk indicators calculation, and validation of models. The Group classifies financial instruments into Stage 1, Stage 2, and Stage 3, based on the applied impairment methodology as described below:

- Stage 1 – A performing portfolio: no significant increase of credit risk since initial recognition, NLB Group recognises an allowance based on a 12-month period,
- Stage 2 – An underperforming portfolio: a significant increase in credit risk since initial recognition, NLB Group recognises an allowance for a lifetime period, and
- Stage 3 – An impaired portfolio: NLB Group recognises lifetime allowances for these financial assets. Definition of default is harmonised with EBA guidelines.

A significant increase in credit risk is assumed:

- when a credit rating significantly deteriorates at the reporting date in comparison to the credit rating at initial recognition,
- when a financial asset has material delays over 30 days (days past due are also included in the credit rating assessment),
- if NLB Group expects to grant the borrower forbearance, or
- if the facility is placed on the watch list.

The methodology of credit rating for banks and sovereign classification depends on the existence or non-existence of a rating from international credit rating agencies Fitch, Moody's, or S&P. Ratings are set on a basis of the average international credit rating. If there are no international credit ratings, the classification is based on the internal methodology of NLB Group.

The ECL for Stage 1 financial assets is calculated based on 12-month PDs (probability of default) or shorter period PDs, if the maturity of the financial asset is shorter than 1 year. The 12-month PD already includes a macroeconomic impact effect. Impairment losses in stage 1 are designed to reflect impairment losses that had been incurred in the performing portfolio but have not been identified.

LECL for Stage 2 financial assets is calculated on the basis of lifetime PDs (LPD) because their credit risk has increased significantly since their initial recognition. This calculation is also based on a forward-looking assessment that considers a number of economic scenarios in order to recognise the probability of losses associated with the predicted macro-economic forecasts.

For financial instruments in Stage 3, the same treatment is applied as for those considered to be credit impaired in accordance with IAS 39. Exposures below the materiality threshold obtain collective provisions using a PD of 100%. Financial instruments will be transferred out of Stage 3 if they no longer meet the criteria of credit-impaired after a probation period. Special treatment applies for purchased or originated credit-impaired financial instruments (POCI), where only the cumulative changes in the lifetime of expected losses since initial recognition is recognised as a loss allowance.

The calculation of collective provisions is performed by multiplying the EAD (exposure at default) at the end of each month with an appropriate PD and LGD (loss-given default). EAD is determined as the sum of on-balance exposure and off-balance exposure multiplied by the CCF (credit conversion factor). The obtained result for each month is discounted to the present time. For Stage 1 exposures ECL, only takes a 12-month period into account, while for Stage 2 all potential losses until maturity date are included.

For the purpose of estimating the LGD parameter, NLB uses collateral HC (hair-cut) at the level of each type of collateral and URR (unsecured recovery rate) at the level of each client segment, in accordance with Bank of Slovenia Guidelines. Both parameters are calculated on the bank's historical repayment data.

Expected Life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Forward-looking information

The Group incorporates forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECL. The Group considers forward-looking information such as macroeconomic factors (e.g., unemployment rate, GDP growth, interest rates, and housing prices) and economic forecasts. The baseline scenario represents the more likely outcome resulting from the Group's normal budgeting process, while the better and worse-case scenarios represent more optimistic or pessimistic outcomes (similar as by ICAAP).

Recalculation of all parameters is performed annually or more frequently if the macro environment changes more than it was incorporated in previous forecasts. In such a case all the parameters are recalculated according to new forecasts.

Presentation of effects at transition to IFRS 9 as at 1 January 2018

An adjustment arising from the adoption of IFRS 9 was recognised in retained earnings and other comprehensive income as at 1 January 2018. Due to the transition to IFRS 9 requirements, shareholders equity on NLB Group increased by EUR 43.8 million and EUR 27.7 million for NLB. The Tier 1 capital ratio for NLB Group increased by 0.4 percentage points (as at 1 January 2018). NLB Group will not apply transitional arrangements at the transition to the expected credit loss model in accordance with Regulation (EU) 2017/2395. A summary of the effects of the transition to IFRS 9 as at 1 January 2018 are presented below:

in EUR thousand

	NLB Group	NLB
Impact on equity due to transition to IFRS 9 - details		
Changed methodology for impairments and provisions	58,160	37,319
Remeasurement of loans to fair value	36	(687)
Recognition of modification loss	(1,049)	(1,049)
Reclassification and remeasurement of securities	(7,504)	(5,267)
Income tax on transition	(3,529)	(2,650)
Total impact	**46,114**	**27,666**
Minority share	(2,281)	-
Total impact attributable to the owners of the parent	**43,833**	**27,666**

The following table shows the original measurement categories in accordance with IAS 39, and the new measurement categories under IFRS 9 for the financial assets as at 1 January 2018.

in EUR thousand

			NLB Group		NLB	
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets - 1 January 2018						
Cash, cash balnaces at central banks, and other demand deposits at banks	Loans and receivables	Amortised cost	1,256,481	1,255,824	570,010	569,943
Loans and advances - debt securities	Loans and receivables	Amortised cost	82,133	79,880	82,133	79,880
Loans and advances to banks	Loans and receivables	Amortised cost	510,107	509,970	462,322	461,830
Loans and advances to customers	Loans and receivables	Amortised cost	6,887,300	6,956,362	4,556,105	4,594,286
Loans and advances to customers	Loans and receivables	FVTPL mandatory	25,033	24,649	31,372	30,055
Loans and advances - other financial assets	Loans and receivables	Amortised cost	66,077	67,046	38,389	38,915
Trading assets	FVTPL	FVTPL	72,189	72,189	72,180	72,180
Financial assets designated at fair value through profit or loss	FVTPL designated	FVTPL mandatory	5,003	5,003	634	634
Available-for-sale financila assets - debt instruments	AFS	FVOCI	1,604,940	1,604,940	1,238,977	1,238,977
Available-for-sale financila assets - debt instruments	AFS	Amortised cost	618,376	612,317	491,936	488,992
Available-for-sale financila assets - equity instruments	AFS	FVTPL mandatory	1,752	1,752	550	550
Available-for-sale financila assets - equity instruments	AFS	FVOCI designated	51,425	51,425	46,299	46,299
Held-to-maturity financila assets	HTM	Amortised cost	609,712	609,216	609,712	609,216
Total			**11,790,528**	**11,850,573**	**8,200,619**	**8,231,757**

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

in EUR thousand

NLB Group	Ref	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Amortised Cost					
Cash, cash balances at central banks, and other demand deposits at banks					
Opening balance		1,256,481			
Remeasurement: ECL allowance				(657)	
Closing balance					1,255,824
Loans and advances to banks					
Opening balance		510,107			
Remeasurement: ECL allowance				(137)	
Closing balance					509,970
Loans and advances to customers					
Opening balance		6,912,333			
Subtraction: to financial assets FVTPL (mandatory)	(A)		(25,033)		
Remeasurement: ECL allowance				76,471	
Remeasurement: modifications				(7,409)	
Closing balance					6,956,362
Other financial assets					
Opening balance		66,077			
Remeasurement: ECL allowance				838	
Remeasurement: other adjustments				131	
Closing balance					67,046
Debt securities					
Opening balance		82,133			
Addition: from financial assets available-for-sale	(B)		618,376		
Addition: from financial assets held-to-maturity	(C)		609,712		
Remeasurement: from fair value to amortised cost				(4,476)	
Remeasurement: ECL allowance				(2,096)	
Remeasurement: reclassified bonds	(D)			(2,236)	
Closing balance					1,301,413
Held-to-maturity investments					
Opening balance		609,712			
Subtraction: to debt securities - amortised cost	(C)		(609,712)		
Closing balance					0
Total financial assets measured at amortised cost		**9,436,843**			**10,090,615**
Fair value through other comprehensive income (FVOCI)					
Financial assets available for sale					
Opening balance		2,276,493			
Subtraction: to FVOCI - debt instruments	(E)		(1,604,940)		
Subtraction: to FVOCI - equity instruments	(F)		(51,425)		
Subtraction: to amortised cost - debt securities	(B)		(618,376)		
Subtraction: to FVTPL (mandatory)	(G)		(1,752)		
Closing balance					0
FVOCI - debt instruments					
Opening balance		0			
Addition: from financial assets available-for-sale	(E)		1,604,940		
Closing balance					1,604,940
FVOCI - equity instruments					
Opening balance		0			
Addition: from financial assets available-for-sale	(F)		51,425		
Closing balance					51,425
Total financial assets measured at fair value through other comprehensive income		**2,276,493**			**1,656,365**
Fair value through profit and loss (FVTPL)					
Trading assets					
Opening balance and closing balance		72,189			72,189
Financial assets FVTPL (designated)					
Opening balance		5,003			
Subtraction: to financial assets FVTPL (mandatory)	(H)		(5,003)		
Closing balance					0
Financial assets FVTPL (mandatory)					
Opening balance		0			
Addition: from financial assets FVTPL (designated)	(H)		5,003		
Addition: from financial assets available-for-sale	(G)		1,752		
Addition: from loans and advances to customers	(A)		25,033		
Remeasurement: from amortised cost to fair value				(384)	
Closing balance					31,404
Total financial assets measured at fair value through profit and loss		**77,192**			**103,593**

in EUR thousand

NLB	Ref	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Amortised Cost					
Cash, cash balances at central banks, and other demand deposits at banks					
Opening balance		570,010			
Remeasurement: ECL allowance				(67)	
Closing balance					569,943
Loans and advances to banks					
Opening balance		462,322			
Remeasurement: ECL allowance				(492)	
Closing balance					461,830
Loans and advances to customers					
Opening balance		4,587,477			
Subtraction: to financial assets FVTPL (mandatory)	(A)		(31,372)		
Remeasurement: ECL allowance				45,590	
Remeasurement: modifications				(7,409)	
Closing balance					4,594,286
Other financial assets					
Opening balance		38,389			
Remeasurement: ECL allowance				526	
Closing balance					38,915
Debt securities					
Opening balance		82,133			
Addition: from financial assets available-for-sale	(B)		491,936		
Addition: from financial assets held-to-maturity	(C)		609,712		
Remeasurement: from fair value to amortised cost				(2,232)	
Remeasurement: ECL allowance				(1,225)	
Remeasurement: reclassified bonds	(D)			(2,236)	
Closing balance					1,178,088
Held-to-maturity investments					
Opening balance		609,712			
Subtraction: to debt securities - amortised cost	(C)		(609,712)		
Closing balance					0
Total financial assets measured at amortised cost		**6,350,043**			**6,843,062**
Fair value through other comprehensive income (FVOCI)					
Financial assets available for sale					
Opening balance		1,777,762			
Subtraction: to FVOCI - debt instruments	(E)		(1,238,977)		
Subtraction: to FVOCI - equity instruments	(F)		(46,299)		
Subtraction: to amortised cost - debt securities	(B)		(491,936)		
Subtraction: to FVTPL (mandatory)	(G)		(550)		
Closing balance					0
FVOCI - debt instruments					
Opening balance		0			
Addition: from financial assets available-for-sale	(E)		1,238,977		
Closing balance					1,238,977
FVOCI - equity instruments					
Opening balance		0			
Addition: from financial assets available-for-sale	(F)		46,299		
Closing balance					46,299
Total financial assets measured at fair value through other comprehensive income		**1,777,762**			**1,285,276**
Fair value through profit and loss (FVTPL)					
Trading assets					
Opening balance and closing balance		72,180			72,180
Financial assets FVTPL (designated)					
Opening balance		634			
Subtraction: to financial assets FVTPL (mandatory)	(H)		(634)		
Closing balance					0
Financial assets FVTPL (mandatory)					
Opening balance		0			
Addition: from financial assets FVTPL (designated)	(H)		634		
Addition: from financial assets available-for-sale	(G)		550		
Addition: from loans and advances to customers	(A)		31,372		
Remeasurement: from amortised cost to fair value				(1,317)	
Closing balance					31,239
Total financial assets measured at fair value through profit and loss		**72,814**			**103,419**

(A) Certain loans and advances to customers that were under IAS 39 classified as Loans and advances measured at amortised costs, under IFRS 9 meet the criteria for mandatory measurement at FVTPL because the contractual cash flows of these assets are not solely payments of principal and interest on the principal outstanding.

(B) Certain debt securities held by the Group may be sold, but such sales are not expected to be more than infrequent or significant. These securities are held within a business model whose objective is to hold assets to collect the contractual cash flows, and are therefore measured at amortised cost under IFRS 9.

(C) Debt instruments previously classified as held to maturity have been reclassified to amortised cost under IFRS 9, as their previous category under IAS 39 was diminished.

(D) During the year 2009 NLB Group reclassified certain bonds from the trading category to loans and advances, since it had a positive intent and ability to hold them for the foreseeable future or until maturity, rather than trade in the short term. The fair value of reclassified bonds on the date of reclassification became their new amortised cost. At transition to IFRS 9, NLB Group recalculated amortised cost of these securities as if they had been measured at amortised cost since their initial recognition.

(E) The Group holds certain debt securities to meet everyday liquidity needs. Under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and are therefore measured at fair falue through other comprehensive income.

(F) Certain equity investments held by the Group have been designated under IFRS 9 as at FVOCI, because they are not strategic and the Group can't control them. The changes in fair value of such investments will no longer be recognised in profit or loss, not even in the case of disposal. Before the adoption of IFRS 9, these investments were classified as available for sale.

(G) For certain equity investments, management didn't make an irrevocable election at initial recognition that subsequent changes in fair value would be measured at fair value through other comprehensive income. These assets are, in accordance with IFRS 9, classified as mandatorily measured at FVTPL.

(H) Before the adoption of IFRS 9, certain investments in funds were managed and evaluated on a fair value basis. Under IFRS 9, these investments are part of an "other" business model, and so required to be classified as FVTPL. Additionally, some equity investments were designated at FVTPL in order to reduce accounting mismatch that would otherwise arise. Under IFRS 9, these investments are mandatorily measured at FVTPL.

The following table reconciles:

- the closing balance of the loan loss allowance for credit losses for financial assets in accordance with IAS 39 and provisions for credit losses for loan commitments and financial guarantee contracts in accordance with IAS 37 as at 31 December 2017; to
- the opening balance of the loan loss allowance determined in accordance with IFRS 9 as at 1 Januar 2018.

in EUR thousand

Measurement category	NLB Group 31 December 2017 Loan loss allowance under IAS 39/ Provision under IAS 37	Interest loss allowance 31 December 2017	Reclassification	Remeasurement	1 January 2018 Loan loss allowance under IFRS 9
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9					
Cash, cash balnaces at central banks, and other demand deposits at banks	-	-	-	657	657
Loans and advances - debt securities	-	-	-	17	17
Loans and advances to banks	576	-	-	137	713
Loans and advances to customers	646,752	7,347	(27,737)	(76,471)	549,891
Loans and advances - other financial assets	11,705	1	-	(838)	10,868
Held to maturity securities under IAS 39/financial assets at amortised cost under IFRS 9	73	-	-	496	569
Available for sale debt investment securities under IAS 39/financial assets at amortised cost under IFRS 9	-	-	-	1,583	1,583
Available for sale debt investment securities under IAS 39/debt financial assets at FVOCI under IFRS 9	-	-	-	4,487	4,487
Loan commitments and financial guarantee contract issued	36,915	-	(5,435)	10,785	42,265
Total	**696,021**	**7,348**	**(33,172)**	**(59,147)**	**611,050**

in EUR thousand

Measurement category	NLB 31 December 2017 Loan loss allowance under IAS 39/ Provision under IAS 37	Interest loss allowance 31 December 2017	Reclassification	Remeasurement	1 January 2018 Loan loss allowance under IFRS 9
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9					
Cash, cash balnaces at central banks, and other demand deposits at banks	-	-	-	67	67
Loans and advances - debt securities	-	-	-	17	17
Loans and advances to banks	-	-	-	492	492
Loans and advances to customers	317,063	6,738	(25,753)	(45,590)	252,458
Loans and advances - other financial assets	3,191	1	-	(526)	2,666
Held to maturity securities under IAS 39/financial assets at amortised cost under IFRS 9	73	-	-	496	569
Available for sale debt investment securities under IAS 39/financial assets at amortised cost under IFRS 9	-	-	-	712	712
Available for sale debt investment securities under IAS 39/debt financial assets at FVOCI under IFRS 9	-	-	-	2,190	2,190
Loan commitments and financial guarantee contract issued	34,257	-	(5,037)	1,452	30,672
Total	**354,584**	**6,739**	**(30,790)**	**(40,690)**	**289,843**

For financial assets that have been reclassified to the amortised cost category, the following table shows their fair value as at 30 June 2018, and the fair value gain or loss that would have been recognised if these financial assets had not been reclassified as part of the transition to IFRS 9.

in EUR thousand

From available-for-sale financial assets under IAS 39	NLB Group	NLB
Fair value as at 30 June 2018	452,260	374,444
Fair value gain/loss that would have been recognised during the year in OCI if the financial assets had not been reclassified	1,982	1,495

Other accounting standards and amendments to existing standards that were endorsed by the EU, and adopted by NLB Group from 1 January 2018, but do not have material effects on the NLB Group's financial statements are:

- IFRS 15 (new standard) – Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018);

- IFRS 15 (clarification) – Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018);

- IFRS 4 (amendment) – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018);

- IFRS 2 (amendment) – Classification and Measurement of share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);

- Annual Improvements to IFRS's' 2014–2016 Cycle. The improvements comprise a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 January 2017 or 1 January 2018;

- IAS 40 (amendment) – Investment Property (effective for annual periods beginning on or after 1 January 2018);

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018).

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

- IFRS 16 (new standard) – Leases (effective for annual periods beginning on or after 1 January 2019);

- IFRS 9 (amendment) – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019).

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

- IFRS 17 (new standard) – Insurance Contracts (effective for annual periods beginning on or after 1 January 2021);

- IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019);

- Annual Improvements to IFRS's' 2015–2017 Cycle. The improvements comprise a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 January 2019;

- IAS 28 (amendment) – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);

- IAS 19 (amendment) – Plan Amendment, Curtailment, or Settlement (effective for annual periods beginning on or after 1 January 2019).

2.3. Comparative amounts

Compared to the presentation of the financial statements for the year ended 31 December 2017, the schemes for presentation of the Income Statement and Statement of Financial Position changed due to implementation of IFRS 9, and due to changed schemes prescribed by the Bank of Slovenia. Since comparative figures have not been restated on transition to IFRS 9, the presentation of financial statements in these condensed financial statements is a combination of classification and measurement categories as required by IAS 39 (for balances as at 31 December 2017, and effects for six months ended 30 June 2017), and classification and IFRS 9 (for balances as at 1 January 2018 and 30 June 2018, and effects for six months ended 30 June 2018). Due to implementation of IFRS 9 also IAS 1 changed and requires "interest revenue calculated using the effective interest method" to be shown separately. Comparative amounts in the Income statement have been adjusted to reflect this change.

Changes of the schemes prescribed by the Bank of Slovenia relate to presentation of effects related to investments in subsidiaries, associates, and joint ventures in the Income Statements. The comparative amounts have been adjusted to reflect these changes in presentation.

in EUR thousand

	NLB Group			NLB		
	six months ended June 2017			six months ended June 2017		
	old presentation	current presentation	change	old presentation	current presentation	change
Dividend income	142	142	-	24	42,082	42,058
Gains less losses from capital investment in subsidiaries, associates and joint ventures	2,734	-	(2,734)	42,217	-	(42,217)
Share of profit from investment in associates and joint ventures (accounted for using the equity method)	-	2,736	2,736	-	-	-
Gains less losses from non-current assets held for sale	204	202	(2)	186	345	159

More specifically, in the Income Statement for the year ended 31 December 2017 line "Gains less losses from capital investments in subsidiaries, associates, and joint ventures" for NLB d.d. included dividends and effects from sale of investments in subsidiaries, associates, and joint ventures, and effects from the equity method from investments in associates and joint ventures. In these interim financial statements the dividends from subsidiaries, associates, and joint ventures for NLB d.d. are included in line "Dividend income" and the effects from sale of investments in subsidiaries, associates, and joint ventures are included in line "Net gain or losses from non-current assets held for sale".

3. Changes in NLB Group

Six months ended 30 June 2018

Other changes

- In March 2018, NLB Group sold its core subsidiary NLB Nov Penziski Fond, Skopje;
- NLB Interfinanz, Praga – v likvidaci and NLB Interfinanz, Belgrade – u likvidaciji are formally in liquidation;
- S-REAM, poslovanje z nepremičninami, d.o.o. Ljubljana was established and will manage certain real estate in NLB Group. NLB's ownership is 100%;
- In June 2018 NLB Propria d.o.o., Ljubljana was liquidated. In accordance with a court order, the company was removed from the court register.

Changes in 2017

Capital changes

- An increase in share capital in the form of a cash contribution in the amount of EUR 10,909 thousand in NLB Banka Belgrade, REAM d.o.o. Belgrade, and REAM d.o.o. Zagreb to ensure an increase in business operations;
- An increase in share capital in the form of cash contributions in the amount of EUR 75 thousand in CBS Invest, Sarajevo to ensure capital adequacy until the end of liquidation;
- NLB acquired shares of NLB Banka, Podgorica and thereby increased its ownership from 99.36% to 99.83%. The increase in the capital investment was recognised in the amount of EUR 125 thousand;
- An increase in share capital in the form of a cash contribution in the amount of EUR 212 thousand in Prvi Faktor d.o.o., Belgrade – u likvidaciji to ensure capital adequacy until the end of the liquidation. Now NLB has directly 5% ownership in the company.

Other changes

- Kreditni biro SISBON was liquidated. In accordance with a court order, the company was removed from the court register;
- SPV 2 d.o.o., Novi Sad was established and will manage certain real estate in NLB Group. NLB's ownership is 100%. In August 2017 headquarters of the company was moved to Belgrade, and so the company is now called SPV 2 d.o.o., Belgrade;
- In July 2017, NLB sold its non-core subsidiary NLB Factoring – "v likvidaci," Brno;
- NLB Prospera Plus d.o.o., Ljubljana – v likvidaciji and NLB Leasing d.o.o. – v likvidaciji, Ljubljana are formally in liquidation.

4. Notes to the condensed income statement

4.1. Interest income and expenses

in EUR thousand

	NLB Group			NLB		
	six months ended			six months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Interest and similar income						
Interest income, using the effective interest method	171,503	174,867	-2%	85,366	89,429	-5%
Loans and advances to customers at amortised cost	148,298	-	-	68,149	-	-
Securities measured at amortised cost	11,338	-	-	9,377	-	-
Financial assets measured at fair value through other comprehensive income	10,167	-	-	6,304	-	-
Loans and advances to banks measured at amortised cost	1,147	-	-	1,265	-	-
Loans and advances to customers	-	151,439	-	-	72,150	-
Available-for-sale financial assets	-	13,829	-	-	7,435	-
Held-to-maturity investments	-	8,537	-	-	8,537	-
Loans and advances to banks and central banks	-	676	-	-	1,126	-
Deposits with banks and central banks	553	386	43%	271	181	50%
Interest income, not using the effective interest method	3,625	3,879	-7%	3,663	3,879	-6%
Financial assets held for trading	2,848	3,879	-27%	2,848	3,879	-27%
Non-trading financial assets mandatorily at fair value through profit or loss	777	-	-	815	-	-
Total	**175,128**	**178,746**	-2%	**89,029**	**93,308**	-5%
Interest and similar expenses						
Due to customers	12,924	15,482	-17%	3,110	4,907	-37%
Derivatives - hedge accounting	4,021	2,680	50%	4,021	2,680	50%
Financial liabilities held for trading	2,502	3,219	-22%	2,502	3,219	-22%
Borrowings from banks and central banks	731	1,244	-41%	564	939	-40%
Subordinated liabilities	787	814	-3%	-	-	-
Borrowings from other customers	637	846	-25%	-	-	-
Deposits from banks and central banks	106	79	34%	112	61	84%
Debt securities in issue	-	4,309	-100%	-	4,309	-100%
Other financial liabilities	1,741	1,506	16%	1,500	1,263	19%
Total	**23,449**	**30,179**	-22%	**11,809**	**17,378**	-32%
Net interest income	**151,679**	**148,567**	2%	**77,220**	**75,930**	2%

in EUR thousand

not subject to review	NLB Group			NLB		
	three months ended			three months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Interest and similar income						
Interest income, using the effective interest method	86,231	86,018	0%	42,989	43,124	0%
Loans and advances to customers at amortised cost	74,612	-	-	34,268	-	-
Securities measured at amortised cost	5,616	-	-	4,668	-	-
Financial assets measured at fair value through other comprehensive income	5,116	-	-	3,233	-	-
Loans and advances to banks measured at amortised cost	611	-	-	684	-	-
Loans and advances to customers	-	74,834	-	-	34,986	-
Available-for-sale financial assets	-	6,316	-	-	3,128	-
Held-to-maturity investments	-	4,281	-	-	4,281	-
Loans and advances to banks and central banks	-	374	-	-	625	-
Deposits with banks and central banks	276	213	30%	136	104	31%
Interest income, not using the effective interest method	2,027	2,371	-15%	2,038	2,371	-14%
Financial assets held for trading	1,334	2,371	-44%	1,334	2,371	-44%
Non-trading financial assets mandatorily at fair value through profit or loss	693	-	-	704	-	-
Total	**88,258**	**88,389**	0%	**45,027**	**45,495**	-1%
Interest and similar expenses						
Due to customers	6,369	7,400	-14%	1,468	2,238	-34%
Derivatives - hedge accounting	2,071	1,448	43%	2,071	1,448	43%
Financial liabilities held for trading	1,157	1,915	-40%	1,157	1,915	-40%
Borrowings from banks and central banks	328	571	-43%	251	435	-42%
Subordinated liabilities	396	421	-6%	-	-	-
Borrowings from other customers	304	423	-28%	-	-	-
Deposits from banks and central banks	49	38	29%	62	34	82%
Debt securities in issue	-	2,175	-100%	-	2,175	-100%
Other financial liabilities	910	762	19%	791	657	20%
Total	**11,584**	**15,153**	-24%	**5,800**	**8,902**	-35%
Net interest income	**76,674**	**73,236**	5%	**39,227**	**36,593**	7%

4.2. Dividend income

in EUR thousand

	NLB Group			NLB		
	six months ended			six months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Financial assets measured at fair value through other comprehensive income	97	-	-	11	-	-
Investments in subsidiaries, associates, and joint ventures	-	-	-	49,669	42,058	18%
Available-for-sale financial assets	-	142	-	-	24	-
Total	**97**	**142**	-32%	**49,680**	**42,082**	18%

in EUR thousand

	NLB Group			NLB		
not subject to review	three months ended			three months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Financial assets measured at fair value through other comprehensive income	86	-	-	6	-	-
Investments in subsidiaries, associates, and joint ventures	-	-	-	41,139	30,861	33%
Available-for-sale financial assets	-	133	-	-	19	-
Total	**86**	**133**	-35%	**41,145**	**30,880**	33%

4.3. Fee and commission income and expenses

in EUR thousand

	NLB Group			NLB		
	six months ended			six months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Fee and commission income						
Credit cards and ATMs	31,980	28,848	11%	20,424	18,830	8%
Payments	27,683	27,921	-1%	13,805	14,138	-2%
Customer transaction accounts	23,184	21,189	9%	17,222	16,147	7%
Investment funds	8,198	8,282	-1%	2,389	2,437	-2%
Guarantees	5,281	5,544	-5%	3,438	3,651	-6%
Investment banking	4,687	3,656	28%	3,948	2,964	33%
Agency of insurance products	2,122	2,087	2%	2,117	2,079	2%
Other services	2,862	3,103	-8%	1,933	2,213	-13%
Total	**105,997**	**100,630**	5%	**65,276**	**62,459**	5%
Fee and commission expenses						
Credit cards and ATMs	19,735	18,009	10%	12,079	10,970	10%
Payments	2,803	2,675	5%	395	411	-4%
Investment banking	1,944	1,765	10%	1,319	1,235	7%
Insurance for holders of personal accounts and golden cards	725	928	-22%	607	638	-5%
Guarantees	115	121	-5%	23	89	-74%
Other services	1,116	1,379	-19%	569	562	1%
Total	**26,438**	**24,877**	6%	**14,992**	**13,905**	8%
Net fee and commission income	**79,559**	**75,753**	5%	**50,284**	**48,554**	4%

in EUR thousand

	NLB Group			NLB		
not subject to review	three months ended			three months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Fee and commission income						
Credit cards and ATMs	16,675	15,290	9%	10,475	9,944	5%
Payments	14,303	14,413	-1%	6,981	7,265	-4%
Customer transaction accounts	12,008	10,852	11%	8,848	8,281	7%
Investment funds	3,854	4,166	-7%	1,271	1,215	5%
Guarantees	2,662	2,764	-4%	1,748	1,823	-4%
Investment banking	2,156	2,050	5%	1,788	1,699	5%
Agency of insurance products	1,084	1,024	6%	1,081	1,044	4%
Other services	1,648	1,260	31%	1,183	748	58%
Total	**54,390**	**51,819**	5%	**33,375**	**32,019**	4%
Fee and commission expenses						
Credit cards and ATMs	10,655	9,691	10%	6,392	5,957	7%
Payments	1,494	1,391	7%	196	192	2%
Investment banking	1,088	1,155	-6%	769	882	-13%
Insurance for holders of personal accounts and golden cards	324	450	-28%	251	280	-10%
Guarantees	77	63	22%	(2)	50	-
Other services	525	717	-27%	295	304	-3%
Total	**14,163**	**13,467**	5%	**7,901**	**7,665**	3%
Net fee and commission income	**40,227**	**38,352**	5%	**25,474**	**24,354**	5%

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

in EUR thousand

	NLB Group		NLB	
	six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017
Financial assets measured at fair value through other comprehensive income	317	-	288	-
Financial assets measured at amortised cost	(6)	-	(6)	-
Available-for-sale financial assets	-	11,814	-	11,420
Financial liabilities measured at amortised cost	254	-	-	-
Total	**565**	**11,814**	**282**	**11,420**

in EUR thousand

not subject to review	NLB Group		NLB	
	three months ended		three months ended	
	June 2018	June 2017	June 2018	June 2018
Financial assets measured at fair value through other comprehensive income	162	-	133	-
Financial assets measured at amortised cost	(3)	-	(3)	-
Available-for-sale financial assets	-	120	-	128
Financial liabilities measured at amortised cost	-	-	-	-
Total	**159**	**120**	**130**	**128**

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

in EUR thousand

	NLB Group		NLB	
	six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017
Foreign exchange trading	4,823	4,973	1,704	1,984
Derivatives	(592)	717	(571)	1,087
Debt instruments	(313)	(10)	(313)	(10)
Total	**3,918**	**5,680**	**820**	**3,061**

in EUR thousand

not subject to review	NLB Group		NLB	
	three months ended		three months ended	
	June 2018	June 2017	June 2018	June 2018
Foreign exchange trading	2,592	2,788	991	1,086
Derivatives	(216)	468	(261)	798
Debt instruments	(44)	(92)	(44)	(92)
Total	**2,332**	**3,164**	**686**	**1,792**

4.6. Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss

in EUR thousand

	NLB Group		NLB	
	six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017
Equity securities	75	-	142	-
Loans and advances to customers	1,566	-	2,446	-
Total	**1,641**	**-**	**2,588**	**-**

in EUR thousand

not subject to review	NLB Group		NLB	
	three months ended		three months ended	
	June 2018	June 2017	June 2018	June 2017
Equity securities	187	-	137	-
Loans and advances to customers	834	-	1,496	-
Total	**1,021**	**-**	**1,633**	**-**

4.7. Other operating income

in EUR thousand

	NLB Group			NLB		
	six months ended			six months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Income from non-banking services	4,578	6,112	-25%	2,722	4,078	-33%
Rental income from investment property	2,086	2,891	-28%	246	185	33%
Other operating income	1,646	3,887	-58%	842	2,769	-70%
Total	**8,310**	**12,890**	-36%	**3,810**	**7,032**	-46%

in EUR thousand

not subject to review	NLB Group			NLB		
	three months ended			three months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Income from non-banking services	2,006	3,183	-37%	1,408	2,202	-36%
Rental income from investment property	1,158	1,457	-21%	140	95	47%
Other operating income	830	850	-2%	547	435	26%
Total	**3,994**	**5,490**	-27%	**2,095**	**2,732**	-23%

4.8. Other operating expenses

in EUR thousand

	NLB Group			NLB		
	six months ended			six months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Deposit guarantee	9,699	9,166	6%	5,746	4,731	21%
Single Resolution Fund	2,506	2,590	-3%	2,506	2,590	-3%
Other taxes and compulsory public levies	1,552	1,450	7%	486	574	-15%
Membership fees and similar fees	372	522	-29%	150	322	-53%
Expenses related to issued service guarantees	168	183	-8%	168	183	-8%
Other operating expenses	2,468	1,190	107%	1,304	430	203%
Total	**16,765**	**15,101**	11%	**10,360**	**8,830**	17%

in EUR thousand

not subject to review	NLB Group			NLB		
	three months ended			three months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Deposit guarantee	7,739	6,944	11%	5,746	4,731	21%
Single Resolution Fund	2,506	2,590	-3%	2,506	2,590	-3%
Other taxes and compulsory public levies	722	822	-12%	318	296	7%
Membership fees and similar fees	174	294	-41%	71	183	-61%
Expenses related to issued service guarantees	96	91	5%	96	91	5%
Other operating expenses	1,831	599	206%	1,000	235	326%
Total	**13,068**	**11,340**	15%	**9,737**	**8,126**	20%

4.9. Administrative expenses

in EUR thousand

	NLB Group			NLB		
	six months ended			six months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Employee costs	80,880	80,414	1%	50,426	50,441	0%
Other general and administrative expenses	45,443	44,854	1%	26,677	26,593	0%
Total	**126,323**	**125,268**	1%	**77,103**	**77,034**	0%

in EUR thousand

not subject to review	NLB Group			NLB		
	three months ended			three months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Employee costs	40,592	40,784	0%	25,254	25,375	0%
Other general and administrative expenses	23,127	23,859	-3%	13,550	14,295	-5%
Total	**63,719**	**64,643**	-1%	**38,804**	**39,670**	-2%

4.10. Provisions for other liabilities and charges

in EUR thousand

	NLB Group		NLB	
	six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017
Guarantees and commitments	(3,923)	(5,995)	(654)	(4,447)
Provisions for legal issues	551	717	26	65
Provisions for restructuring	(6)	17	-	-
Other provisions	-	32	-	-
Total	**(3,378)**	**(5,229)**	**(628)**	**(4,382)**

in EUR thousand

not subject to review	NLB Group		NLB	
	three months ended		three months ended	
	June 2018	June 2017	June 2018	June 2017
Guarantees and commitments	(1,675)	(3,659)	(1,277)	(3,324)
Provisions for legal issues	472	682	26	65
Provisions for restructuring	-	17	-	-
Other provisions	-	32	-	-
Total	**(1,203)**	**(2,928)**	**(1,251)**	**(3,259)**

4.11. Impairment charge

in EUR thousand

	NLB Group six months ended June 2018	NLB Group six months ended June 2017	NLB six months ended June 2018	NLB six months ended June 2017
Impairment of financial assets				
Cash balances at central banks, and other demand deposits at banks	(12)	-	9	-
Loans and advances to banks measured at amortised cost (note 5.8.a)	(385)	-	(226)	-
Loans and advances to customers measured at amortised cost (note 5.8.a)	(12,071)	-	(10,538)	-
Debt securities measured at fair value through other comprehensive income (note 5.8.b)	559	-	302	-
Debt securities measured at amortised cost (note 5.8.b)	279	-	(78)	-
Other financial assets measured at amortised cost (note 5.8.a)	(52)	-	(277)	-
Loans and advances to customers (note 5.8.d)	-	(22,137)	-	(11,991)
Loans and advances to banks (note 5.8.d)	-	(129)	-	-
Held-to-maturity financial assets	-	(11)	-	(11)
Available-for-sale financial assets	-	11	-	-
Other financial assets (note 5.8.d)	-	279	-	407
Impairment of investments in subsidiaries, associates, and joint ventures				
Investments in subsidiaries	-	-	(376)	75
Impairment of other assets				
Property and equipment	120	-	-	-
Other assets	569	1,596	(158)	3
Total	**(10,993)**	**(20,391)**	**(11,342)**	**(11,517)**

in EUR thousand

not subject to review	NLB Group three months ended June 2018	NLB Group three months ended June 2017	NLB three months ended June 2018	NLB three months ended June 2017
Impairment of financial assets				
Cash balances at central banks, and other demand deposits at banks	(64)	-	(3)	-
Loans and advances to banks measured at amortised cost (note 5.8.a)	(440)	-	(166)	-
Loans and advances to customers measured at amortised cost (note 5.8.a)	(7,896)	-	(11,716)	-
Debt securities measured at fair value through other comprehensive income (note 5.8.b)	407	-	136	-
Debt securities measured at amortised cost (note 5.8.b)	90	-	93	-
Other financial assets measured at amortised cost (note 5.8.a)	(2,767)	-	(229)	-
Loans and advances to customers (note 5.8.d)	-	912	-	(603)
Loans and advances to banks (note 5.8.d)	-	182	-	-
Held-to-maturity financial assets	-	-	-	-
Available-for-sale financial assets	-	11	-	-
Other financial assets (note 5.8.d)	-	(45)		39
Impairment of investments in subsidiaries, associates, and joint ventures				
Investments in subsidiaries	-	-	(376)	-
Impairment of other assets				
Property and equipment	120	-	-	-
Other assets	190	766	(158)	3
Total	**(10,360)**	**1,826**	**(12,419)**	**(561)**

NLB re-calculated risk parameters in the second quarter of 2018. Risk parameters were re-calculated by including the 2017 historical data. As 2017 was a favourable period in terms of macroeconomic movements, the impact on through-the-cycle (TTC) risk parameters was mainly favourable, which explains the release of collective provisions in the amount of EUR 1.6 million on the NLB Group level. The effect of recalculation of PDs for collective provisions in 2017 in the segment of corporate clients amounted to approximately EUR 21 million. The volume of the impact in respective years are not directly comparable due to the change of the models for estimating the risk parameters and increased data quality with the implementation of the IFRS 9. In addition, IFRS 9 calculation based on a one year or lifetime ECL varies significantly from the previous methodology.

4.12. Gains less losses from non-current assets held for sale

in EUR thousand

	NLB Group		NLB	
	six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017
Gains less losses on derecognition of subsidiaries	12,178	(2)	8,840	159
Gains less losses from property and equipment	(31)	204	(31)	186
Total	**12,147**	**202**	**8,809**	**345**

in EUR thousand

not subject to review	NLB Group		NLB	
	three months ended		three months ended	
	June 2018	June 2017	June 2018	June 2017
Gains less losses on derecognition of subsidiaries	-	(2)	-	159
Gains less losses from property and equipment	(51)	81	(51)	63
Total	**(51)**	**79**	**(51)**	**222**

Gains less losses on derecognition of subsidiaries present the gain from the sale of NLB Nov Penziski Fond, Skopje (note 5.13).

4.13. Income tax

in EUR thousand

	NLB Group			NLB		
	six months ended			six months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Current income tax	11,167	7,980	40%	6,094	3,043	100%
Deferred tax (note 5.12.)	(564)	113	-	111	138	-20%
Total	**10,603**	**8,093**	31%	**6,205**	**3,181**	95%

in EUR thousand

not subject to review	NLB Group			NLB		
	three months ended			three months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Current income tax	6,246	3,204	95%	4,531	1,003	352%
Deferred tax (note 5.12.)	100	82	22%	107	(84)	-227%
Total	**6,346**	**3,286**	93%	**4,638**	**919**	405%

5. Notes to the condensed statement of financial position

5.1. Cash, cash balances at central banks, and other demand deposits at banks

in EUR thousand

	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Balances and obligatory reserves with central banks	799,797	798,758	0%	406,245	350,804	16%
Cash	274,765	269,696	2%	143,329	143,726	0%
Demand deposits at banks	224,710	188,027	20%	111,352	75,480	48%
	1,299,272	**1,256,481**	3%	**660,926**	**570,010**	16%
Allowance for impairment	(541)	-	-	(75)	-	-
Total	**1,298,731**	**1,256,481**	3%	**660,851**	**570,010**	16%

5.2. Financial instruments held for trading

a) Trading assets

in EUR thousand

	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Derivatives, excluding hedging instruments						
Swap contracts	11,906	11,739	1%	11,907	11,734	1%
Forward contracts	2,356	439	437%	2,356	435	442%
Options	386	847	-54%	386	847	-54%
Total derivatives	**14,648**	**13,025**	12%	**14,649**	**13,016**	13%
Securities						
Treasury bills	51,092	55,047	-7%	51,092	55,047	-7%
Bonds	1,718	4,117	-58%	1,718	4,117	-58%
Total securities	**52,810**	**59,164**	-11%	**52,810**	**59,164**	-11%
Total	**67,458**	**72,189**	-7%	**67,459**	**72,180**	-7%

b) Trading liabilities

in EUR thousand

	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Derivatives, excluding hedging instruments						
Swap contracts	9,071	8,855	2%	9,071	8,751	4%
Forward contracts	2,280	371	515%	2,276	371	513%
Options	158	276	-43%	158	276	-43%
Total	**11,509**	**9,502**	21%	**11,505**	**9,398**	22%

5.3. Non-trading financial instruments measured at fair value through profit or loss

a) Financial instruments mandatorily at fair value through profit or loss

in EUR thousand

	NLB Group	NLB
	30 Jun 2018	30 Jun 2018
Assets		
Equity securities	4,641	635
Debt securities	101	-
Loans and advances to companies	21,010	25,111
Total	**25,752**	**25,746**
Liabilities		
Loans and advances to companies	9,264	9,152

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

in EUR thousand

	NLB Group		NLB	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Assets	-	5,003	-	634
Liabilities	-	635	-	635

5.4. Financial assets measured at fair value through other comprehensive income

in EUR thousand

	NLB Group	NLB
	30 Jun 2018	30 Jun 2018
Bonds	1,551,050	1,367,219
Commercial bills	139,741	-
Treasury bills	132,535	70,220
National Resolution Fund	44,526	44,526
Shares	8,367	2,051
Total	**1,876,219**	**1,484,016**
Allowance for impairment	(5,051)	(2,492)

5.5. Available-for-sale financial assets

in EUR thousand

	NLB Group	NLB
	31 Dec 2017	31 Dec 2017
Bonds	1,805,250	1,554,565
Commercial bills	281,877	136,279
Treasury bills	136,182	40,070
National Resolution Fund	44,514	44,514
Shares	8,670	2,334
Total	**2,276,493**	**1,777,762**

5.6. Financial assets measured at amortised cost

Analysis by type

in EUR thousand

	NLB Group	NLB
	30 Jun 2018	30 Jun 2018
Debt securities	1,265,726	1,129,743
Loans and advances to banks	453,724	448,569
Loans and advances to customers	7,037,953	4,522,241
Other financial assets	62,783	59,877
Total	**8,820,186**	**6,160,430**

a) Debt securities

in EUR thousand

	NLB Group	NLB
	30 Jun 2018	30 Jun 2018
Government	888,209	751,005
Companies	88,362	88,388
Banks	284,025	284,025
Other	7,571	7,545
	1,268,167	**1,130,963**
Allowance for impairment (note 5.8.b)	(2,441)	(1,220)
Total	**1,265,726**	**1,129,743**

b) Loans and advances to banks

in EUR thousand

	NLB Group	NLB
	30 Jun 2018	30 Jun 2018
Time deposits	450,158	420,087
Purchased receivables	1,749	1,749
Loans	1,816	26,670
Called guarantees	330	330
	454,053	**448,836**
Allowance for impairment (note 5.8.a)	(329)	(267)
Total	**453,724**	**448,569**

c) Loans and advances to customers

in EUR thousand

	NLB Group	NLB
	30 Jun 2018	30 Jun 2018
Loans	6,989,699	4,526,928
Overdrafts	314,130	171,453
Finance lease receivables	140,185	-
Credit card business	115,330	57,455
Called guarantees	8,920	7,050
	7,568,264	**4,762,886**
Allowance for impairment (note 5.8.a)	(530,311)	(240,645)
Total	**7,037,953**	**4,522,241**

d) Other financial assets

in EUR thousand

	NLB Group	NLB
	30 Jun 2018	30 Jun 2018
Receivables in the course of collection	17,940	15,451
Credit card receivables	22,212	18,754
Debtors	6,919	340
Fees and commissions	5,184	3,035
Receivables to brokerage firms and others for the sale of securities and custody services	8,426	8,421
Prepayments	2,163	-
Accrued income	903	1,258
Receivables from purchase agreements for equity securities	163	163
Dividends	725	9,255
Other financial assets	9,179	5,804
	73,814	**62,481**
Allowance for impairment (note 5.8.a)	(11,031)	(2,604)
Total	**62,783**	**59,877**

5.7. Loans and advances

Analysis by type

in EUR thousand

	NLB Group	NLB
	31 Dec 2017	31 Dec 2017
Debt securities	82,133	82,133
Loans and advances to banks	510,107	462,322
Loans and advances to customers	6,912,333	4,587,477
Other financial assets	66,077	38,389
Total	**7,570,650**	**5,170,321**

a) Debt securities

in EUR thousand

NLB Group and NLB	31 Dec 2017
Companies	82,133
Total	**82,133**

b) Loans and advances to banks

in EUR thousand

	NLB Group 31 Dec 2017	NLB 31 Dec 2017
Time deposits	506,322	437,427
Purchased receivables	1,505	1,505
Loans	2,856	23,390
	510,683	**462,322**
Allowance for impairment	(576)	-
Total	**510,107**	**462,322**

c) Loans and advances to customers

in EUR thousand

	NLB Group 31 Dec 2017	NLB 31 Dec 2017
Loans	6,958,796	4,661,317
Overdrafts	305,600	176,171
Finance lease receivables	169,806	-
Credit card business	115,225	59,394
Called guarantees	9,658	7,658
	7,559,085	**4,904,540**
Allowance for impairment	(646,752)	(317,063)
Total	**6,912,333**	**4,587,477**

d) Other financial assets

in EUR thousand

	NLB Group 31 Dec 2017	NLB 31 Dec 2017
Receivables in the course of collection	13,398	10,467
Credit card receivables	24,522	19,642
Debtors	8,018	1,029
Fees and commissions	6,170	4,723
Receivables to brokerage firms and others for the sale of securities and custody services	632	627
Prepayments	2,204	-
Accrued income	178	168
Receivables from purchase agreements for equity securities	163	163
Dividends	44	44
Other financial assets	22,453	4,717
	77,782	**41,580**
Allowance for impairment	(11,705)	(3,191)
Total	**66,077**	**38,389**

5.8. Movements in allowance for the impairment and provisions

a) Movements in allowance for the impairment of loans and advances measured at amortised cost

in EUR thousand

	NLB Group						
	Banks	Customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired
Balance as at 1 January 2018	713	34,618	34,203	481,070	171	25	10,672
Exchange differences on opening balance	-	7	6	495	-	-	-
Transfers	-	11,858	1,535	(13,393)	-	-	-
Impairment (note 4.11.)	(385)	(11,423)	735	14,188	74	7	285
Write-offs	-	(41)	(6)	(23,571)	(2)	-	(201)
Exchange differences	1	12	2	16	-	-	-
Balance as at 30 June 2018	**329**	**35,031**	**36,475**	**458,805**	**243**	**32**	**10,756**
Repayment of write-offs (note 4.11.)	-	-	-	15,571	-	-	418

in EUR thousand

	NLB						
	Banks	Customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired
Balance as at 1 January 2018	492	15,812	6,316	230,330	24	5	2,637
Transfers	-	2,518	10,422	(12,940)	-	-	-
Impairment (note 4.11.)	(226)	(2,932)	(4,831)	4,034	64	(3)	80
Write-offs	-	(25)	(5)	(8,078)	(2)	-	(201)
Exchange differences	1	12	2	10	-	-	-
Balance as at 30 June 2018	**267**	**15,385**	**11,904**	**213,356**	**86**	**2**	**2,516**
Repayment of write-offs (note 4.11.)	-	-	-	6,809	-	-	418

b) Movements in allowance for the impairment of debt securities

in EUR thousand

	NLB Group			
	Debt securities measured at amortised cost	Debt securities measured ar fair value through other comprehensive income		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired
Balance as at 1 January 2018	2,169	3,689	-	798
Exchange differences on opening balance	(7)	5	-	-
Impairment (note 4.11.)	279	454	105	-
Balance as at 30 June 2018	**2,441**	**4,148**	**105**	**798**

in EUR thousand

	NLB			
	Debt securities measured at amortised cost	Debt securities measured at fair value through other comprehensive income		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired
Balance as at 1 January 2018	1,298	1,392	-	798
Impairment (note 4.11.)	(78)	302		-
Balance as at 30 June 2018	**1,220**	**1,694**	**-**	**798**

c) Movements in provisions for commitments and guarantees

in EUR thousand

	NLB Group		
	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired
Balance as at 1 January 2018	6,928	4,833	30,504
Exchange differences on opening balance	(15)	(13)	-
Transfers	1,731	(1,343)	(388)
Impairment (note 4.10.)	(1,101)	(92)	(2,730)
Balance as at 30 June 2018	**7,543**	**3,385**	**27,386**

in EUR thousand

	NLB		
	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired
Balance as at 1 January 2018	2,946	450	27,276
Transfers	108	22	(130)
Impairment (note 4.10.)	361	399	(1,414)
Balance as at 30 June 2018	**3,415**	**871**	**25,732**

d) Movements in allowance for the impairment of loans and advances to banks, loans, and advances to customers and other financial assets

in EUR thousand

	NLB Group		
	Banks	Customers	Other financial assets
Balance as at 1 January 2017	349	903,401	15,453
Exchange differences on opening balance	2	562	58
Impairment (note 4.11.)	(129)	(22,137)	279
Write-offs	-	(38,061)	(1,189)
Repayment of write-offs	35	8,048	65
Exchange differences	1	224	(11)
Other	-	(145)	-
Balance as at 30 June 2017	**258**	**851,892**	**14,655**

in EUR thousand

	NLB		
	Banks	Customers	Other financial assets
Balance as at 1 January 2017	-	504,748	3,771
Impairment (note 4.11.)	-	(11,991)	407
Write-offs	-	(18,708)	(390)
Repayment of write-offs	-	1,978	8
Exchange differences	-	(49)	-
Balance as at 30 June 2017	**-**	**475,978**	**3,796**

5.9. Held-to-maturity financial assets

in EUR thousand

NLB Group and NLB	31 Dec 2017
Bonds	609,785
	609,785
Allowance for impairment	(73)
Total	**609,712**

5.10. Investment property

in EUR thousand

	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Buildings	45,879	46,908	-2%	8,582	8,553	0%
Land	5,251	4,930	7%	684	704	-3%
Total	**51,130**	**51,838**	-1%	**9,266**	**9,257**	0%

5.11. Other assets

in EUR thousand

	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Assets, received as collateral	72,545	77,500	-6%	4,662	4,811	-3%
Inventories	5,602	8,879	-37%	378	335	13%
Deferred expenses	7,585	4,324	75%	5,179	2,886	79%
Prepayments	1,426	971	47%	432	285	52%
Claim for taxes and other dues	1,456	1,675	-13%	254	375	-32%
Total	**88,614**	**93,349**	-5%	**10,905**	**8,692**	25%

5.12. Deferred tax

in EUR thousand

	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Deferred income tax assets						
Valuation of financial instruments and capital investments	25,380	25,513	-1%	25,349	25,475	0%
Impairment provisions	973	170	472%	708	2	-
Employee benefit provisions	3,969	4,018	-1%	3,329	3,432	-3%
Depreciation and valuation of non-financial assets	1,280	976	31%	159	162	-2%
Total deferred income tax assets	**31,602**	**30,677**	3%	**29,545**	**29,071**	2%
Deferred income tax liabilities						
Valuation of financial instruments	8,794	10,077	-13%	7,814	9,067	-14%
Depreciation and valuation of non-financial assets	1,107	1,097	1%	240	246	-2%
Impairment provisions	3,301	1,996	65%	474	-	-
Total deferred income tax liabilities	**13,202**	**13,170**	0%	**8,528**	**9,313**	-8%
Net deferred income tax assets	**21,146**	**18,603**	14%	**21,017**	**19,758**	6%
Net deferred income tax liabilities	**(2,746)**	**(1,096)**	151%	**-**	**-**	-

in EUR thousand

	NLB Group		NLB	
	six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017
Included in the income statement for the current year	**564**	**(113)**	**(111)**	**(138)**
- valuation of financial instruments and capital investments	(55)	(60)	(55)	(87)
- impairment provisions	377	53	44	-
- employee benefit provisions	(49)	(47)	(103)	(46)
- depreciation and valuation of non-financial assets	291	(59)	3	(5)
Included in other comprehensive income for the current period	**626**	**3,018**	**810**	**3,049**
- valuation and impairment provisions of financial assets measured at fair value through other comprehensive income	626	-	810	-
- valuation of available-for-sale financial assets	-	3,018	-	3,049
Impact of transition on IFRS9	**(319)**	**-**	**560**	**-**

As at 30 June 2018, NLB recognised EUR 29,545 thousand deferred tax assets (31 December 2017: EUR 29,071 thousand). Unrecognised deferred tax assets amount to EUR 272,168 thousand (31 December 2017: EUR 277,325 thousand) of which EUR 199,338 thousand (31 December 2017: EUR 204,657 thousand) relates to unrecognised deferred tax assets from tax loss, and EUR 72,830 thousand (31 December 2017: EUR 72,668 thousand) to unrecognised deferred tax assets from impairments of non-strategic capital investments.

5.13. Disposal of a subsidiary

In March 2018, NLB Group completed the sale of 100% interest in NLB Nov Penziski Fond, Skopje to a third party. The details of the assets and liabilities disposed of, and disposal considerations are as follows:

in EUR thousand

Cash, cash balances at cental banks, and other demand deposits at banks	12
Financial assets at fair value through other comprehensive income	3,961
Financial assets at amortised cost	
Loans to banks	3,967
Other financial assets	174
Property and equipment	18
Intangible assets	41
Other assets	137
Other financial liabilities	409
Provisions	60
Other liabilities	59
Net assets of subsidiary	**7,782**
Non-controlling interests	(496)
Carrying amount of net assets disposed of	**7,286**
Total disposal consideration	**19,464**
Cash and cash equivalents in subsidiary sold	(793)
Cash inflow on disposal	**18,671**
The gain on disposal of the subsidiary comprises:	
Consideration for disposal of the subsidiary	19,464
Carrying amount of net assets disposed of	7,286
Cumulative currency translation reserve on foreign operation recycled from other comprehensive income to profit or loss	(2)
Gains from disposal of subsidiary	**12,176**

Prior to disposal, NLB Nov Penziski Fond, Skopje was included in the segment 'Foreign strategic markets' (note 7.a).

5.14. Financial liabilities measured at amortised cost

Analysis by type of financial liabilities, measured at amortised cost

in EUR thousand

	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Deposits from banks and central banks	39,083	40,602	-4%	55,480	72,072	-23%
- Deposits on demand	36,021	36,331	-1%	54,988	71,383	-23%
- Other deposits	3,062	4,271	-28%	492	689	-29%
Borrowings from banks and central banks	268,543	279,616	-4%	252,499	260,747	-3%
Due to customers	10,018,043	9,878,378	1%	6,879,432	6,810,967	1%
- Deposits on demand	7,743,098	7,332,344	6%	5,775,374	5,455,657	6%
- Other deposits	2,274,945	2,546,034	-11%	1,104,058	1,355,310	-19%
Borrowings from other customers	65,037	74,286	-12%	4,928	5,726	-14%
Subordinated liabilities	15,029	27,350	-45%	-	-	-
Other financial liabilities	119,438	111,019	8%	81,429	71,534	14%
Total	**10,525,173**	**10,411,251**	1%	**7,273,768**	**7,221,046**	1%

a) Borrowings

in EUR thousand

	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Loans						
- banks and central banks	268,543	279,616	-4%	252,499	260,747	-3%
- other customers	65,037	74,286	-12%	4,928	5,726	-14%
Total	**333,580**	**353,902**	-6%	**257,427**	**266,473**	-3%

b) Subordinated liabilities

in EUR thousand

NLB Group				30 Jun 2018		31 Dec 2017	
	Currency	Due date	Interest rate	Carrying amount	Nominal value	Carrying amount	Nominal value
Subordinated loans							
	EUR	30.6.2018	6-month EURIBOR + 5 % p. a.	-	12,000	12,221	12,000
	EUR	30.6.2020	6-month EURIBOR + 7.7% p. a.	5,122	5,000	5,132	5,000
	EUR	26.6.2025	6-month EURIBOR + 6.25% p. a.	9,907	10,000	9,997	10,000
Total				**15,029**	**27,000**	**27,350**	**27,000**

c) Other financial liabilities

in EUR thousand

	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Items in the course of payment	34,729	20,931	66%	18,093	4,393	312%
Debit or credit card payables	34,133	36,578	-7%	31,337	32,132	-2%
Accrued expenses	15,843	11,343	40%	8,288	4,456	86%
Accrued salaries	11,541	9,665	19%	6,483	6,662	-3%
Liabilities to brokerage firms and others for securities purchase and custody services	4,278	1,327	222%	4,232	212	-
Suppliers	5,241	14,826	-65%	3,223	11,146	-71%
Fees and commissions due	124	1,682	-93%	69	1,627	-96%
Other financial liabilities	13,549	14,667	-8%	9,704	10,906	-11%
Total	**119,438**	**111,019**	8%	**81,429**	**71,534**	14%

5.15. Provisions

in EUR thousand

	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Employee benefit provisions	20,840	20,440	2%	16,996	16,712	2%
Provision for legal issues	13,725	15,786	-13%	4,947	4,958	0%
Restructuring provisions	14,094	15,284	-8%	13,329	14,687	-9%
Provisions for commitments and guarantees	38,314	36,915	4%	30,018	34,257	-12%
Stage 1	7,543	-	-	3,415	-	-
Stage 2	3,385	-	-	871	-	-
Stage 3	27,386	-	-	25,732	-	-
Other provisions	214	214	0%	203	203	0%
Total	**87,187**	**88,639**	-2%	**65,493**	**70,817**	-8%

Legal issues

In connection with legal issues, the biggest amount of material monetary claims relates to civil claims filed by Privredna banka Zagreb (the PBZ) and Zagrebačka banka (the ZaBa) against NLB, referring to the old savings of LB Branch Zagreb savers, which were transferred to these two banks in a principal amount of approximately EUR 167.1 million. Due to the fact the proceedings have been pending for such a long time, the penalty interest already exceeds the principal amount. As NLB is not liable for the old foreign currency savings, based on numerous process and content-related reasons, NLB has all along objected to these claims. Two key reasons NLB is not liable for the old foreign currency savings are that it was only founded on the basis of the Constitutional Act on 27 July 1994 (at the time the savings were deposited with LB Branch Zagreb, NLB did not yet exist), and NLB did not assume any such obligations. Moreover, this is a former Yugoslavia succession matter, as the governments of the Republic of Slovenia and the Republic of Croatia agreed in a Memorandum of Understanding signed in 2013 whose intent was to find a solution to the transferred foreign currency savings of Ljubljanska banka in Croatia (LB) on the basis of the Agreement on Succession Issues. The Memorandum also said that the Republic of Croatia would ensure the stay all the proceedings commenced by the PBZ and the ZaBa in relation to the transferred foreign currency savings until the issue was finally resolved.

Despite the agreement in the Memorandum of Understanding to stay all the proceedings commenced, the Court of Appeal, the County Court of Zagreb, ruled in four claims (as explained bellow in details) in favour of the plaintiff. In one of those cases NLB filed a constitutional appeal and in three an extraordinary legal measure with the Supreme Court of the Republic of Croatia.

Contrary to the decisions of the court described above in another case, a claim filed by the PBZ was refused and the judgment became final in favour of NLB. The extraordinary legal measure with the Supreme Court of the Republic of Croatia, filed by the plaintiff, was dismissed by Supreme Court on 16 June 2015.

In the other cases, with respect to which court procedures described above are pending, final judgments have not yet been issued.

The table below summarises amounts according to final judgements (not including penalty interest).

Date of the ruling	Plaintiff	Principal amount in EUR	Costs of the proceedings in HRK	Measures taken by NLB
May 2015	PBZ	254.76	15,781.25	Constitutional appeal against the final judgement, as NLB found the court decision contrary to the legislation in force, as well as the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia. Constitutional Court of the Republic of Croatia rejected the constitutional appeal of NLB d.d. on 21 May 2018. NLB is considering possibilities to challenge decisions of Croatian courts with European forums (ECHR, Court of Justice of the European Union etc.).
September 2017	ZaBa	492,430.53	748,583.75	NLB challenged the judgments with the extraordinary legal measure on the Supreme Court of the Republic of Croatia and later, if necessary, will also challenge the judgment with all other available remedies, as the obligations of the old foreign currency savings in accordance with Slovenian Constitutional Law are not the liabilities of the NLB.
November 2017	PBZ	220,115.98	688,268.12	
April 2018	PBZ	222,426.39	253,283.37	

NLB Shareholders' Meeting provided on 9 April 2018 the Management Board of NLB with instructions how to act in the event of existing or potential new final judgements by Croatian courts against LB and NLB regarding the transferred foreign currency deposits and especially not to voluntarily settle the adjudicated amounts and also gave some additional instructions on the usage of legal remedies.

On 19 July 2018 the National Assembly of the Republic of Slovenia passed the Act for Value Protection of Republic of Slovenia's Capital Investment in Nova Ljubljanska banka d.d., Ljubljana (Zakon za zaščito vrednosti kapitalske naložbe Republike Slovenije v Novi Ljubljanski banki d.d., Ljubljana, hereinafter: the ZVKNNLB) which entered into force on 14 August 2018. In accordance with the ZVKNNLB the Succession Fund of the Republic of Slovenia (Sklad Republike Slovenije za nasledstvo, javni sklad, hereinafter: the Fund) shall compensate NLB for the sums recovered from NLB by enforcement of final judgements delivered by Croatian courts with regard to the transferred foreign currency deposits, that is the principle amount, accrued interest, expenses of court, Attorney's expenses and other expenses of the plaintiff and expenses related to enforcement with the accrued interest. There shall be no compensation for any voluntary made payments by NLB. In accordance with the ZVKNNLB and pursuant to the agreement between NLB and the Fund, as envisaged by the ZVKNNLB (which was concluded on 14 August 2018), NLB has to contest the claims made against it in court proceedings in relation to transferred foreign currency deposits and use against court decisions that are disadvantageous for NLB, all reasonable legal remedies and to continue to actively challenge the judicial decisions of the courts of the Republic of Croatia in relation to transferred foreign currency deposits on the basis of which enforcement took place, leading, on the basis of ZVKNNLB, to the compensation of the sums recovered from NLB by enforcement.

Provisions for these claims are not formed, since NLB believes that based on the factual and legal evaluation there are greater prospects for the legal proceedings to end in favour of NLB than opposite.

5.16. Income tax relating to components of other comprehensive income

in EUR thousand

	NLB Group					
	30 Jun 2018			30 Jun 2017		
	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Financial assets measured at fair value through other comprehensive income	(2,439)	626	(1,813)	-	-	-
Available-for-sale financial assets	-	-	-	(15,464)	3,018	(12,446)
Share of associates and joint ventures	(2,782)	537	(2,245)	(801)	158	(643)
Total	**(5,221)**	**1,163**	**(4,058)**	**(16,265)**	**3,176**	**(13,089)**

in EUR thousand

	NLB					
	30 Jun 2018			30 Jun 2017		
	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Financial assets measured at fair value through other comprehensive income	(4,220)	810	(3,410)	-	-	-
Available-for-sale financial assets	-	-	-	(16,050)	3,049	(13,001)
Total	**(4,220)**	**810**	**(3,410)**	**(16,050)**	**3,049**	**(13,001)**

5.17. Other liabilities

in EUR thousand

	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Taxes payable	3,965	3,409	16%	2,833	2,770	2%
Deferred income	5,571	3,101	80%	3,602	1,034	248%
Payments received in advance	2,801	3,086	-9%	479	377	27%
Total	**12,337**	**9,596**	29%	**6,914**	**4,181**	65%

5.18. Book value per share

The book value of a NLB share on a consolidated level as at 30 June 2018 was EUR 89.8 (31 December 2017: EUR 82.7), and on a solo level it was EUR 75.4 (31 December 2017: EUR 69.1). It is calculated as the ratio of net assets' book value without other equity instruments issued and the number of shares. NLB Group and NLB do not have any other equity instruments issued or treasury shares.

5.19. Capital adequacy ratio

in EUR thousand

	NLB Group		NLB	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Paid-up capital instruments	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Retained earnings - from previous years	561,110	296,773	299,348	81,533
Profit or loss eligible - from current year	-	29,280	-	-
Accumulated other comprehensive income	11,776	(11,450)	21,234	(20)
Other reserves	13,522	13,522	13,522	13,522
Minority interest	-	-	-	-
Prudential filters: Cash flow hedge reserve	-	-	-	-
Prudential filters: Value adjustments due to the requirements for prudent valuation	(1,986)	(2,389)	(1,590)	(1,886)
(-) Goodwill	(3,529)	(3,529)	-	-
(-) Other intangible assets	(29,145)	(31,445)	(21,747)	(23,911)
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-	-	-	-
(-) Investments in CET1 instruments of financial sector - significant share	-			
COMMON EQUITY TIER 1 CAPITAL (CET1)	**1,623,126**	**1,362,140**	**1,382,145**	**1,140,616**
Additional Tier 1 capital	**-**	-	-	-
TIER 1 CAPITAL	**1,623,126**	**1,362,140**	**1,382,145**	**1,140,616**
Tier 2 capital	**-**	-	-	-
TOTAL CAPITAL (OWN FUNDS)	**1,623,126**	**1,362,140**	**1,382,145**	**1,140,616**
RWA for credit risk	7,209,882	7,096,413	4,408,444	4,369,557
RWA for market risks	527,300	499,726	275,900	269,988
RWA for credit valuation adjustment risk	2,100	850	2,100	850
RWA for operational risk	953,482	949,493	596,586	593,750
TOTAL RISK EXPOSURE AMOUNT (RWA)	**8,692,764**	**8,546,482**	**5,283,030**	**5,234,145**
Common Equity Tier 1 Ratio	18.7%	15.9%	26.2%	21.8%
Tier 1 Ratio	18.7%	15.9%	26.2%	21.8%
Total Capital Ratio	18.7%	15,9%	26.2%	21.8%

At the end of June 2018, the capital ratios for NLB Group stood at 18.7% (or 2.8 percentage points higher than at the end of 2017), and for NLB at 26.2% (or 4.4 percentage points higher than at the end of 2017). The improvement of capital adequacy derives from higher capital, mainly due to unallocated NLB's profit (EUR 189 million), the inclusion of the positive effect from the implementation of IFRS 9 (EUR 43.8 million for NLB Group and EUR 27.7 million for NLB), and the conclusion of transitional arrangements relevant until the end of 2017.

In March 2018, NLB received a letter from the ECB on the ECB's intention to adopt the decision to restrict distributions by NLB to its shareholders and to require a Contingent Capital Plan specifying the planned measures to increase the capital ratios in case that provision recognition criteria are met for the lawsuits against NLB pending in the courts of the Republic of Croatia, related to civil claims filed by the PBZ and the ZaBa against NLB, referring to the old savings of LB Branch Zagreb savers. Details on legal issues are disclosed in note 5.15. On 5 April 2018, NLB received the final decision on this matter, making any distributions of dividends by NLB to its shareholders subject to the ECB's consent.

General Assembly of NLB on its 31st regular session on 27 June 2018, accepted a decision that NLB's profit for 2017 remains unallocated in form of retained earnings, which resulted in the increase of the regulatory equity in the amount of EUR 189 million.

In September 2018, NLB applied to the ECB for formal approval for the distribution of dividends from retained earnings of NLB d.d. from fiscal year 2017 and retained earnings from previous years of NLB d.d. NLB also applied for the inclusion of the NLB's semi-annual profit in its CET1 capital on both the individual and consolidated basis.

5.20. Off-balance sheet liabilities

in EUR thousand

	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Commitments to extend credit	1,115,200	1,130,250	-1%	881,147	898,927	-2%
Non-financial guarantees	425,271	427,028	0%	331,048	339,669	-3%
Financial guarantees	351,430	314,512	12%	223,562	178,335	25%
Letters of credit	15,806	14,614	8%	4,278	375	-
Other	15,299	4,109	272%	12,408	69	-
	1,923,006	**1,890,513**	2%	**1,452,443**	**1,417,375**	2%
Provisions (note 5.15.)	(38,314)	(36,915)	4%	(30,018)	(34,257)	-12%
Total	**1,884,692**	**1,853,598**	2%	**1,422,425**	**1,383,118**	3%

5.21. Fair value hierarchy of financial and non-financial assets and liabilities

Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. NLB Group uses various valuation techniques to determine fair value. IFRS 13 specifies a fair value hierarchy with respect to the inputs and assumptions used to measure financial and non-financial assets and liabilities at fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the assumptions of NLB Group and NLB. This hierarchy gives the highest priority to observable market data when available, and the lowest priority to unobservable market data. NLB Group considers relevant and observable market prices in its valuations where possible. The fair value hierarchy comprises the following levels:

- Level 1 – Quoted prices (unadjusted) on active markets. This level includes listed equities, debt instruments, derivatives, units of investment funds, and other unadjusted market prices of assets and liabilities. When an asset or liability may be exchanged on multiple active markets, the principal market for the asset or liability must be determined. In the absence of a principal market, the most advantageous market for the asset or liability must be determined.

- Level 2 – A valuation technique where inputs are observable, either directly (i.e. prices) or indirectly (i.e. derived from prices). Level 2 includes quoted prices for similar assets or liabilities on active markets and quoted prices for identical or similar assets and liabilities on markets that are not active. The sources of input parameters for financial instruments, such as yield curves, credit spreads, foreign exchange rates, and the volatility of interest rates and foreign exchange rates, are Reuters and Bloomberg.
- Level 3 – A valuation technique where inputs are not based on observable market data. Unobservable inputs are used to the extent that relevant observable inputs are not available. Unobservable inputs must reflect the assumptions that market participants would use when pricing an asset or liability. This level includes non-tradable shares and bonds and derivatives associated with these investments and other assets and liabilities for which fair value cannot be determined with observable market inputs.

Where possible, fair value is determined as an observable market price on an active market for an identical asset or liability. An active market is a market on which transactions for an asset or liability are executed with sufficient frequency and volume to provide pricing information on an ongoing basis. Assets and liabilities measured at fair value on active markets are determined as the market price of a unit (e.g. a share) at the measurement date, multiplied by the quantity of units owned by NLB Group. The fair value of assets and liabilities whose market is not active is determined using valuation techniques. Valuation techniques bear a different intensity level of estimates and assumptions, depending on the availability of observable market inputs associated with the asset or liability that is the subject of valuation. Unobservable inputs shall reflect the estimates and assumptions that other market participants would use when pricing the asset or liability.

For non-financial assets measured at fair value and not classified on Level 1, fair value is determined based on valuation reports provided by certified valuators. Valuations are prepared in accordance with the International Valuation Standards (IVS).

a) Financial and non-financial assets and liabilities, measured at fair value in the financial statements

in EUR thousand

	NLB Group				NLB			
30 Jun 2018	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Financial instruments held for trading	52,810	14,419	229	67,458	52,810	14,420	229	67,459
Debt instruments	*52,810*	-	-	*52,810*	*52,810*	-	-	52,810
Derivatives	-	*14,419*	*229*	*14,648*	-	*14,420*	*229*	14,649
Derivatives - hedge accounting	-	*695*	-	695	-	695	-	695
Non-trading financial assets mandatorily at fair value through profit or loss	4,673	21,010	69	25,752	566	25,111	69	25,746
Loans and advances to customers	-	21,010	-	21,010	-	25,111	-	25,111
Debt instruments	101	-	-	101	-	-	-	-
Equity instruments	4,572	-	69	4,641	566	-	69	635
Financial assets measured at fair value through other comprehensive income	1,640,784	229,758	5,677	1,876,219	1,429,203	52,762	2,051	1,484,016
Debt instruments	*1,640,623*	*182,703*	-	*1,823,326*	*1,429,203*	*8,236*	-	1,437,439
Equity instruments	*161*	*47,055*	*5,677*	*52,893*	-	*44,526*	*2,051*	46,577
Financial liabilities								-
Financial instruments held for trading	-	11,509	-	11,509	-	11,505	-	11,505
Derivatives	-	*11,509*	-	*11,509*	-	*11,505*	-	11,505
Derivatives - hedge accounting	-	*26,132*	-	26,132	-	*26,132*	-	26,132
Financial liabilities measured at fair value through profit or loss	-	*9,264*	-	9,264	-	*9,152*	-	9,152
Non-financial assets								
Investment properties	-	51,130	-	51,130	-	9,266	-	9,266
Non-current assets classified as held for sale	-	4,227	-	4,227	-	1,602	-	1,602

in EUR thousand

31 Dec 2017	NLB Group Level 1	NLB Group Level 2	NLB Group Level 3	NLB Group Total	NLB Level 1	NLB Level 2	NLB Level 3	NLB Total
Financial assets								
Financial instruments held for trading	59,164	12,454	571	72,189	59,164	12,445	571	72,180
Debt instruments	59,164	-	-	59,164	59,164	-	-	59,164
Derivatives	-	12,454	571	13,025	-	12,445	571	13,016
Derivatives - hedge accounting	-	1,188	-	1,188	-	1,188	-	1,188
Financial assets designated at fair value through profit or loss	5,003	-	-	5,003	634	-	-	634
Debt instruments	102	-	-	102	-	-	-	-
Equity instruments	4,901	-	-	4,901	634	-	-	634
Financial assets available-for-sale	1,915,634	355,428	5,431	2,276,493	1,586,927	188,982	1,853	1,777,762
Debt instruments	1,914,963	308,346	-	2,223,309	1,586,447	144,467	-	1,730,914
Equity instruments	671	47,082	5,431	53,184	480	44,515	1,853	46,848
Financial liabilities								
Financial instruments held for trading	-	9,502	-	9,502	-	9,398	-	9,398
Derivatives	-	9,502	-	9,502	-	9,398	-	9,398
Derivatives - hedge accounting	-	25,529	-	25,529	-	25,529	-	25,529
Financial liabilities designated at fair value through profit or loss	-	635	-	635	-	635	-	635
Non-financial assets				-				
Investment properties	-	51,838	-	51,838	-	9,257	-	9,257
Non-current assets classified as held for sale	-	11,631	-	11,631	-	2,564	-	2,564

b) Significant transfers of financial instruments between levels of valuation

NLB Group's policy of transfers of financial instruments between levels of valuation is illustrated in the table below.

Fair value hierarchy	Equities	Equity stake	Funds	Debt securities	Derivatives Equities	Derivatives Currency	Derivatives Interest
1	market value from exchange market		regular valuation by fund management company	market value from exchange market			
2				valuation model	valuation model (underlying instrument on level 1)	valuation model	valuation model
3	valuation model	valuation model	valuation model	valuation model	valuation model (underlying instrument on level 3)		
Transfers	*from level 1 to 3* equity excluded from exchange market		*from level 1 to 3* fund management stops publishing regular valuation	*from level 1 to 2* fixed income excluded from exchange market	*from level 2 to 3* underlying excluded from exchange market		
	from level 1 to 3 companies in insolvency proceedings		*from level 3 to 1* fund management starts publishing regular valuation	*from level 1 to 2* fixed income not liquid (not trading for 6 months)	*from level 3 to 2* underlying included in exchange market		
	from level 3 to 1 equity included in exchange market			*from level 1 to 3 and from 2 to 3* companies in insolvency proceedings			
				from level 2 to 1 and from 3 to 1 start trading with fixed income on exchange market			
				from level 3 to 2 until valuation parameters are confirmed on ALCO (at least on a quarterly basis)			

For the six months ended 30 June 2018 and 30 June 2017, NLB Group nor NLB had any significant transfers of financial instruments between levels of valuation.

c) Financial and non-financial assets and liabilities at Level 2 regarding the fair value hierarchy

Financial instruments on Level 2 of the fair value hierarchy at NLB Group and NLB include:

- debt securities: bonds not quoted on active markets and valuated by valuation model;
- equities;
- derivatives: derivatives except forward derivatives and options on equity instruments that are not quoted on active markets;
- the National Resolution Fund, and
- structured deposits.

When valuing bonds classified on Level 2, NLB Group primarily uses the income approach based on an estimation of future cash flows discounted to the present value. The input parameters used in the income approach are the risk-free yield curve and the spread over the yield curve (credit, liquidity, country).

Fair values for derivatives are determined using a discounted cash flow model based on the risk-free yield curve. Fair values for options are determined using valuation models for options (Garman and Kohlhagen model, binomial model, and Black-Scholes model).

At least three valuation methods are used for the valuation of investment property. The majority of investment property is valued using the income approach, where the present value of future expected returns is assessed. When valuing an investment property, average rents at similar locations and capitalisation ratios, such as the risk-free yield, risk premium, liquidity premium, risk premium to account for the management of the investment, and risk premium to account for capital preservation are used. Rents at similar locations are generated from various sources, like data from lessors and lessees, web databases, and own databases. NLB Group has observable data for all investment property at its disposal. If observable data for similar locations are not available, NLB Group uses data from wider locations and appropriately adjusts such data.

Non-current assets held for sale represent property, plant, and equipment that are measured at fair value less costs to sell, because this is lower than the previous carrying amount of those assets.

d) Financial and non-financial assets and liabilities at Level 3 of the fair value hierarchy

Financial instruments on Level 3 of the fair value hierarchy in NLB Group and NLB include:

- debt securities: structured debt securities from inactive emerging markets;
- equities: corporate and financial equities that are not quoted on active markets; and
- derivative financial instruments: forward derivatives and options on equity instruments that are not quoted on an active organised market. Fair values for forward derivatives are determined using the discounted cash flow model. Fair values for equity options are determined using valuation models for options (Garman and Kohlhagen model, binomial model and Black-Scholes model). Unobservable inputs include the fair values of underlying instruments determined using valuation models. The source of observable market inputs is the Reuters information system.

NLB Group uses three valuation methods for the valuation of equity financial assets: the income approach, market approach, and cost approach.

The most commonly used valuation technique is the income approach. The income approach is based on an estimation of future cash flows discounted to the present value. One of the key elements of the valuation is the projection of the cash flows that the company is able to generate in the future. Based on that, the projection of the future cash flow is generated. The key variables that affect the amount of cash flows, and thus the estimated fair value of the financial asset, also include an assumption regarding the long-term EBITDA margin. A discount rate that is appropriate for the risks associated with the realisation of these benefits is used to discount cash flows. The discount rate is determined as the weighted average cost of capital. A forecast of future cash flows and a calculation of the weighted average cost of capital is prepared for an accurate forecasting period (usually 10 years from the date of the prediction value), and for a period following the period of accurate forecasting. Assumptions of long-term stable growth in the amount of 2.5% are used for the period following the period of accurate forecasting. NLB Group can select values of unobservable input data within a reasonable possible range, but uses those input data that other market participants would use.

Movements of financial assets and liabilities on Level 3

in EUR thousand

	Trading assets	Financial assets available-for-sale	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss	Total financial assets
NLB Group	Derivatives	Equity instruments	Equity instruments	Equity instruments	
Balance as at 31 December 2017	571	5,431	-	-	6,002
Transition to IFRS 9	-	(5,431)	5,362	69	-
Balance as at 1 January 2018	571	-	5,362	69	6,002
Effects of translation of foreign operations to presentation currency	-	-	32	-	32
Valuation:					
- through profit or loss	(342)	-	-	-	(342)
- recognised in other comprehensive income	-	-	286	-	286
Decreases	-	-	(3)	-	(3)
Balance as at 30 June 2018	**229**	**-**	**5,677**	**69**	**5,975**

in EUR thousand

	Trading assets	Available-for-sale financial assets	Total financial assets
NLB Group	Derivatives	Equity instruments	
Balance as at 1 January 2017	405	5,903	6,308
Effects of translation of foreign operations to presentation currency	-	(57)	(57)
Valuation:			
- through profit or loss	58	(11)	47
- recognised in other comprehensive income	-	133	133
Decreases	-	(65)	(65)
Balance as at 30 June 2017	**463**	**5,903**	**6,366**

in EUR thousand

	Trading assets	Financial assets available-for-sale	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss	Total financial assets
NLB	Derivatives	Equity instruments	Equity instruments	Equity instruments	
Balance as at 31 December 2017	571	1,853	-	-	2,424
Transition to IFRS 9	-	(1,853)	1,784	69	-
Balance as at 1 January 2018	571	-	1,784	69	2,424
Valuation:					
- through profit or loss	(342)	-	-	-	(342)
- recognised in other comprehensive income	-	-	270	-	270
Decreases	-	-	(3)	-	(3)
Balance as at 30 June 2018	**229**	**-**	**2,051**	**69**	**2,349**

in EUR thousand

	Trading assets	Available-for-sale financial assets	Total financial assets
NLB	Derivatives	Equity instruments	
Balance as at 1 January 2017	405	1,810	2,215
Valuation:			
- through profit or loss	58	-	58
- recognised in other comprehensive income	-	135	135
Decreases	-	(65)	(65)
Balance as at 30 June 2017	**463**	**1,880**	**2,343**

e) Fair value of financial instruments not measured at fair value in financial statements

in EUR thousand

	NLB Group				NLB			
	30 Jun 2018		31 Dec 2017		30 Jun 2018		31 Dec 2017	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets measured at amortised cost								
- debt securities	1,265,726	1,313,183	-	-	1,129,743	1,173,539	-	-
- loans and advances to banks	453,724	453,774	-	-	448,569	454,728	-	-
- loans and advances to customers	7,037,953	7,146,434	-	-	4,522,241	4,558,015	-	-
- other financial assets	62,783	62,783	-	-	59,877	59,877	-	-
Loans and advances								
- debt securities	-	-	82,133	79,974	-	-	82,133	79,974
- loans and advances to banks	-	-	510,107	523,943	-	-	462,322	468,599
- loans and advances to customers	-	-	6,912,333	6,494,021	-	-	4,587,477	4,584,217
- other financial assets	-	-	66,077	66,077	-	-	38,389	38,389
Held-to-maturity investments	-	-	609,712	658,029	-	-	609,712	658,029
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	39,083	39,081	40,602	40,608	55,480	55,480	72,072	72,072
- borrowings from banks and central banks	268,543	277,869	279,616	287,165	252,499	261,480	260,747	267,866
- due to customers	10,018,043	10,029,159	9,878,378	9,892,052	6,879,432	6,884,958	6,810,967	6,817,618
- borrowings from other customers	80,066	80,258	101,636	101,600	4,928	4,931	5,726	5,728
- other financial liabilities	119,438	119,438	111,019	111,019	81,429	81,429	71,534	71,534

Loans and advances to banks

The estimated fair value of deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and residual maturities. The fair value of overnight deposits equals their carrying value.

Loans and advances to customers

Loans and advances are the net of the allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates for debts with similar credit risk and residual maturities to determine their fair value.

Deposits and borrowings

The fair value of sight deposits and overnight deposits equals their carrying value. However, their actual value for the NLB Group depends on the timing and amounts of cash flows, current market rates, and the credit risk of the depository institution itself. A portion of sight deposits is stable, similar to term deposits. Therefore, their economic value for the NLB Group differs from the carrying amount.

The estimated fair value of other deposits and borrowings from customers is based on discounted cash flows using interest rates for new deposits with similar residual maturities.

Debt securities measured at amortised cost and issued debt securities

The fair value of debt securities measured at amortised cost and issued debt securities is based on their quoted market price or value calculated by using a discounted cash flow method, and the prevailing money market interest rates.

Loan commitments

For credit facilities that are drawn soon after the NLB Group grants loans (drawn at market rates) and loan commitments to those clients that are not impaired, the fair value is close to zero. For loan commitments to clients that are impaired, fair value represents the amount of the created provisions.

Other financial assets and liabilities

The carrying amount of other financial assets and liabilities is a reasonable approximation of their fair value, as they mainly relate to short-term receivables and payables.

Fair value hierarchy of financial instruments not measured at fair value in financial statements

in EUR thousand

	NLB Group				NLB			
30 Jun 2018	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at amortised cost								
- debt securities	1,089,139	224,044	-	1,313,183	949,495	224,044	-	1,173,539
- loans to banks	-	453,774	-	453,774	-	454,728	-	454,728
- loans and advances to customers	-	7,146,434	-	7,146,434	-	4,558,015	-	4,558,015
- other financial assets	-	62,783	-	62,783	-	59,877	-	59,877
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	39,081	-	39,081	-	55,480	-	55,480
- borrowings from banks and central banks	-	277,869	-	277,869	-	261,480	-	261,480
- due to customers	-	10,029,159	-	10,029,159	-	6,884,958	-	6,884,958
- borrowings from other customers	-	80,258	-	80,258	-	4,931	-	4,931
- other financial liabilities	-	119,438	-	119,438	-	81,429	-	81,429

in EUR thousand

	NLB Group				NLB			
31 Dec 2017	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and advances								
- debt securities	-	79,974	-	79,974	-	79,974	-	79,974
- loans and advances to banks	-	523,943	-	523,943	-	468,599	-	468,599
- loans and advances to customers	-	6,494,021	-	6,494,021	-	4,584,217	-	4,584,217
- other financial assets	-	66,077	-	66,077	-	38,389	-	38,389
Held-to-maturity investments	658,029	-	-	658,029	658,029	-	-	658,029
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	40,608	-	40,608	-	72,072	-	72,072
- borrowings from banks and central banks	-	287,165	-	287,165	-	267,866	-	267,866
- due to customers	-	9,892,052	-	9,892,052	-	6,817,618	-	6,817,618
- borrowings from other customers	-	101,600	-	101,600	-	5,728	-	5,728
- other financial liabilities	-	111,019	-	111,019	-	71,534	-	71,534

6. Related-party transactions

The volumes of related party transactions and the outstanding balances:

in EUR thousand

NLB Group and NLB	Management Board and other Key management personnel 30 Jun 2018	31 Dec 2017	Family members of the Management Board and other key management personnel 30 Jun 2018	31 Dec 2017	Companies in which members of the Management Board, key management personnel, or their family members have control, joint control or a significant influence 30 Jun 2018	31 Dec 2017	Supervisory Board 30 Jun 2018	31 Dec 2017
Loans and deposits issued	1,933	2,021	411	413	162	242	426	435
Loans and deposits received	1,828	1,981	641	769	953	593	364	240
Other financial liabilities	2,437	2,408	-	-	3	7	-	-
Guarantees issued and commitments to extend credit	236	224	81	76	167	116	29	31

	six months ended June 2018	June 2017	six months ended June 2018	June 2017	six months ended June 2018	June 2017	six months ended June 2018	June 2017
Interest income	16	19	4	4	2	3	5	-
Interest expenses	(2)	(5)	(1)	(2)	-	-	-	-
Fee income	4	5	3	3	5	4	1	-
Administrative and other operating expenses	(2)	(3)	-	-	(26)	-	-	-

In EUR thousand

	NLB Group Ultimate parent 30 Jun 2018	31 Dec 2017	NLB Ultimate parent 30 Jun 2018	31 Dec 2017
Loans and deposits issued measured at amortised cost	102,084	127,781	98,628	123,659
Investments in securities (banking book)	851,408	901,511	781,311	826,362
Investments in securities (trading book)	51,092	-	51,092	-
Other financial assets	632	18	632	18
Other financial liabilities	8	8	8	8
Guarantees issued and commitments to extend credit	1,053	932	1,053	932

	six months ended June 2018	June 2017	six months ended June 2018	June 2017
Interest income	10,824	13,254	10,894	12,958
Interest expenses	-	(4)	-	(4)
Fee income	519	68	519	68
Fee expenses	(15)	(19)	(15)	(19)
Other income	49	3	49	3
Administrative and other operating expenses	(6)	(1)	(6)	(1)
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	217	-	217	-
Gains less losses from financial assets and liabilities held for trading	(261)	(126)	(261)	(126)

NLB Group discloses all transactions with the ultimate controlling party. For transactions with other government-related entities, NLB Group discloses individually significant transactions.

in EUR thousand

NLB Group and NLB	Amount of significant transactions concluded during the period 1.1. - 30.6.2018	1. 1. - 31.12.2017	Number of significant transactions concluded during the period 1.1. - 30.6.2018	1. 1. - 31.12.2017
Loans	-	117,924	-	1

	Balance of all significant transactions at end of the period 30 Jun 2018	31 Dec 2017	Number of significant transactions at end of the period 30 Jun 2018	31 Dec 2017
Loans	530,581	575,024	5	5
Debt securities classified as loans and advances	75,691	82,133	1	1
Borrowings, deposits, and business accounts	135,062	135,006	2	2

	Effects in income statement during the period six months ended June 2018	June 2017
Interest income from loans	1,488	3,362
Effects from net interest income and net valuation from debt securities classified as loans and receivables	706	799
Interest expense from borrowings, deposits and business accounts	(76)	(68)

in EUR thousand

	NLB Group			
	Associates		Joint ventures	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Loans and deposits issued	1,230	1,296	5,346	4,333
Loans and deposits received	6,665	4,958	5,445	6,856
Other financial assets	8	27	591	347
Other financial liabilities	66	1,109	10,816	103
Guarantees issued and commitments to extend credit	38	38	27	29

	six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017
Interest income	19	22	21	35
Interest expenses	-	-	(16)	(46)
Fee income	67	63	2,000	1,898
Fee expenses	(5,103)	(5,358)	(1,138)	(1,067)
Other income	92	114	83	64
Administrative and other operating expenses	(362)	(497)	(25)	(13)
Gains less losses from financial assets and liabilities held for trading	(1)	-	-	-

in EUR thousand

	NLB					
	Subsidiaries		Associates		Joint ventures	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Loans and deposits issued	302,414	314,534	1,230	1,296	3,710	4,272
Loans and deposits received	42,808	56,129	6,665	4,958	3,518	4,855
Derivatives						
Fair value	1	-	-	-	-	-
Contractual amount	393	-	-	-	-	-
Other financial assets	443	730	8	27	178	347
Other financial liabilities	34	61	8	1,008	166	25
Guarantees issued and commitments to extend credit	22,781	25,718	38	38	26	28
Received loan commitments and financial guarantees	1,595	1,000	-	-	-	-

	six months ended		six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017	June 2018	June 2017
Interest income	2,303	3,249	19	22	20	34
Interest expenses	(83)	(32)	-	-	-	(43)
Fee income	2,755	2,784	67	63	1,941	1,842
Fee expenses	(17)	(17)	(4,362)	(4,654)	(607)	(638)
Other income	286	223	92	114	69	59
Administrative and other operating expenses	(365)	(901)	(192)	(375)	(25)	(13)
Gains less losses from financial assets and liabilities held for trading	(45)	-	(1)	-	-	-
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	1,026	-	-	-	-	-

Key management compensation - payments in the period

in EUR thousand

	Management Board		Other key management personnel	
	six months ended		six months ended	
NLB Group and NLB	June 2018	June 2017	June 2018	June 2017
Short-term benefits	333	319	2,314	2,319
Cost refunds	2	2	45	43
Long-term bonuses				
- severance pay	-	-	-	26
- other benefits	3	3	37	38
Variable part of payments	-	63	-	673
Total	**338**	**387**	**2,396**	**3,099**

Short-term benefits include:

- monetary benefits (gross salaries, supplementary insurance, holiday bonus, other bonus); and
- non-monetary benefits (company cars, health care, apartments, etc.).

The reimbursement of costs is comprised of food allowances and travel expenses, other long-term bonuses including supplementary voluntary pension insurance and jubilee bonuses, and the variable part of the payments is paid in accordance with the Remuneration Policy for employees with a special nature of work.

7. Analysis by segment for NLB Group

a) Segments

The six months ended 30 June 2018

in EUR thousand

NLB Group	Corporate banking in Slovenia	Retail banking in Slovenia	Financial markets and investment banking in Slovenia	Foreign strategic markets	Non-strategic markets and activities	Other activities	Unallocated	Total
Total net income	35,990	67,515	21,602	109,162	9,578	143		243,990
Net income from external customers	38,029	69,782	15,940	109,645	9,535	117	-	243,048
Intersegment net income	(2,039)	(2,267)	5,662	(483)	43	26	-	942
Net interest income	20,167	36,565	17,729	71,931	5,336	(49)	-	151,679
Net interest income from external customers	22,206	39,011	12,114	72,747	5,676	(75)	-	151,679
Intersegment net interest income	(2,039)	(2,446)	5,615	(816)	(340)	26	-	(0)
Administrative expenses	(19,295)	(46,049)	(5,752)	(44,518)	(8,650)	(3,000)	-	(127,265)
Depreciation and amortisation	(2,134)	(5,111)	(563)	(4,614)	(761)	(459)	-	(13,642)
Reportable segment profit/(loss) before impairment and provision charge	**14,561**	**16,355**	**15,287**	**60,029**	**167**	**(3,317)**	**-**	**103,083**
Gains less losses from capital investment in associates and joint ventures	-	2,538	-	-	-	-		2,538
Impairment and provisions charge	9,970	(2,218)	(30)	(1,459)	7,804	303	-	14,371
Profit/(loss) before income tax	**24,531**	**16,676**	**15,257**	**58,570**	**7,972**	**(3,013)**	**-**	**119,992**
Owners of the parent	24,531	16,676	15,257	54,028	7,972	(3,013)	-	115,450
Non-controlling interests	-	-	-	4,542	-	-	-	4,542
Income tax					-		(10,603)	(10,603)
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**104,847**
30.6.2018								
Reportable segment assets	2,018,808	2,265,253	3,684,628	3,978,148	344,950	182,068		12,473,855
Investments in associates and joint ventures	-	42,331	-	-	-	-		42,331
Reportable segment liabilities	1,127,141	5,666,461	455,131	3,316,081	17,359	99,431	-	10,681,605

The six months ended 30 June 2017

in EUR thousand

NLB Group	Corporate banking in Slovenia	Retail banking in Slovenia	Financial markets and investment banking in Slovenia	Foreign strategic markets	Non-strategic markets and activities	Other activities	Unallocated	Total
Total net income	35,257	66,747	19,059	93,238	24,839	3,361		242,502
Net income from external customers	37,923	66,954	13,932	94,362	24,415	3,497	-	241,083
Intersegment net income	(2,667)	(207)	5,127	(1,124)	424	(135)	-	1,419
Net interest income	20,314	35,144	16,036	70,258	6,987	(172)	-	148,567
Net interest income from external customers	22,981	35,490	10,908	71,249	7,982	(42)	-	148,567
Intersegment net interest income	(2,667)	(346)	5,128	(991)	(995)	(130)	-	-
Administrative expenses	(19,448)	(44,340)	(5,519)	(42,504)	(10,357)	(4,519)	-	(126,687)
Depreciation and amortisation	(2,167)	(5,104)	(507)	(4,436)	(826)	(747)	-	(13,787)
Reportable segment profit/(loss) before impairment and provision charge	**13,642**	**17,303**	**13,033**	**46,298**	**13,656**	**(1,904)**	**-**	**102,028**
Gains less losses from capital investment in subsidiaries, associates and joint ventures	-	2,736	-	-	-	-		2,736
Impairment and provisions charge	4,574	(83)	(42)	12,497	8,651	23	-	25,620
Profit/(loss) before income tax	**18,216**	**19,956**	**12,992**	**58,795**	**22,307**	**(1,882)**	**-**	**130,384**
Owners of the parent	18,216	19,956	12,992	54,423	22,307	(1,882)	-	126,012
Non-controlling interests	-	-	-	4,372	-	-	-	4,372
Income tax					-		(8,093)	(8,093)
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**117,919**
31.12.2017								
Reportable segment assets	2,055,734	2,204,045	3,508,467	3,851,214	391,308	183,212	-	12,193,980
Investments in associates and joint ventures	-	43,765	-	-	-	-	-	43,765
Reportable segment liabilities	1,122,742	5,542,818	501,609	3,264,781	19,287	98,346	-	10,549,582
Additions to non-current assets	5,357	12,768	778	8,722	1,357	1,627	-	30,609

b) Geographical information

in EUR thousand

NLB Group	Revenues six months ended June 2018	Revenues six months ended June 2017	Net income six months ended June 2018	Net income six months ended June 2017	Non-current assets 30 Jun 2018	Non-current assets 31 Dec 2017	Total assets 30 Jun 2018	Total assets 31 Dec 2017
Slovenia	**161,039**	**161,458**	**140,722**	**145,052**	**182,367**	**189,928**	**8,450,742**	**8,293,381**
South East Europe	**119,925**	**118,020**	**102,173**	**96,043**	**128,182**	**128,768**	**4,038,452**	**3,913,015**
Macedonia	40,966	42,008	35,795	32,047	31,662	32,320	1,220,220	1,235,163
Serbia	13,981	11,837	11,847	11,131	23,874	24,394	449,842	406,959
Montenegro	13,881	13,643	11,285	10,541	29,756	29,686	493,891	466,155
Croatia	(10)	150	1,031	629	2,879	1,923	29,385	29,312
Bosnia and Herzegovina	33,014	33,397	26,972	27,486	26,757	26,876	1,227,770	1,190,435
Kosovo	18,093	16,985	15,243	14,209	13,254	13,569	617,344	584,991
Western Europe	**258**	**40**	**53**	**(40)**	**229**	**236**	**26,804**	**31,140**
Germany	2	-	(188)	71	215	218	1,333	1,876
Switzerland	256	40	241	(111)	14	18	25,471	29,264
Czech Republic	**-**	**-**	**3**	**30**	**-**	**-**	**188**	**209**
Total	**281,222**	**279,518**	**242,951**	**241,085**	**310,778**	**318,932**	**12,516,186**	**12,237,745**

The geographical analysis includes a breakdown of items with respect to the country in which individual NLB Group entities are located.

8. Subsidiaries

NLB Group's subsidiaries as at 30 June 2018 were:

	Nature of Business	Country of Incorporation	NLB Group's shareholding %	NLB's shareholding %
Core members				
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	99.83	99.83
NLB Banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Republic of Kosovo	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	97.34	97.34
NLB Banka a.d., Belgrade	Banking	Republic of Serbia	99.997	99.997
NLB Srbija d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	100	100
Non-core members				
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	Finance	Republic of Slovenia	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Republic of Croatia	100	-
NLB Leasing Podgorica d.o.o., Podgorica - "u likvidaciji"	Finance	Republic of Montenegro	100	100
NLB Leasing d.o.o., Belgrade - u likvidaciji	Finance	Republic of Serbia	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	100	100
NLB Lizing d.o.o.e.l., Skopje - vo likvidacija	Finance	Republic of Macedonia	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	100	12.71
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Republic of Croatia	100	-
BH-RE d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	100	-
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	100	100
REAM d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
SR-RE d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
SPV 2 d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
S-REAM d.o.o., Ljubljana	Real estate	Republic of Slovenia	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	100	100
NLB InterFinanz Praha s.r.o., Prague - v likvidaci	Finance	Czech Republic	100	-
NLB InterFinanz d.o.o., Belgrade - u likvidaciji	Finance	Republic of Serbia	100	-
Prospera plus d.o.o., Ljubljana - v likvidaciji	Tourist and catering trade	Republic of Slovenia	100	100
LHB AG, Frankfurt	Finance	Republic of Germany	100	100

NLB Group's subsidiaries as at 31 December 2017 were:

	Nature of Business	Country of Incorporation	NLB Group's shareholding %	NLB's shareholding %
Core members				
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	99.83	99.83
NLB Banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Republic of Kosovo	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	97.34	97.34
NLB Banka a.d., Belgrade	Banking	Republic of Serbia	99.997	99.997
NLB Srbija d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	100	100
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	100	51
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	100	100
Non-core members				
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	Finance	Republic of Slovenia	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Republic of Croatia	100	-
NLB Leasing Podgorica d.o.o., Podgorica - "u likvidaciji"	Finance	Republic of Montenegro	100	100
NLB Leasing d.o.o., Belgrade - u likvidaciji	Finance	Republic of Serbia	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	100	100
NLB Lizing d.o.o.e.l., Skopje - vo likvidacija	Finance	Republic of Macedonia	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	100	12.71
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Republic of Croatia	100	-
BH-RE d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	100	-
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	100	100
REAM d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
SR-RE d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
SPV 2 d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
NLB Propria d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	100	100
NLB InterFinanz Praha s.r.o., Prague	Finance	Czech Republic	100	-
NLB InterFinanz d.o.o., Belgrade	Finance	Republic of Serbia	100	-
Prospera plus d.o.o., Ljubljana - v likvidaciji	Tourist and catering trade	Republic of Slovenia	100	100
LHB AG, Frankfurt	Finance	Republic of Germany	100	100

9. Events after the end of the reporting period

On 19 July 2018 the National Assembly of the Republic of Slovenia passed the Act for Value Protection of the Republic of Slovenia's Capital Investment in Nova Ljubljanska banka d.d., Ljubljana (Zakon za zaščito vrednosti kapitalske naložbe Republike Slovenije v Novi Ljubljanski banki d.d., Ljubljana, hereinafter: "the ZVKNNLB"). For detailed information refer to note 5.15. Provisions.

In September 2018, NLB applied to the ECB for formal approval for the distribution of dividends from retained earnings of NLB d.d. from fiscal year 2017 and retained earnings from previous years of NLB d.d. NLB also applied for the inclusion of the NLB's semi-annual profit in its CET1 capital on both the individual and consolidated basis.

Independent auditor's report

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This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the separate financial statements of Nova Ljubljanska Banka, d.d. ("the Bank") and the consolidated financial statements of NLB Group ("the Group"), which comprise the statement of financial position and consolidated statement of financial position as at December 31 2017, the income statement and consolidated income statement, the statement of other comprehensive income and consolidated statement of other comprehensive income, the statement of changes in equity and consolidated statement of changes in equity, the statement of cash flows and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2017 and its separate and consolidated financial performance and its separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report. We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate and consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Emphasis of matter

We draw attention to Note 5.17. to the separate and consolidated financial statements, which describe the uncertainty related to the outcome of the lawsuits filed against NLB d.d. by two Croatian banks which have not yet been decided. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

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Contingent liabilities relating to legal matters

The Bank/Group is involved in various legal matters as defendant. We focused on this area because of the potential significance of these commitments and contingencies (in particular as they relate to the asserted claim from the Privredna banka Zagreb (PBZ) and Zagrebačka banka (ZaBa) against the Bank). The assessment as to whether or not a liability should be recognized and whether amounts can be reliably estimated includes, to a certain extent, judgment from management. We determined this to be a significant item for our audit and a key auditing matter. Note 5.17. to the separate and consolidated financial statements describes the uncertainty related to the outcome of the lawsuits filed against the Bank/Group by two Croatian banks in detail.

Our procedures included, amongst others, an assessment of the legal advice obtained by the Bank/Group as well as periodic meetings with management and review of board minutes to discuss developments in legal proceedings and asserted claims. We also obtained confirmations from the Bank/Group's external legal counsels in order to compare their expert opinions to management's position on measurement and/or disclosures in relation to the legal case.
We assessed the adequacy of the disclosures included in Note 5.17. of the separate and consolidated financial statements and added emphasis of matter in our audit opinion in respect of this matter.

Credit risk and individual impairment of loans and advances to customers

The carrying amount of loans given to customers is 6,9 billion EUR or 57% of total assets at the Group and 4,6 billion EUR or 53% of total assets at the Bank. Impairment of loans and advances to customers is a highly subjective area due to the level of judgment applied by management in determining credit impairments. Experience from previous years has shown that banks can face serious problems and capital shortfalls in periods of recession and financial crisis, which can have material impact on the separate and consolidated financial statements and pose threat to the going concern assumption. Mainly, the highest risk is related to assessment of individual impairments for loans. For further information, refer to Note 6.1. of the separate and consolidated financial statements.

We understood and evaluated the processes for identifying impairment events within the loan portfolios, as well as the impairment assessment processes for loans within the restructuring unit and run-off portfolio.
We assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate impairment. We tested a sample of performing loans with characteristics that might imply an impairment event had occurred (for example a customer experiencing financial difficulty or approaching a refinancing deadline) to assess whether impairment events had been identified by management.
For a sample of individually impaired loans, we understood the latest developments at the borrower and the basis of measuring value of impairment and considered whether key judgments were appropriate given the borrowers' circumstances. We also re-performed management's impairment calculation. In addition, we tested key inputs to the impairment calculation including the expected future cash flows and valuation of collateral held, and discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower and appropriate for the purpose.
We assessed the adequacy of the Bank's/Group's disclosures included in Note 6.1. of the separate and consolidated financial statements.

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Information technology (IT) systems and controls over financial reporting

We identified IT systems, and controls over financial reporting as an area of focus as the Bank/Group's financial accounting and reporting systems are heavily dependent on complex systems and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively. Therefore, we have identified IT systems and controls over the financial reporting as a key audit matter.	We involved internal experts in assessing and testing the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to the financial reporting. We examined the framework of governance over the Bank/Group's IT organization and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. Where necessary we also carried out direct tests of certain aspects of the security of the Bank/Group's IT systems including access management and segregation of duties.

Other information

Other information comprises the information included in the separate and consolidated Annual Report other than the separate and consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the separate and consolidated financial statements is, in all material respects, consistent with the separate and consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Bank and the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management, supervisory board and the audit committee for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of the separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and Group or to cease operations, or has no realistic alternative but to do so.

The audit committee and supervisory board are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee and the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide the audit committee and the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee and the supervisory board, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as the statutory auditor by the statutory body of the Bank and the Group on 8.9.2015 based on our approval by the General Meeting of Shareholders of the Bank and the Group on 22.6.2015. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 5 years.

Consistence with Additional Report to Audit Committee

Our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Bank, which we issued on the same date as the issue date of this report.

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Bank and we remain independent from the Group in conducting the audit.

In addition to statutory audit services and services disclosed in the separate and consolidated annual report and in the separate and consolidated financial statements, no other services were provided by us to the Bank and its controlled undertakings.

Ljubljana, 27. March 2018

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

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

Nena Cvetkovska
Certified auditor

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Statement of management's responsibility

The Management Board hereby confirms its responsibility for preparing the consolidated financial statements of NLB Group and the financial statements of NLB for the year ending on 31.12.2017, and for the accompanying accounting policies and notes to the financial statements.

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and with the requirements of the Slovenian Companies Act and Banking Act so as to give a true and fair view of the financial position of NLB Group and NLB as at 31.12.2017, and their financial results and cash flows for the year then ended.

The Management Board also confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were prepared according to the principles of prudence and good management. The Management Board further confirms that the financial statements of NLB Group and NLB, together with the accompanying notes, have been prepared on a going-concern basis for NLB Group and NLB, and in line with valid legislation and the International Financial Reporting Standards as adopted by the European Union.

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

The Management Board

László Pelle
Member of the Management Board

Archibald Kremser
Member of the Management Board

Andreas Burkhardt
Member of the Management Board

Blaž Brodnjak
President & CEO

Income Statement

in EUR thousand

	Notes	NLB Group 2017	NLB Group 2016	NLB 2017	NLB 2016
Interest and similar income	4.1.	363,733	388,494	188,255	215,550
Interest and similar expense	4.1.	(54,417)	(71,189)	(29,466)	(40,672)
Net interest income		**309,316**	**317,305**	**158,789**	**174,878**
Dividend income	4.2.	179	1,238	50	1,144
Fee and commission income	4.3.	207,908	194,371	127,749	123,014
Fee and commission expense	4.3.	(52,490)	(48,706)	(29,240)	(27,728)
Net fee and commission income		**155,418**	**145,665**	**98,509**	**95,286**
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	4.4.	12,242	14,788	11,711	14,639
Gains less losses from financial assets and liabilities held for trading	4.5.	13,067	6,921	7,065	336
Gains less losses from financial assets and liabilities designated at fair value through profit or loss		75	235	-	-
Fair value adjustments in hedge accounting	5.5.a)	(813)	(3,239)	(813)	(2,437)
Foreign exchange translation gains less losses	4.6.	2,149	1,158	(1,007)	738
Gains less losses on derecognition of assets		1,748	867	249	252
Other operating income	4.7.	26,424	24,442	12,172	12,267
Other operating expenses	4.8.	(29,411)	(33,204)	(15,249)	(13,176)
Administrative expenses	4.9.	(256,907)	(261,160)	(157,877)	(162,083)
Depreciation and amortisation	4.10.	(27,802)	(28,345)	(18,010)	(18,880)
Provisions for other liabilities and charges	4.11.	(5,251)	(4,357)	(7,344)	482
Impairment charge	4.12.	34,781	(56,288)	38,008	(64,433)
Gains less losses from capital investments in subsidiaries, associates, and joint ventures	4.13.	3,852	5,006	58,171	28,915
Net gains or losses from non-current assets held for sale		(1,756)	(432)	451	(220)
PROFIT BEFORE INCOME TAX		**237,311**	**130,600**	**184,875**	**67,708**
Income tax	4.14.	(3,997)	(14,975)	4,219	(3,925)
PROFIT FOR THE YEAR		**233,314**	**115,625**	**189,094**	**63,783**
Attributable to owners of the parent		225,069	110,017	189,094	63,783
Attributable to non-controlling interests		8,245	5,608	-	-
Earnings per share/diluted earnings per share (in EUR per share)	4.15.	11.3	5.5	9.5	3.2

The notes are an integral part of these financial statements.

Statement of comprehensive income

in EUR thousand

		NLB Group		NLB	
	Notes	2017	2016	2017	2016
Net profit for the year after tax		**233,314**	**115,625**	**189,094**	**63,783**
Other comprehensive income after tax		**(3,100)**	**6,331**	**(8,882)**	**2,740**
Items that will not be reclassified to income statement					
Actuarial gains/(losses) on defined benefit pensions plans		**(810)**	**1,515**	**(950)**	**1,466**
Share of other comprehensive income/(losses) of entities accounted for using the equity method		**(11)**	**(6)**	**-**	**-**
Income tax relating to components of other comprehensive income	**5.19.**	**89**	**(191)**	**90**	**(191)**
Items that may be reclassified subsequently to income statement					
Foreign currency translation		**3,035**	**(1,910)**	**-**	**-**
Translation gains/(losses) taken to equity		3,035	(1,910)	-	-
Cash flow hedges (effective portion)		**-**	**2,703**	**-**	**2,703**
Net valuation gains/(losses) taken to equity	5.5.c)	-	(343)	-	(343)
Transferred to profit or loss	5.5.c)	-	3,046	-	3,046
Available-for-sale financial assets		**(7,261)**	**3,899**	**(9,904)**	**171**
Valuation gains/(losses) taken to equity	5.4.c)	4,955	18,529	1,781	14,652
Transferred to profit or loss	4.4. and 4.12.	(12,216)	(14,630)	(11,685)	(14,481)
Share of other comprehensive income/(losses) of entities accounted for using the equity method		**236**	**2,731**	**-**	**-**
Income tax relating to components of other comprehensive income	**5.19.**	**1,622**	**(2,410)**	**1,882**	**(1,409)**
Total comprehensive income for the year after tax		**230,214**	**121,956**	**180,212**	**66,523**
Attributable to owners of the parent		221,852	116,383	180,212	66,523
Attributable to non-controlling interests		8,362	5,573	-	-

The notes are an integral part of these financial statements.

Statement of financial position

in EUR thousand

		NLB Group		NLB	
	Notes	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	1,256,481	1,299,014	570,010	617,039
Trading assets	5.2.	72,189	87,699	72,180	87,693
Financial assets designated at fair value through profit or loss	5.3.a)	5,003	6,694	634	2,011
Available-for-sale financial assets	5.4.a)	2,276,493	2,072,153	1,777,762	1,594,094
Derivatives - hedge accounting	5.5.b)	1,188	217	1,188	217
Loans and advances					
- debt securities		82,133	85,315	82,133	85,315
- loans and advances to banks	5.6.a)	510,107	435,537	462,322	408,056
- loans and advances to customers	5.6.b)	6,912,333	6,912,067	4,587,477	4,843,594
- other financial assets	5.6.c)	66,077	61,014	38,389	36,151
Held-to-maturity financial assets	5.7.	609,712	611,449	609,712	611,449
Fair value changes of the hedged items in portfolio hedge of interest rate risk		719	678	719	678
Non-current assets and disposal group classified as held for sale	5.8.	11,631	4,263	2,564	1,788
Property and equipment	5.9.	188,355	196,849	87,051	90,496
Investment property	5.10.	51,838	83,663	9,257	8,151
Intangible assets	5.11.	34,974	33,970	23,911	23,345
Investments in subsidiaries	5.12.a)	-	-	349,945	339,693
Investments in associates and joint ventures	5.12.b)	43,765	43,248	6,932	7,031
Current income tax assets		2,795	2,888	2,196	2,124
Deferred income tax assets	5.18.	18,603	7,735	19,758	10,622
Other assets	5.13.	93,349	94,558	8,692	8,419
Total assets		**12,237,745**	**12,039,011**	**8,712,832**	**8,777,966**
Trading liabilities	5.15.	9,502	18,791	9,398	18,787
Financial liabilities designated at fair value through profit or loss	5.3.b)	635	2,011	635	2,011
Derivatives - hedge accounting	5.5.b)	25,529	29,024	25,529	29,024
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	5.16.a)	40,602	42,334	72,072	74,977
- borrowings from banks and central banks	5.16.b)	279,616	371,769	260,747	338,467
- due to customers	5.16.a)	9,878,378	9,437,147	6,810,967	6,615,390
- borrowings from other customers	5.16.b)	74,286	83,619	5,726	4,274
- debt securities in issue	5.16.c)	-	277,726	-	277,726
- subordinated liabilities	5.16.d)	27,350	27,145	-	-
- other financial liabilities	5.16.e)	111,019	110,295	71,534	68,784
Liabilities of disposal group classified as held for sale	5.8. b)	440	-	-	-
Provisions	5.17.	88,639	100,914	70,817	79,546
Current income tax liabilities		2,894	3,146	-	-
Deferred income tax liabilities	5.18.	1,096	727	-	-
Other liabilities	5.20.	9,596	8,703	4,181	4,186
Total liabilities		**10,549,582**	**10,513,351**	**7,331,606**	**7,513,172**
Equity and reserves attributable to owners of the parent					
Share capital	5.21.	200,000	200,000	200,000	200,000
Share premium	5.22.	871,378	871,378	871,378	871,378
Accumulated other comprehensive income	5.22.	26,752	29,969	25,699	34,581
Profit reserves	5.22.	13,522	13,522	13,522	13,522
Retained earnings		541,901	380,444	270,627	145,313
		1,653,553	**1,495,313**	**1,381,226**	**1,264,794**
Non-controlling interests		34,610	30,347	-	-
Total equity		**1,688,163**	**1,525,660**	**1,381,226**	**1,264,794**
Total liabilities and equity		**12,237,745**	**12,039,011**	**8,712,832**	**8,777,966**

The notes are an integral part of these financial statements.

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

László Pelle
Member of the
Management Board

Archibald Kremser
Member of the
Management Board

Andreas Burkhardt
Member of the
Management Board

Blaž Brodnjak
President & CEO

Ljubljana, 27 March 2018

Statement of changes in equity

in EUR thousand

NLB Group	Share capital	Share premium	Accumulated other comprehensive income reserve	Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance as at 1.1.2016	200,000	871,378	23,603	13,522	314,307	1,422,810	27,573	1,450,383
- Net profit for the year	-	-	-	-	110,017	110,017	5,608	115,625
- Other comprehensive income	-	-	6,366	-	-	6,366	(35)	6,331
Total comprehensive income after tax	-	-	6,366	-	110,017	116,383	5,573	121,956
Dividends paid	-	-	-	-	(43,880)	(43,880)	(2,799)	(46,679)
Balance as at 31.12.2016	**200,000**	**871,378**	**29,969**	**13,522**	**380,444**	**1,495,313**	**30,347**	**1,525,660**
- Net profit for the year	-	-	-	-	225,069	225,069	8,245	233,314
- Other comprehensive income	-	-	(3,217)	-	-	(3,217)	117	(3,100)
Total comprehensive income after tax	-	-	(3,217)	-	225,069	221,852	8,362	230,214
Dividends paid	-	-	-	-	(63,780)	(63,780)	(3,752)	(67,532)
Other	-	-	-	-	168	168	(347)	(179)
Balance as at 31.12.2017	**200,000**	**871,378**	**26,752**	**13,522**	**541,901**	**1,653,553**	**34,610**	**1,688,163**

In 2017 the item 'Other' relates to transactions with non-controlling interests and costs attributable to an increase of equity investment of a subsidiary.

in EUR thousand

NLB	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Total equity
Balance as at 1.1.2016	200,000	871,378	31,841	13,522	125,410	1,242,151
- Net profit for the year	-	-	-	-	63,783	63,783
- Other comprehensive income	-	-	2,740	-	-	2,740
Total comprehensive income after tax	-	-	2,740	-	63,783	66,523
Dividends paid	-	-	-	-	(43,880)	(43,880)
Balance as at 31.12.2016	**200,000**	**871,378**	**34,581**	**13,522**	**145,313**	**1,264,794**
- Net profit for the year	-	-	-	-	189,094	189,094
- Other comprehensive income	-	-	(8,882)	-	-	(8,882)
Total comprehensive income after tax	-	-	(8,882)	-	189,094	180,212
Dividends paid	-	-	-	-	(63,780)	(63,780)
Balance as at 31.12.2017	**200,000**	**871,378**	**25,699**	**13,522**	**270,627**	**1,381,226**

The notes are an integral part of these financial statements.

Statement of cash flows

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	383,615	413,337	210,292	240,789
Interest paid	(60,165)	(78,401)	(33,714)	(44,510)
Dividends received	179	1,233	50	1,139
Fee and commission receipts	206,100	192,295	125,760	119,296
Fee and commission payments	(56,855)	(51,996)	(29,385)	(27,056)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	12,455	13,296	11,883	13,147
Realised losses from financial assets and financial liabilities not at fair value through profit or loss	-	(40)	-	(40)
Net gains/(losses) from financial assets and liabilities held for trading	9,421	3,246	3,646	(2,785)
Payments to employees and suppliers	(254,877)	(262,202)	(160,484)	(165,579)
Other income	27,135	26,352	12,391	13,256
Other expenses	(28,775)	(26,132)	(15,075)	(14,857)
Income tax paid	(10,557)	(19,991)	(509)	(14,489)
Cash flows from operating activities before changes in operating assets and liabilities	**227,676**	**210,997**	**124,855**	**118,311**
(Increases)/decreases in operating assets	**(227,829)**	**(139,839)**	**45,391**	**30,540**
Net (increase)/decrease in trading assets	9,001	163,609	9,001	164,609
Net (increase)/decrease in financial assets designated at fair value through profit or loss	1,801	1,026	1,487	2,795
Net (increase)/decrease in available-for-sale financial assets	(228,936)	(344,588)	(216,235)	(353,677)
Net (increase)/decrease in loans and advances	(18,524)	37,715	250,062	214,615
Net (increase)/decrease in other assets	8,829	2,399	1,076	2,198
Increases/(decreases) in operating liabilities	**86,953**	**197,351**	**(130,582)**	**101,342**
Net increase/(decrease) in financial liabilities designated at fair value through profit or loss	(1,487)	(2,801)	(1,487)	(2,801)
Net increase/(decrease) in deposits and borrowings measured at amortised cost	361,928	227,842	145,241	130,815
Net increase/(decrease) in securities measured at amortised cost	(274,200)	(26,913)	(274,200)	(26,913)
Net increase/(decrease) in other liabilities	712	(777)	(136)	241
Net cash used in operating activities	**86,800**	**268,509**	**39,664**	**250,193**
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts from investing activities	**112,661**	**77,903**	**129,259**	**98,095**
Proceeds from sale of property, equipment, and investment property	37,274	5,536	75	400
Proceeds from sale of subsidiaries	38	-	38	-
Proceeds from dividends from subsidiaries and associates	4,215	3,587	58,012	28,915
Proceeds from sale of associates and joint ventures	238	-	238	-
Proceeds from non-current assets held for sale	493	128	493	128
Proceeds from disposals of held-to-maturity financial assets	70,403	68,652	70,403	68,652
Payments from investing activities	**(96,991)**	**(153,178)**	**(99,762)**	**(161,064)**
Purchase of property, equipment, and investment property	(10,793)	(17,896)	(5,776)	(10,990)
Purchase of intangible assets	(10,801)	(6,981)	(7,605)	(4,466)
Purchase of subsidiaries and increase in subsidiaries' equity	(1,596)	-	(12,580)	(17,307)
Increase in associates and joint ventures' equity	-	(12,250)	-	(12,250)
Purchase of held-to-maturity financial assets	(73,801)	(116,051)	(73,801)	(116,051)
Net cash flows used in investing activities	**15,670**	**(75,275)**	**29,497**	**(62,969)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments from financing activities	**(67,557)**	**(46,655)**	**(63,780)**	**(43,880)**
Dividends paid	(67,512)	(46,655)	(63,780)	(43,880)
Other payments related to financing activities	(45)	-	-	-
Net cash from financing activities	**(67,557)**	**(46,655)**	**(63,780)**	**(43,880)**
Effects of exchange rate changes on cash and cash equivalents	(8,474)	693	(13,644)	1,507
Net increase/(decrease) in cash and cash equivalents	**34,913**	**146,579**	**5,381**	**143,344**
Cash and cash equivalents at beginning of year	**1,449,275**	**1,302,003**	**670,682**	**525,831**
Cash and cash equivalents at end of year	**1,475,714**	**1,449,275**	**662,419**	**670,682**

The notes are an integral part of these financial statements.

Statement of cash flows

in EUR thousand

		NLB Group		NLB	
	Notes	2017	2016	2017	2016
Cash and cash equivalents comprise:					
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	1,256,481	1,299,014	570,010	617,039
Loans and advances to banks with original maturity up to 3 months		148,784	85,103	92,409	53,643
Available for sale financial assets with original maturity up to 3 months		70,449	65,158	-	-
Total		**1,475,714**	**1,449,275**	**662,419**	**670,682**

Notes to financial statements

1. General information

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

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

The ultimate controlling party of NLB is the Republic of Slovenia, which was the sole shareholder as at 31.12.2017 and 31.12.2016.

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

2. Summary of significant accounting policies

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

2.1. Statement of compliance

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

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

2.2. Basis for presenting the financial statements

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

The preparation of financial statements in accordance with the IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and activities, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised. Critical accounting estimates and judgements in applying accounting policies are disclosed in note 2.33.

2.3. Comparative amounts

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

Compared to 2016, in 2017 NLB Group changed the approach for recognition of deferred tax assets namely, in previous periods, NLB Group presented deferred tax assets on all temporary differences and deducted them to the amount that, given future profit estimates, is expected to be reversed in the foreseeable future (i.e. within five years). In 2017 NLB Group recognised deferred tax assets on all temporary differences, except for impairments of non-strategic capital investments where deferred tax assets are recognised in the amount that, taking into account other recognised deferred tax assets, reaches the total amount of deferred tax assets, for which a reversal is expected within five years. Deferred tax assets arising from tax losses is not recognised.

2.4. Consolidation

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

NLB controls an entity when all three elements of control are met:

- it has power over the entity;
- it is exposed or has rights to variable returns from its involvement with the entity; and
- it has the ability to use its power over the entity to affect the amount of the entity's returns.

NLB reassesses whether it controls an entity if facts and circumstances indicate there are changes to one or more of the three elements of control. If the loss of control of a subsidiary occurs, the subsidiary is no longer consolidated from the date that control ceases.

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

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

NLB Group treats transactions with non-controlling interests as transactions with equity owners of NLB Group. For purchases of subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from the equity. Gains or losses on sales to non-controlling interests are recorded in the equity. For sales to non-controlling interests, the differences between any proceeds received and the relevant share of non-controlling interests are also recorded in the equity. All effects are presented in the item 'Equity Attributable to Non-controlling Interest.'

2.5. Investments in subsidiaries, associates, and joint ventures

In the separate financial statements, investments in subsidiaries, associates, and joint ventures are accounted for with the cost method. Dividends from subsidiaries, joint ventures, or associates are recognised in the income statement when NLB's right to receive the dividend has been established.

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

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

NLB Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When NLB Group's share of losses in an associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other unsecured receivables, NLB Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate and joint venture. NLB Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised (note 5.12.b).

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

2.6. Goodwill and bargain purchases

Goodwill is measured as the excess of the aggregate of the consideration measured at fair value and transferred to the acquiree, the amount of any non-controlling interest in the acquiree, and the fair value of an interest in the acquiree held immediately before the acquisition date over the net amounts of the identifiable assets acquired as well as the liabilities assumed. Any negative amount, a gain on a bargain purchase, is recognised in profit or loss after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews the appropriateness of their measurement.

The consideration transferred is measured at the fair value of the assets transferred, equity interest issued, and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements. However, this excludes acquisition-related costs such as advisory, legal, valuation, and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from the equity and all other transaction costs associated with the acquisition are expensed.

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

2.7. A combination of entities or businesses under common control

A merger of entities within NLB Group is a business combination involving entities under common control. For such mergers, members of NLB Group apply merger accounting principles and use the carrying amounts of merged entities as reported in the consolidated financial statements. No goodwill is recognised on mergers of NLB Group entities.

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

2.8. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

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

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

NLB Group entities

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate on the reporting date;
- income and expenses for each income statement are translated at average exchange rates; and
- components of equity are translated at the historical rate.

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

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

2.9. Interest income and expenses

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

2.10. Fee and commission income

Fees and commissions are generally recognised when the service has been provided. Fees and commissions mainly consist of fees received from credit cards and ATMs, customer transaction accounts, payment services, investment funds, and commissions from guarantees. Fees and commissions that are integral to the effective interest rate of financial assets and liabilities are presented within interest income or expenses.

2.11. Dividend income

Dividends are recognised in the income statement when NLB Group's right to receive payment has been established and an inflow of economic benefits is probable. Dividend income from subsidiaries, associates, and joint ventures is included in the item 'Gains Less Losses from Capital Investments in Subsidiaries, Associates, and Joint Ventures,' while other dividend income is included in the item 'Dividend Income.' In the consolidated financial statement, dividends received from associates and joint ventures reduce the carrying value of the investment.

2.12. Financial instruments

a) Classification

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

Financial instruments at fair value through profit or loss

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

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

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis;

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

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

Loans and advances

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

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial instruments that are traded on an active market with fixed or determinable payments and a fixed maturity that NLB Group has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity financial asset if NLB Group has the right to require the issuer to repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity.

Available-for-sale financial assets

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

b) Measurement and recognition

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

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

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

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Gains and losses from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative amount previously included in other comprehensive income is recycled in the income statement. Interest calculated using the effective interest rate method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement.

Loans and held-to-maturity financial assets are carried at an amortised cost.

c) Day one gains or losses

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

If the transaction price on a non-active market is different than the fair value from other observable current market transactions in the same instrument, or is based on a valuation technique whose variables only include data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement ('day one gains or losses').

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

d) Reclassification

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

e) Derecognition

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

f) Fair value measurement principles

The fair value of financial instruments traded on active markets is based on the price that would be received to sell the assets or transfer liability (exit price) being measured at the reporting date, excluding transaction costs. If there is no active market, the fair value of the instruments is estimated using discounted cash flow techniques or pricing models.

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

g) Derivative financial instruments and hedge accounting

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

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

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

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

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

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in the fair value of hedging instruments and related hedged items are reflected in 'Fair value adjustments in Hedge Accounting' in the income statement. Any ineffectiveness from derivatives is recorded in 'Gains Less Losses on Financial Assets and Liabilities Held for Trading.'

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

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is immediately recognised in the income statement in 'Gains Less Losses on Financial Assets and Liabilities Held for Trading.'

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

When a hedging instrument expires or is sold, or when a hedge no longer meets hedge accounting criteria, any cumulative gain or loss existing in other comprehensive income and previously accumulated in equity at that time remains in other comprehensive income and in equity, and is recognised in profit or loss only when the forecasted transaction is ultimately recognised in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement in line with fair value adjustments in hedge accounting.

Hedge of a net investment in a foreign operation

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement in 'Gains Less Losses on Financial Assets and Liabilities Held for Trading.' Gains and losses accumulated in other comprehensive income are included in the consolidated income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

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

2.13. Impairment of financial assets

a) Assets carried at an amortised cost

NLB Group assesses impairments of financial assets separately for all individually significant assets where there is objective evidence of impairment. All other financial assets are impaired collectively. According to the Regulation on credit risk loss assessment of the Bank of Slovenia, a financial asset or off-balance sheet liability is individually significant if the total exposure to a customer exceeds 0.5% of a bank's equity. In 2017, all exposures to banks, all exposures to other legal entities exceeding EUR 500 thousand, and all exposures to individuals exceeding EUR 100 thousand were deemed individually significant assets requiring individual assessment. If NLB Group determines that no objective evidence exists for an individually assessed financial asset, the asset is included in a group of related financial assets with similar credit risk characteristics and collectively assessed for impairment.

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

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

- delays in the payment of contractual interest or principal;
- a breach of other contractual covenants or conditions;
- difficulties in the financial condition of the borrower;
- restructuring of a borrower's financial liabilities, whereby a material loss is recognised;
- initiation of bankruptcy or insolvency proceedings; and
- other arrangements having an adverse effect on the bank's or company's position.

If there is objective evidence that an impairment loss on loans and advances or held-to-maturity financial assets has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through an allowance account and the loss is recognised in the income statement. With regard to impairments for customers in default, where the payment of existing liabilities is only possible through the redemption of collateral, the expected payment from the collateral is taken into account. This value is calculated from the appraised market value of the collateral, and the discount used as defined in the Collateral Manual. Off-balance sheet liabilities are also assessed individually and, where necessary, related provisions are recognised as liabilities.

For the purpose of the collective assessment of impairment, NLB Group uses transition matrices which illustrate the expected transition of customers between internal rating categories. The probability of transition is assessed on the basis of the past years' experience, i.e. the annual transition matrices for different types or segments of customers. This data may be adopted for projected future trends, as historical experience does not necessarily reflect actual economic movements. Exposures to individuals are further analysed with regard to the type of product. Based on the expected transition of customers to D and E credit-rating categories, and an assessment of the average repayment rate for D- and E-rated customers (treated as customers in default), NLB Group recognises collective impairments.

If the amount of impairment decreases subsequently due to an event occurring after the impairment was recognised (e.g. repayment in the collection process exceeds the assessed expected payment from collateral), the reversal of the loss is recognised as a reduction in the allowance for loan impairment.

NLB Group writes off financial assets measured at amortised cost if during the collection process it assesses that the assets in question will not be repaid and that the conditions for derecognition have been met.

b) Assets classified as available for sale

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

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

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

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

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

2.14. Forborne loans

A forborne loan (or restructured financial asset) arises as a result of a debtor's inability to repay a debt under the originally agreed terms, either by modifying the terms of the original contract (via an annex) or by signing a new contract (refinancing) under which the contracting parties agree the partial or total repayment of the original debt. If receivables due from the client have the status of restructuring, the debtor must be classified in the rating group C, D, or E.

The definitions of forborne loans closely follow definitions that were developed by the European Banking Authority (EBA). These definitions aim to achieve comprehensive coverage of exposures to which forbearance measures have been extended.

Accounting treatment of forborne loans depends on the type of restructuring. When NLB Group is embarking on a forborne loan via modified terms of repayment proceeding from extending the deadline for the repayment of the principal and/or interest, and/or a forbearance of the repayment of the principal, and/or interest or a reduction in the interest rate, and/or other expenses, it adjusts the carrying amount of the forborne loan on the basis of the discounted value of the estimated future cash flows under the modified terms, and recognises the resulting effect in profit or loss as an impairment. In the event of the reduction of a claim against the debtor via the reduction in the amount of the claims as a result of a contractually agreed debt waiver and ownership restructuring or debt to equity swap, NLB Group derecognises the claim in the part relating to the write-down or the contractually agreed debt waiver. The new estimate of the future cash flows for the residual claim, not yet written down, is based on an updated estimate of the probability of loss. NLB Group takes into account the debtor's modified position, the economic expectations and the collateral of the forborne loan. When NLB Group is embarking on the forborne loan by taking possession of other assets (property, plant and equipment, securities, and other financial assets), including investments in the equity of debtors obtained via debt-to-equity swaps, it recognises the acquired assets in the statement of financial position at fair value, recognising the difference between the disclosed fair value of the asset and the carrying amount of the eliminated claim in profit or loss.

Forborne exposures may be identified in both the performing and non-performing parts of the portfolio. Where the forborne loan is classified in the non-performing part of the portfolio, it can be reclassified to the performing part if forbearance does not lead to a recognition of impairment or non-performance, if one year has passed since the forbearance has been introduced and after the introduction of forbearance there have been no overdue amounts or doubts concerning the repayment of the entire exposure, under the terms and conditions after the forbearance. The absence of doubt is confirmed by analysis of the financial situation of the debtor.

The forborne status is withdrawn when:

- an analysis of the debtor's financial position shows that the conditions to deem the exposure a non-performing exposure are no longer met;
- at least a 2-year probation period has passed since the forborne exposure was deemed performing;
- regular payments of the principal or interest were made, in a substantial total amount, during at least half the probation period; and
- no exposure to the debtor is more than 30 days in default at the end of the probation period.

2.15. Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are initially recognised in the financial statements at their fair value and classified in the appropriate category according to their purpose and are sold as soon as is practical in order to reduce exposure (note 6.1.o). After initial recognition, repossessed assets are measured and accounted for in accordance with the policies applicable to the relevant asset categories. Repossessed assets mainly represent items of real estate that NLB Group classifies within investment properties measured in accordance with IAS 40 Investment property (note 2.20), and other assets measured in accordance with IAS 2 Inventories.

Real estate obtained from the foreclosure of loans and receivables within other assets are initially recognised at fair value less costs to sell (realisable value), wherein only the direct costs of sales can be taken into account. At subsequent measurement, the realisable value is verified at least annually. Valuations of the fair value of real estate are performed by certified real estate appraisers. The real estate is impaired when the carrying value exceeds the realisable value. The effect of impairment is presented as the impairment of other assets and the reversal of impairment as income from the reversal of the impairment of other assets.

2.16. Offsetting

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

2.17. Sale and repurchase agreements

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

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

2.18. Property and equipment

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

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

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

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

NLB Group and NLB	in %
Buildings	2 - 5
Leasehold improvements	5 - 25
Computers	14.3 - 50
Furniture and equipment	10 - 33.3
Motor vehicles	12.5 - 25

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

The assets' residual values and useful lives are reviewed and adjusted if appropriate on each reporting date. Gains and losses on the disposal of items of property and equipment are determined as the difference between the sale proceeds and their carrying amount, and are recognised in the income statement.

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

2.19. Intangible assets

Intangible assets include software licenses and goodwill (note 2.6.). Intangible assets are stated at cost, less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis at rates designed to write down the cost of an intangible asset over its estimated useful life. The core banking system is amortised over a period of 10 years, and other software over a period of three to five years. Amortisation does not begin until the assets are available for use.

2.20. Investment properties

Investment properties include buildings held for leasing and not occupied by NLB Group, or to increase the value of a long-term investment. Investment properties are stated at fair value determined by a certified appraiser. Fair value is based on current market prices. Any gain or loss arising from a change in the fair value is recognised in the income statement.

2.21. Non-current assets and disposal groups classified as held for sale

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

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

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

2.22. Accounting for leases

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

NLB Group as a lessee

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

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

NLB Group as a lessor

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

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

Sale-and-leaseback transactions

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

2.23. Cash and cash equivalents

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

2.24. Borrowings with characteristics of debt

Loans and deposits received and issued debt securities are initially recognised at fair value, which is typically equal to historical cost less transaction costs. Borrowings are subsequently measured at the amortised cost. The difference between the value at initial recognition and the final value is recognised in the income statement as interest expense, applying the effective interest rate.

Repurchased own debt is disclosed as a reduction in liabilities in the statement of financial position. The difference between the book value and the price at which own debt was repurchased is disclosed in the income statement.

2.25. Other issued financial instruments with characteristics of equity

Upon initial recognition, other issued financial instruments are classified in part or in full as equity instruments if the contractual characteristics of the instruments are such that NLB Group must classify them as equity instruments in accordance with IAS 32 Financial Instruments: Disclosure and Presentation. An issued financial instrument is only considered an equity instrument if that instrument does not represent a contractual obligation for payment.

Issued financial instruments with characteristics of equity are recognised in equity in the statement of financial position. Transaction costs incurred for issuing such instruments are deducted from equity reserves. The corresponding interest is recognised directly in profit reserves.

The carrying value of an issued financial instrument with characteristics of equity is presented in the statement of changes in equity in the item 'Other Equity Instruments.'

2.26. Provisions

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

2.27. Contingent liabilities and commitments

Financial and non-financial guarantees

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

The issued guarantees covering non-financial obligations of the clients represent the obligation of the Bank (guarantor) to pay if the client fails to perform certain works in accordance with the terms of the commercial contract. Financial and non-financial guarantees are initially recognised at fair value, which is normally evidenced by the fees received. The fees are amortised to the income statement over the contract term using the straight-line method. NLB Group's liabilities under guarantees are subsequently measured at the greater of:

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

Documentary letters of credit

Documentary (and standby) letters of credit constitute a written and irrevocable commitment of the issuing (opening) bank on behalf of the issuer (importer) to pay the beneficiary (exporter) the value set out in the documents by a defined deadline:

- if the letter of credit is payable on sight; and
- if the letter of credit is payable for deferred payment, the bank will pay according to the contractual agreement when and if the beneficiary (exporter) presents the bank with documents that are in line with the conditions and deadlines set out in the letter of credit.

A commitment may also take the form of a letter of credit confirmation, which is usually done at the request or authorisation of the issuing (opening) bank and constitutes a firm commitment by the confirming bank, in addition to that of the issuing bank, which independently assumes a commitment to the beneficiary under certain conditions.

Other contingent liabilities and commitments

Other contingent liabilities and commitments represent commitments to extend credit, uncovered letters of credit, and other commitments.

2.28. Taxes

Income tax expense comprises current and deferred income tax.

Current corporate income tax in NLB Group is calculated on taxable profits at the applicable tax rate in the respective jurisdiction. The corporate income tax rate for 2017 in Slovenia was 19% (2016: 17%).

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

Deferred tax assets are recognised if it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

Deferred tax related to the fair value re-measurement of available-for-sale investments, cash flow hedges, and actuarial gains and losses on defined benefit pension plans is charged or credited directly to other comprehensive income.

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

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

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

Slovenian law does not set limits or deadlines by which uncovered tax losses must be utilised.

A tax on financial services, which imposes a tax on fees paid for prescribed financial services rendered, is paid in Slovenia. The tax rate is 8.5% (2016: 8.5%) and the tax is paid monthly. Given that the tax on financial services is classified as a sales tax, it reduces accrued revenues in the financial statements.

2.29. Fiduciary activities

NLB Group provides asset management services to its clients. Assets held in a fiduciary capacity are not reported in NLB Group's financial statements as they do not represent assets of NLB Group. Fee and commission income charged for this type of service is broken down by items in note 4.3.b. Further details on transactions managed on behalf of third parties are disclosed in note 5.25.

Based on the requirements of Slovenian legislation, NLB Group has additionally disclosed in note 5.25. assets and liabilities on accounts used to manage financial assets from fiduciary activities, i.e. information related to the receipt, processing, and execution of orders and related custody activities.

2.30. Employee benefits

Employee benefits include jubilee long-service benefits and retirement indemnity bonuses. Provisions for employee benefits are calculated by an independent actuary.

The main assumptions included in the actuarial calculation are as follows:

	NLB Group		NLB	
	2017	2016	2017	2016
Actuarial assumptions				
Discount factor	0.8% - 3.1%	0.8% - 6.0%	1.0%	0.8%
Wage growth based on inflation, promotions, and wage growth based on past years of service	1.6% - 4.0%	1.6% - 4.0%	2.5%	2.5%
Other assumptions				
Number of employees eligible for benefits	5,442	5,584	2,779	2,876

Sensitivity analysis of significant actuarial assumptions

	NLB Group				NLB			
31.12.2017	Discount rate		Future salary increases		Discount rate		Future salary increases	
	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.
Impact on employee benefits provisions - post-employment benefits (in %)	(5.7)	6.2	6.1	(5.7)	(5.8)	6.3	6.2	(5.7)

According to legislation, employees retire after 35-40 years of service when, if they fulfil certain conditions, they are entitled to a lump-sum severance payment. Employees are also entitled to a long-service bonus for every 10 years of service in NLB.

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

Service costs are included in the income statement in the item administrative expenses as defined benefit costs, while interest expenses on the defined benefit liability are recognised in the item interest and similar expenses. These interest expenses represent the change during the period in the defined benefit liability that arises from the passage of time. Actuarial gains and losses from the effect of changes in actuarial assumptions and experience adjustments (differences between the realised and expected payments) are recognised in other comprehensive income under the item 'Actuarial Gains/(Losses) on Defined Benefit Pensions Plans' and will not be recycled to the income statement.

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

2.31. Share capital

Dividends on ordinary shares

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

Treasury shares

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

Share issue costs

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

2.32. Segment reporting

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

Transactions between organisational units (OU) are managed under normal operating conditions. Interest income among individual OU in the parent bank (NLB) is allocated using a multiple transfer pricing method and shown within the net interest income of each OU. Net non-interest income is allocated to the OU that actually provide the service that generates income. Direct costs are attributed to the segment that is directly related to the provided service and indirect costs (costs which service centres provide for profit centres) are attributed to the segment for which the service is provided, whereas overhead costs are allocated according to general keys. External net income is the net income of NLB Group from the consolidated income statement. Income tax is not allocated between segments (note 7.a).

In accordance with IFRS 8, NLB Group has the following reportable segments: Corporate Banking in Slovenia, Retail Banking in Slovenia, Financial Markets in Slovenia, Foreign Strategic markets, Non-core Markets and Activities, and Other Activities.

2.33. Critical accounting estimates and judgments in applying accounting policies

NLB Group's financial statements are influenced by accounting policies, assumptions, estimates, and management's judgment. NLB Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with the IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuing basis, and are based on past experience and other factors, including expectations with regard to future events.

a) Impairment losses on loans and advances

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

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

Stress testing for credit risk predicts the impact of unfavourable macroeconomic conditions on default and loss rates

The stress scenario predicts a slowdown of economic conditions, which results in an increase of the default rate (DR), as well as the loss rate (LR). Based on the historic experience the connection between the macroeconomic factors and the risk factors is assessed and benchmarks are applied to the existing exposures to assess the additional default flow and impairments and provisions required to cover the risk. The assumption in these scenarios is that exposure does not change over one year.

The results of the stress scenario for NLB Group shows an increase of impairments by EUR 70.4 million (2016: EUR 84.2 million), and an increase in the coverage of the credit portfolio by impairments by 0.63 percentage points (2016: 0.73 percentage points).

b) Fair value of financial instruments

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

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

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

The fair value hierarchy of financial instruments is disclosed in note 6.5.

c) Available-for-sale equity instruments

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

If all the declines in fair value below cost had been considered significant or prolonged, NLB Group would have incurred additional impairment losses of EUR 119 thousand (2016: EUR 257 thousand) from the reclassification of the negative valuation from the statement of comprehensive income to the income statement for the current year, while NLB would have additional impairment losses of EUR 18 thousand in 2017 (2016: EUR 0).

d) Held-to-maturity financial assets

NLB Group classifies non-derivative financial assets with fixed or determinable payments, and a fixed maturity as held-to-maturity financial assets. Before making this classification, NLB Group assesses its intention and ability to hold such investments to maturity. If NLB Group is unable to hold these investments until maturity, it must reclassify the entire group as available-for-sale financial assets. The investments would therefore be measured at fair value, resulting in an increase in the value of investments of EUR 48,317 thousand (31.12.2016: an increase by EUR 59,895 thousand) and corresponding other comprehensive income.

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

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

- Future cash flows from individual investments present the estimated cash flow for periods for which adopted plans are available. For core members, estimated cash flows are based on a five-year business plan. For non-core members, estimated cash flows are based on a period in line with the strategy of divestment. The business plans of individual entities are based on an assessment of future economic conditions that will impact an individual member's business and the quality of the credit portfolio.
- The growth rate in cash flows for the period following the adopted business plan is between 1 and 1.5%.
- The target capital adequacy ratio of an individual bank is between 13 and 17%.
- The discount rate derived from the capital asset pricing model that is used to discount future cash flows is based on the cost of equity allocated to an individual investment. The discount rate reflects the impact of a range of financial and economic variables, including the risk-free rate and risk premium. The value of variables used is subject to fluctuations outside management's control. The pre-tax discount rate is between 9.66 and 19.07% (31.12.2016: between 9.52 and 18.78%).

For strategic NLB Group members in 2017 and 2016 there were no indications of impairment for equity investments.

In 2017, NLB impaired equity investments in non-core members in the amount of EUR 731 thousand.

f) Goodwill

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

NLB Group performed a test of the impairment of goodwill at the end of the year for all subsidiaries. The review of the impairment of goodwill is based on the same facts and assumptions as the review of impairment of investments in subsidiaries, associates, and joint ventures (note 2.33.e).

g) Taxes

NLB Group operates in countries governed by different laws. The deferred tax assets recognised as at 31.12.2017 are based on profit forecasts and take the expected manner of recovery of the assets into account, i.e. whether the value will be recovered through use, sale, or liquidation. Changes in assumptions regarding the likely manner of recovering assets can lead to the recognition of currently unrecognised deferred tax assets or derecognition of previously created deferred tax assets. NLB Group will adjust deferred tax assets accordingly in the event of changes to assumptions regarding future operations (notes 4.14. and 5.18.).

h) Classification of issued financial instruments as debt or equity

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

2.34. Implementation of the new and revised International Financial Reporting Standards

During the current year, NLB Group adopted all new and revised standards and interpretations issued by the International Accounting Standards Board (hereinafter: 'the IASB') and the International Financial Reporting Interpretations Committee (hereinafter: 'the IFRIC'), and that are endorsed by the EU that are effective for annual accounting periods beginning on 1 January 2017.

Accounting standards and amendments to existing standards effective for annual periods beginning on 1 January 2017 that were endorsed by the EU and adopted by NLB Group

- IAS 12 (amendment) – Recognition of Deferred Tax Assets for Unrealised Losses is effective for annual periods beginning on or after 1 January 2017. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. There is no impact on NLB Group's consolidated financial statements, because NLB already recognised deferred tax assets accrued on the basis of temporary differences in an amount that, given future estimates, is expected to be reversed in the foreseeable future within five years.
  - IAS 7 (amendment) – Disclosure Initiative - the amendment to IAS 7 Statement of Cash Flows is effective for annual periods beginning on or after 1 January 2017. The amendments require companies to provide information about changes in their financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses). Currently, the amendments do not have impact on the presentation of NLB Group's consolidated financial statements, because there are no changes in financing activities.

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

- IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a new approach to financial instruments classification and measurement, a new more forward-looking expected loss model, and amends the requirements for hedge accounting. IFRS 9 is mandatorily effective for annual periods beginning on or after 1 January 2018, with early application permitted. In October 2017, the IASB issued the Amendment to IFRS 9: Prepayment Features with Negative Compensation that are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. The amendment allows certain pre-payable financial assets with a negative compensation prepayment option to be measured at an amortized cost or fair value through other comprehensive income, if the prepayment amount substantially represents the reasonable compensation and unpaid principal and interest. Reasonable compensation may be positive or negative. Prior to this amendment financial assets with this negative compensation feature would have failed the exclusive payments of principal and interest test and be mandatorily measured at fair value through profit or loss. This amendment has not yet been endorsed by EU but nevertheless, it will not impact the NLB Group's financial statements.

NLB Group and NLB applied the new standard on 1 January 2018, with the exception of the aforementioned amendment that will be adopted on 1 January 2019 or after endorsement by EU.

Taking into account the dimensions of the IFRS 9 requirements and their impact on the overall banking system, implementation of the standard has been driven centrally by the parent bank. The project has been organised around different working groups covering the different aspects of IFRS 9. Classification and measurement is run by Financial Accounting, while the impairment is run by Global Risk. Other relevant departments have been involved in a supporting role. The Project has been sponsored by the Chief Financial and Risk Officers. A project Steering Committee has been nominated for internal monitoring of progress in the implementation and adoption of relevant decisions, meeting on at least a quarterly basis.

In accordance with the transition requirements of IFRS 9, comparative figures have not been restated. An adjustment arising from the adoption to IFRS 9 was recognised in retained earnings and other comprehensive income as at 1 January 2018. Due to the transition to IFRS 9 requirements, share-holders equity on NLB Group increased for EUR 43.8 million and EUR 27.7 million for NLB. The Tier 1 capital ratio for NLB Group has increased by 0.4 percentage points. NLB Group will not apply transitional arrangements at the transition to the expected credit loss model in accordance with Regulation (EU) 2017/2395.

Classification and measurement under IFRS 9

From a classification and measurement perspective, IFRS 9 requires all debt financial assets to be assessed based on a combination of the Group's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories of financial assets have been replaced by:

- Financial assets, measured at amortised costs (AC),
- Financial assets at fair value through other comprehensive income (FVOCI),
- Financial assets held for trading (FVTPL), and
- Non-trading financial assets, mandatorily at fair value through profit or loss (FVTPL).

Financial assets are measured at AC if they are held within a business model for the purpose of collecting contractual cash flows ('held to collect'), and if cash flows are solely payments of principal and interest on the principal amount outstanding.

Debt financial instruments are measured at FVOCI if they are held within a business model for the purpose of both collecting contractual cash flows and selling ('held to collect and sell'), and if cash flows are solely payments of principal and interest on the principal amount outstanding. FVOCI results in the debt instruments being recognised at fair value in the statement of financial position and at AC in the income statement. Gains and losses, except for expected credit losses and foreign currency translations, are recognised in other comprehensive income until the instrument is derecognised. At derecognition of the debt financial instrument, the cumulative gains and losses previously recognised in other comprehensive income are reclassified to the income statement.

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement, except for dividends that are recognised in the income statement.

All other financial assets are mandatorily measured at FVTPL, including financial assets within other business models such as financial assets managed at fair value or held for trading and financial assets with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding.

Like IAS 39, IFRS 9 includes an option to designate financial assets at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases.

The accounting for financial liabilities remained the same as the requirements of IAS 39, except for the treatment of gains or losses arising from bank's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

NLB Group and NLB elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting requirements in accordance with IAS 39. However, the Bank will implement the revised hedge accounting disclosures that are required by the IFRS 9 related amendments to IFRS 7 "Financial Instruments: Disclosures" in the 2018 Annual Report. Embedded derivatives are under IFRS 9, and no longer separated from the host's financial assets. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

Assessment of NLB Group's business model

NLB Group has determined its business model separately for each reporting unit within the NLB Group and is based on observable factors for different portfolios that best reflects how the Group manages groups of financial assets to achieve its business objective, such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to key management personnel,
- the risks that affect the performance of the business model and, in particular, the way those risks are managed,
- how the managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets or on collection of contractual cash flows),
- the expected frequency, value, and timing of sales.

The business model assessment is based on reasonably expected scenarios without taking worst-case and stress case scenarios into account. In general, the business model assessment of the Group can be summarised as follows:

- loans and deposits given are included in a business model 'held to collect' since the primary purpose of NLB Group for the loan portfolio is to collect the contractual cash flows.
- debt securities are divided into three business models:
  - the first group of debt securities presents "held for trading" category
  - the second group of debt securities are held under a business model "held to collect and sale" with the aim to collect the contractual cash flows and sale of financial assets, and forms part of the Group's liquidity reserves
  - the third part of debt securities is held within the business model for holding them in order to collect contractual cash flows.

With regard to debt securities within the 'held to collect' business model, the sales which are related to the increase of the issuers' credit risk, concentrations risk, sales made close to the final maturity, or sales order to meet liquidity needs in a stress case scenario are permitted. Other sales, which are not due to an increase in credit risk may still be consistent with a held to collect business model if such sales are incidental to the overall business model and;

- are insignificant in value both individually and in aggregate, even when such sales are frequent;
- are infrequent even when they are significant in value.

Review of instruments' contractual cash flow characteristics (the SPPI test – solely payment of principal and interest on the principal amount outstanding)

The second step in the classification of the financial assets in portfolios being 'held to collect' and 'held to collect and sell' relates to the assessment of whether the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g. due to repayment. The interest must represent only the consideration for the time value of money, credit risk, other basic lending risks, and a profit margin consistent with basic lending features. If the cash flows introduce more than de minimis exposure to risk or volatility that is not consistent with basic lending features, the financial asset is mandatorily recognised at FVTPL.

NLB Group reviewed the portfolio within 'held to collect' and 'held to collect and sale' for standardised products on a level of a product sample and for non-standardised products on a single exposure level. The Group established a procedure for SPPI identification as part of regular investment process with defined responsibilities for primary and secondary controls. Special emphasis is put on new and non-standardised characteristics of the loan agreements.

At transition to IFRS 9, as of 1 January 2018, NLB Group identified only few exposures that did not pass the SPPI test and are therefore measured mandatorily at fair value through profit or loss.

Accounting policy for modified financial assets

Accounting policy for modified financial assets differentiates between modifications of contractual cash flows that occur from commercial reasons and those, occurring due to financial difficulties of a client. Modifications of financial assets due to commercial reasons present the derecognition event. In relation to clients in financial difficulties, significant modifications lead to derecognition event whereas modifications that are not significant (where exposure to risks remains broadly the same) do not lead to derecognition. For the latter NLB Group recognizes modification gain or loss.

Impairment of financial instruments

IFRS 9 requires the shift from an incurred loss model to an expected loss model that provides an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. The expected loss model requires NLB Group to recognise not only credit losses that have already occurred, but also losses that are expected to occur in the future. An allowance for expected credit losses (ECL) is required for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

The allowance is based on the expected credit losses associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset (LECL). When determining whether the risk of default increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical data, experience, and expert credit assessment and incorporation of forward-looking information.

Classification into stages

NLB Group prepared a methodology for ECL defining the criteria for classification into stages, transition criteria between stages, risk indicators calculation, and validation of models. The Group classifies financial instruments into Stage 1, Stage 2, and Stage 3, based on the applied impairment methodology as described below:

- Stage 1 – performing portfolio: no significant increase of credit risk since initial recognition, NLB Group recognises an allowance based on 12-month period,
- Stage 2 – underperforming portfolio: significant increase in credit risk since initial recognition, NLB Group recognises an allowance for lifetime period, and
- Stage 3 – impaired portfolio: NLB Group recognises lifetime allowances for these financial assets. Definition of default is harmonised with EBA guidelines.

A significant increase in credit risk is assumed:

- when a credit rating significantly deteriorates at the reporting date, in comparison to the credit rating at initial recognition,
- when a financial asset has material delays over 30 days (days-past due are also included in the credit rating assessment),
- if NLB Group expects to grant the borrower forbearance, or
- if the facility is placed on the watch list.

The methodology of credit rating for banks and sovereign classification depends on the existence or non-existence of a rating from international credit rating agencies Fitch, Moody's, or S&P. Ratings are set on a basis of the average international credit rating. If there are no international credit ratings, the classification is based on the internal methodology of NLB Group.

ECL for Stage 1 financial assets is calculated based on 12-month PDs (probability of default) or shorter period PDs, if the maturity of the financial asset is shorter than 1 year. The 12-month PD already includes macroeconomic impact effect. Impairment losses in stage 1 are designed to reflect impairment losses that had been incurred in the performing portfolio, but have not been identified.

LECL for Stage 2 financial assets is calculated on the basis of lifetime PDs (LPD) because their credit risk has increased significantly since their initial recognition. This calculation is also based on forward-looking assessment that takes into account number of economic scenarios in order to recognise the probability of losses associated with the predicted macro-economic forecasts.

For financial instruments in Stage 3 the same treatment is applied as for those considered to be credit impaired in accordance with IAS 39. Exposures below the materiality threshold obtain collective provisions using PD of 100%. Financial instruments will be transferred out of Stage 3 if they no longer meet the criteria of credit-impaired after a probation period. Special treatment applies for purchased or originated credit-impaired financial instruments (POCI), where only the cumulative changes in the lifetime expected losses since initial recognition is recognised a loss allowance.

The calculation of collective provisions is performed by multiplying the EAD (exposure at default) at the end of each month with an appropriate PD and LGD (loss-given default). EAD is determined as the sum of on-balance exposure and off-balance exposure multiplied by the CCF (credit conversion factor). The obtained result for each month is discounted to the present time. For Stage 1 exposures ECL only takes a 12-month period into account, while for Stage 2 all potential losses until maturity date are included.

For the purpose of estimating the LGD parameter, NLB uses collateral HC (haircut) at the level of each type of collateral and URR (unsecured recovery rate) at the level of each client segment, in accordance with Bank of Slovenia Guidelines. Both parameters are calculated on the bank's historical repayment data.

Expected Life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Forward looking information

The Group incorporates forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECL. The Group considers forward-looking information such as macroeconomic factors (e.g., unemployment rate, GDP growth, interest rates, and housing prices) and economic forecasts. The baseline scenario represents the more likely outcome resulting from the Group's normal budgeting process, while the better and worse case scenarios represent more optimistic or pessimistic outcomes (similar as by ICAAP).

Recalculation of all parameters is performed annually or more frequently if the macro environment changes more than it was incorporated in previous forecasts. In such a case all the parameters are recalculated according to new forecasts.

Presentation of effects at transition to IFRS 9 as of 1 January 2018

Based on the presented business model, the contractual cash flow characteristics of debt instruments and implementation of the expected credit loss model, and the comparison between IAS 39 and IFRS 9 measurements categories at which NLB Group recognised the effects at the transition to IFRS 9 as of 1 January 2018 are presented below:

in EUR thousand

	NLB Group	NLB
IAS 39 measurement categories		
Assets	**11,811,926**	**8,150,393**
Cash, cash balances at central banks, and other demand deposits at banks	1,256,481	570,010
Financial assets designated at fair value through profit or loss	5,003	634
Available-for-sale financial assets	2,276,493	1,777,762
Loans and receivables	7,570,650	5,170,321
Held-to-maturity investments	609,712	609,712
Tax assets	21,398	21,954
Liabilities	**102,860**	**75,633**
Financial liabilities designated at fair value through profit or loss	635	635
Provisions	88,639	70,817
Tax liabilities	3,990	-
Other liabilities	9,596	4,181

in EUR thousand

	NLB Group	NLB
IFRS 9 Measurement categories		
Assets	**11,870,917**	**8,179,895**
Cash, cash balances at central banks, and other demand deposits at banks	1,255,824	569,943
Non-trading financial assets mandatorily at fair value through profit or loss	31,404	31,239
Financial assets at fair value through other comprehensive income	1,656,365	1,285,276
Financial assets measured at amortised costs	8,834,791	6,273,119
Tax assets	20,344	20,318
Liabilities	**115,737**	**77,469**
Financial liabilities designated at fair value through profit or loss	5,815	5,166
Provisions	93,989	67,232
Tax liabilities	6,466	1,014
Other liabilities	9,467	4,057
Effect on equity at transition to IFRS 9 as of 1.1.2018	**46,114**	**27,666**

Details on effects at transition to IFRS 9 recognised in the retained earnings is presented below:

in EUR thousand

	NLB Group	NLB
Impact on equity due to transition to IFRS 9 - details		
Changed methodology for impairments and provisions	58,743	37,319
Remeasurement of loans to fair value	36	(687)
Recognition of modification loss	(1,049)	(1,049)
Reclassification and remeasurement of securities	(7,504)	(5,267)
Income tax on transition	(4,112)	(2,650)
Total impact	**46,114**	**27,666**
Minority share	(2,281)	-
Total impact attributable to the owners of the parent	**43,833**	**27,666**

- IFRS 15 (new standard) – Revenue from Contracts with Customers is effective for annual periods beginning on or after 1 January 2018. IFRS 15 replaces all existing revenue requirements in the IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. The standard specifies the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. NLB Group does not expect a material impact on its consolidated financial statements.

- IFRS 15 (amendment) – Clarifications to Revenue from Contracts with Customers are effective for annual periods beginning on or after 1 January 2018. The amendments to the Revenue Standard do not change the underlying principles of the Standard, but clarify how those principles should be applied. They also clarify how to identify a performance obligation in a contract, determine whether a company is a principal, and determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. NLB Group does not expect a material impact on its consolidated financial statements.

- IFRS 4 (amendment) – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts is effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new replacement Standard IFRS 4. The amendments introduce two approaches: an overlay approach and a temporary exemption from applying IFRS 9. NLB Group does not expect an impact on its consolidated financial statements.

- IFRS 16 (new standard) – Leases is effective for annual periods beginning on or after 1 January 2019. IFRS 16 replaces the old lease accounting Standard IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases, and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments, and an asset representing the right to use the underlying asset during the lease. The term 'Lessor Accounting' under IFRS 16 is substantially unchanged from today's accounting under IAS 17. NLB Group is evaluating the impact of the standard on NLB Group's consolidated financial statements.

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

- IFRS 17 (new standard) – Insurance Contracts is effective for annual periods beginning on or after 1 January 2021. The new standard provides a comprehensive principle-based framework for the measurement and presentation of all insurance contracts. The new standard will replace IFRS 4 Insurance Contracts and requires insurance contracts to be measured using current fulfilment cash flows and for revenue to be recognised as the service is provided over the coverage period. The Group will assess the impact of adopting this new standard.

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration is effective for annual periods beginning on or after 1 January 2018. The interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. It covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense, or income. It does not apply when an entity measures the related asset, expense, or income on initial recognition at fair value. NLB Group is evaluating the impact of the amendments on NLB Group's consolidated financial statements.

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments is effective for annual periods beginning on or after 1 January 2019. The Interpretation addresses the accounting for income tax when it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. NLB Group is evaluating the impact of the amendments on NLB Group's consolidated financial statements.

- IFRS 2 (amendment) – Classification and Measurement of Share-based Payment Transactions is effective for annual periods beginning on or after 1 January 2018. The amendments clarify how to account for certain types of share-based payment transactions.

They provide requirements that address three main areas: the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, the classification of share-based payment transactions with a net settlement feature for withholding tax obligations, and accounting where a modification to the terms and conditions of a share-based payment transactions changes its classification from cash-settled to equity-settled. NLB Group does not have share-based payments transactions.

- Annual Improvements to IFRSs 2014–2016 Cycle. The improvements are minor amendments that clarify, correct, or remove redundant wording in Standards. The amendments refer to three Standards: IFRS 12 Disclosure of Interests in Other Entities effective for annual periods beginning on or after 1 January 2017, and IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures effective for annual periods beginning on or after 1 January 2018.

- IAS 40 (amendment) – Transfers of Investment Property is effective for annual periods beginning on or after 1 January 2018. The amendments clarify the requirements on transfers to, or from, investment property. An entity shall transfer a property to, or from, an investment property when, and only when, there is evidence of a change in use. A change of use occurs if the property meets, or ceases to meet, the definition of an 'investment property.' A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. NLB Group is evaluating the impact of the amendments on NLB Group's consolidated financial statements.

- IAS 28 (amendment) – Long-term Interests in Associates and Joint Ventures is effective for annual periods beginning on or after 1 January 2019. The amendment clarifies that IFRS 9 Financial Instruments applies to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture, but to which the equity method is not applied. NLB Group does not expect an impact on its consolidated financial statements.

- Annual Improvements to IFRSs 2015-2017 Cycle. The improvements comprise a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 January 2019. The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. The amendments to IAS 12 clarify that all income tax consequences of dividends should be recognised in profit or loss, regardless of how the tax arises. The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. NLB Group is evaluating the impact of the amendments on NLB Group's consolidated financial statements.

- IFRS 14 (new standard) - Regulatory Deferral Accounts is an optional standard, effective for annual periods beginning on or after 1 January 2016. The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard. The standard allows an entity whose activities are subject to rate-regulation to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Existing IFRS preparers are prohibited from adopting this standard. The amendment does not have an impact on NLB Group's consolidated financial statements.

- IFRS 10 and IAS 28 (amendment) – The IASB has deferred the effective dates of Sale or Contribution of Assets between an Investor and its Associate or Joint Venture amendments indefinitely. The amendments address a conflict between the requirements of IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. NLB Group does not expect an impact on its consolidated financial statements.

3. Changes in subsidiary holdings

Changes in 2017

Capital changes:

- An increase in share capital in the form of a cash contribution in the amount of EUR 10,909 thousand in NLB Banka Belgrade, REAM d.o.o. Belgrade and REAM d.o.o. Zagreb to ensure an increase in business operations.
- An increase in share capital in the form of cash contributions in the amount of EUR 75 thousand in CBS Invest, Sarajevo to ensure capital adequacy until the end of liquidation.
- NLB acquired shares of NLB Banka, Podgorica and thereby increased its ownership from 99.36% to 99.83%. The increase in the capital investment was recognised in the amount of EUR 125 thousand.
- An increase in share capital in the form of a cash contribution in the amount of EUR 212 thousand in Prvi Faktor d.o.o., Belgrade – u likvidaciji to ensure

capital adequacy until the end of the liquidation. Now NLB has directly 5% ownership in the company.

Other changes:
- Kreditni biro SISBON was liquidated. In accordance with a court order, the company was removed from the court register.
- SPV 2 d.o.o., Novi Sad was established and will manage certain real estate in NLB Group. NLB's ownership is 100%. In August 2017 headquarters of the company was moved to Belgrade, and so the company is now called SPV 2 d.o.o., Belgrade.
- In July 2017, NLB sold its non-core subsidiary NLB Factoring – "v likvidaci," Brno.
- NLB Prospera Plus d.o.o., Ljubljana – v likvidaciji and NLB Leasing d.o.o. – v likvidaciji, Ljubljana are formally in liquidation.

Changes in 2016

Capital changes:
- An increase in share capital in the form of cash contributions in the amount of EUR 2,503 thousand in SR-RE d.o.o., Belgrade; REAM d.o.o., Podgorica; and REAM d.o.o., Belgrade due to an increase of business operations.
- An increase in share capital in the form of cash contributions in the amount of EUR 13,050 thousand in NLB Leasing Podgorica, Podgorica; NLB Lizing, Skopje; and Prvi Faktor, Ljubljana to ensure capital adequacy until the end of the liquidation.
- An increase in share capital in the form of a loan conversion in the amount of EUR 1,719 thousand in NLB Leasing Belgrade to ensure capital adequacy until the end of the liquidation.
- An increase in share capital in the form of cash contributions in the amount of EUR 7,004 thousand in NLB Leasing Ljubljana to cover the loss from selling the portfolio of non-performing loans ("Project Pine"), and in the amount of EUR 7,000 thousand to ensure capital adequacy until the end of the liquidation in Optima Leasing, Zagreb.

Other changes:
- FIN-DO d.o.o., Domžale and PRO-Avenija d.o.o., Ljubljana merged with PRO-REM d.o.o., Ljubljana. The merger was formally registered on 1 July 2016, with the accounting date of the merger as at 31.12.2015.
- BH-RE d.o.o., Sarajevo was established and will manage certain real estate in NLB Group. PRO-REM d.o.o., Ljubljana's ownership is 100%.
- Kreditni biro SISBON d.o.o,Ljubljana; Optima Leasing, Zagreb; NLB Leasing, Belgrade; NLB Lizing, Skopje; PRO-REM, Ljubljana; OL Nekretnine, Zagreb; NLB Leasing Podgorica, Podgorica; and NLB Interfinanz Zürich are formally in liquidation; and also NLB Propria, Ljubljana from 1 January 2017.
- Prvi faktor, Skopje and NLB Leasing Sofia were liquidated. In accordance with a court order, the companies were removed from the court register.

4. Notes to the income statement

4.1. Interest income and expenses

Analysis by type of assets and liabilities

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Interest and similar income				
Loans and advances to customers	311,581	327,055	148,229	166,718
Available-for-sale financial assets	26,476	31,426	14,045	17,881
Held-to-maturity financial assets	16,446	17,997	16,446	17,997
Financial assets held for trading	6,801	9,180	6,801	9,273
Loans and advances to banks and central banks	1,548	1,249	2,304	2,407
Derivatives - hedge accounting	-	831	-	831
Deposits with banks and central banks	881	755	430	442
Other financial assets	-	1	-	1
Total	**363,733**	**388,494**	**188,255**	**215,550**
Interest and similar expenses				
Due to customers	29,476	40,797	8,852	15,281
Debt securities in issue	4,357	9,376	4,357	9,376
Financial liabilities held for trading	5,896	5,923	5,896	5,923
Derivatives - hedge accounting	6,249	5,688	6,249	5,688
Borrowings from banks and central banks	2,243	3,699	1,670	2,713
Borrowings from other customers	1,561	1,857	-	10
Subordinated liabilities	1,593	1,840	-	-
Negative interest	2,436	1,429	2,115	1,307
Interest expenses on defined employee benefits (note 2.30. and 5.17.c)	242	357	110	205
Deposits from banks and central banks	220	75	166	70
Other financial liabilities	144	148	51	99
Total	**54,417**	**71,189**	**29,466**	**40,672**
Net interest	**309,316**	**317,305**	**158,789**	**174,878**

In 2017, interest income on individually impaired loans amounted to EUR 26,541 thousand (2016: EUR 31,059 thousand) for NLB Group, and to EUR 11,984 thousand for NLB (2016: EUR 15,940 thousand).

The item 'Negative interest' includes the interest from deposits with banks and central banks in amount of EUR 2,107 thousand for NLB Group (2016: EUR 1,429 thousand), and EUR 1,786 thousand for NLB (2016: 1,307), and also available for sale financial assets with negative effective interest rates due to purchase with premium in amount of EUR 329 thousand for NLB Group and NLB (2016:0 EUR).

4.2. Dividend income

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Available-for-sale financial assets	179	1,238	50	1,144
Total	**179**	**1,238**	**50**	**1,144**

4.3. Fee and commission income and expenses

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

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Fee and commission income				
Fee and commission income relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	60,976	55,798	39,459	37,568
Customer transaction accounts	43,485	39,878	32,699	31,015
Other fee and commission income				
Payments	56,997	54,987	28,408	28,149
Investment funds	17,070	13,831	5,000	3,615
Guarantees	11,111	12,225	7,306	8,250
Agency of insurance products	4,073	3,321	4,060	3,302
Other services	5,810	6,008	3,900	4,399
Total	**199,522**	**186,048**	**120,832**	**116,298**
Fee and commission expenses				
Fee and commission expenses relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	38,064	34,539	22,980	21,430
Other fee and commission expenses				
Payments	5,675	5,363	812	775
Insurance for holders of personal accounts and golden cards	1,465	2,108	983	1,427
Investment banking	1,433	1,018	345	279
Guarantees	231	354	170	290
Other services	2,891	3,038	1,210	1,361
Total	**49,759**	**46,420**	**26,500**	**25,562**
Net activity fee and commission income	**149,763**	**139,628**	**94,332**	**90,736**

Income from other services includes income from deposit valuables, administrative services and safe custody, and other agency services. In 2017, income from other services also included income from servicing of sold non-performing loans in the amount of EUR 184 thousand (2016: EUR 1,543 thousand).

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

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Fee and commission income related to fiduciary activities				
Receipt, processing, and execution of orders	1,171	1,250	1,153	1,231
Management of financial instruments portfolio	1,351	1,502	-	-
Initial or subsequent underwriting and/or placing of financial instruments without a firm commitment basis	123	184	123	184
Custody and similar services	5,090	4,190	4,979	4,104
Management of clients' account of non-materialised securities	613	549	613	549
Advice to companies on capital structure, business strategy, and related matters and advice, and services relating to mergers and acquisitions of companies	38	648	49	648
Total	**8,386**	**8,323**	**6,917**	**6,716**
Fee and commission expenses related to fiduciary activities				
Fee and commission related to Central Securities Clearing Corporation and similar organisations	2,697	2,241	2,706	2,121
Fee and commission related to stock exchange and similar organisations	34	45	34	45
Total	**2,731**	**2,286**	**2,740**	**2,166**
Net fee income related to fiduciary activities	**5,655**	**6,037**	**4,177**	**4,550**
Total fee and commission income	**207,908**	**194,371**	**127,749**	**123,014**
Total fee and commission expenses	**52,490**	**48,706**	**29,240**	**27,728**
Total a) and b)	**155,418**	**145,665**	**98,509**	**95,286**

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

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Available-for-sale financial assets				
- gains	12,455	14,861	11,883	14,712
- losses	(213)	(33)	(172)	(33)
Financial liabilities measured at amortised cost				
- losses	-	(40)	-	(40)
Total	**12,242**	**14,788**	**11,711**	**14,639**

In February 2017, NLB Group successfully concluded a sale transaction of its major non-core equity participation and realised a gain in the amount of EUR 9,534 thousand.

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

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Equity instruments				
- gains	-	26	-	26
- losses	-	(26)	-	(26)
Foreign exchange trading				
- gains	19,469	23,023	11,243	15,767
- losses	(8,851)	(13,244)	(7,093)	(12,415)
Debt instruments				
- gains	1,093	4,474	1,093	4,474
- losses	(1,135)	(6,862)	(1,135)	(6,862)
Derivatives				
- currency	1,232	506	1,698	288
- interest rate	1,170	(1,238)	1,170	(1,178)
- cross currency interest rate	(77)	(29)	(77)	(29)
- securities	166	291	166	291
Total	**13,067**	**6,921**	**7,065**	**336**

4.6. Foreign exchange translation gains less losses

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Financial assets and liabilities not classified as at fair value through profit or loss	(381)	1,449	(892)	1,014
Disposal of a subsidiary (note 5.12.)	2,614	-	-	-
Financial assets measured at fair value through profit or loss	(177)	(246)	(177)	(246)
Other	93	(45)	62	(30)
Total	**2,149**	**1,158**	**(1,007)**	**738**

4.7. Other operating income

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Income from non-banking services	12,099	14,552	8,255	9,911
- IT services	3,531	5,208	3,531	5,208
- cash transportation	3,617	3,608	3,617	3,608
- operating leases of movable property	2,798	3,132	439	484
- other	2,153	2,604	668	611
Rental income from investment property	5,440	5,942	381	260
Revaluation of investment property to fair value (note 5.10.)	2,242	155	396	22
Sale of investment property	1,821	6	62	-
Other operating income	4,822	3,787	3,078	2,074
Total	**26,424**	**24,442**	**12,172**	**12,267**

4.8. Other operating expenses

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Deposit guarantee	13,393	13,134	4,732	4,567
Revaluation of investment property to fair value (note 5.10.)	3,396	8,067	2,382	484
Single Resolution Fund	2,590	3,894	2,590	3,894
Other taxes and compulsory public levies	2,993	3,055	1,093	1,026
Expenses related to issued service guarantees	589	1,728	589	1,728
Membership fees and similar fees	1,122	889	700	317
Expenses related to legal issues for croatian savers (note 5.17.)	2,202	-	2,202	-
Other operating expenses	3,126	2,437	961	1,160
Total	**29,411**	**33,204**	**15,249**	**13,176**

Other operating expenses mainly include expenses associated with licences, donations, and damages.

4.9. Administrative expenses

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Employee costs				
Gross salaries, compensations, and other short-term benefits	139,918	140,961	88,429	88,277
Defined contribution scheme	11,323	11,460	6,718	6,639
Social security contributions	9,195	9,028	5,503	5,441
Defined benefit expenses (note 5.17.c)	4,049	3,930	3,046	2,843
Post-employment benefits	94	379	462	473
Other employee benefits	3,955	3,551	2,584	2,370
Total	**164,485**	**165,379**	**103,696**	**103,200**
Other general and administrative expenses				
Material	5,413	5,865	2,488	2,679
Services	25,957	28,884	15,032	17,636
Intellectual services	10,317	12,505	5,660	8,258
Costs of supervision	2,542	2,337	1,176	1,031
Costs of other services	13,098	14,042	8,196	8,347
Business travel	1,189	1,101	419	387
Marketing	7,031	5,845	3,739	2,655
Buildings and equipment	26,609	26,123	14,087	14,959
Electricity	4,124	4,201	2,117	2,224
Rents and leases	6,070	6,105	1,256	1,240
Maintainance costs	6,211	5,505	4,597	4,469
Costs of security	3,499	3,517	1,441	1,396
Insurance for tangible assets	2,725	2,661	1,722	1,510
Other costs related to buildings and equipment	3,980	4,134	2,954	4,120
Technology	15,492	16,897	10,873	12,493
Maintainance of software and hardware	8,355	8,268	5,493	5,154
Licences	2,950	4,005	2,560	3,817
Data assets and subscription costs	1,904	1,897	1,262	1,396
Other technology costs	2,283	2,727	1,558	2,126
Communications	8,505	9,192	6,055	6,685
Postal services	4,322	4,549	3,880	4,074
Telecommunication and internet	2,178	2,513	874	1,176
Other communication costs	2,005	2,130	1,301	1,435
Other general and administrative costs	2,226	1,874	1,488	1,389
Total	**92,422**	**95,781**	**54,181**	**58,883**
Total administrative expenses	**256,907**	**261,160**	**157,877**	**162,083**
Number of employees	6,029	6,175	2,789	2,885

Costs of other services include costs for cash transport, archiving services, personal assurance costs, non-deductible expenses, and legal costs and fees.

In the presented years NLB Group and NLB paid the following expenses to the statutory auditor:

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
External audit services				
Audit of annual report	559	566	198	200
Other audit services	361	236	361	236
Other non-audit services	253	-	253	-
Total	**1,173**	**802**	**812**	**436**

4.10. Depreciation and amortisation

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Amortisation of intangible assets (note 5.11.)	10,916	11,694	8,555	9,657
Depreciation of property and equipment (note 5.9.)	16,886	16,651	9,455	9,223
Total	**27,802**	**28,345**	**18,010**	**18,880**

4.11. Provisions for other liabilities and charges

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Guarantees and commitments (note 5.17.b)	(3,460)	(10,432)	(2,296)	(9,897)
Restructuring provisions (note 5.17.d)	8,588	10,644	8,400	9,377
Provisions for legal issues (note 5.17.e)	682	4,252	1,831	145
Other provisions (note 5.17.f)	(559)	(107)	(591)	(107)
Total	**5,251**	**4,357**	**7,344**	**(482)**

4.12. Impairment charge

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Impairment of financial assets				
Available-for-sale financial assets (note 5.4.b)	23	198	23	198
Held-to-maturity financial assets (note 5.7.b)	(10)	83	(10)	83
Loans and advances to banks (note 5.14.b)	187	74	-	(196)
Loans to government (note 5.14.b)	(7,706)	(2,604)	(1,891)	(163)
Loans to financial organisations (note 5.14.b)	(2,244)	(14,842)	(15,569)	(5,005)
Loans to individuals (note 5.14.a)	8,916	12,800	2,968	10,245
Granted overdrafts	2,157	2,587	1,513	2,303
Loans for houses and flats	(1,072)	4,436	97	5,495
Consumer loans	4,408	3,261	(18)	1,930
Other loans	3,423	2,516	1,376	517
Loans to other customers (note 5.14.b)	(40,284)	40,526	(25,289)	19,909
Loans to large corporate customers	(34,422)	(16,052)	(22,068)	5,065
Loans to small- and medium-sized enterprises	(5,862)	56,578	(3,221)	14,844
Other financial assets (note 5.14.c)	1,130	625	587	356
Total	**(39,988)**	**36,860**	**(39,181)**	**25,427**
Impairment of investments in subsidiaries, associates and JV				
Investments in subsidiaries	-	-	674	25,334
Investments in associates and joint ventures	-	12,250	19	12,313
Total	**-**	**12,250**	**693**	**37,647**
Impairment of other assets				
Property and equipment (note 5.9.)	717	3,307	390	1,127
Other assets	4,490	3,871	90	232
Total	**5,207**	**7,178**	**480**	**1,359**
Total impairment	**(34,781)**	**56,288**	**(38,008)**	**64,433**

In 2017, NLB impaired equity investments in non-core subsidiaries and associate in a total amount of EUR 731 thousand, and released an impairment in a total amount of EUR 38 thousand due to a sale of a non-core subsidiary. Impairments of investments in subsidiaries and associate are included in the segment 'Non-core markets and activities.'

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

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Dividends from investments in subsidiaries, associates, and joint ventures	-	-	58,012	28,915
Gains less losses on derecognition of subsidiaries and associates	(930)	(153)	159	-
Share of net gains less losses of associates and joint ventures accounted for using the equity method (note 5.12.c)	4,782	5,159	-	-
Total	**3,852**	**5,006**	**58,171**	**28,915**

4.14. Income tax

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Current income tax	12,688	14,758	2,945	7,008
Deferred tax (note 5.18.)	(8,691)	217	(7,164)	(3,083)
Total	**3,997**	**14,975**	**(4,219)**	**3,925**

Income tax differs from the amount of tax determined by applying the Slovenian statutory tax rate as follows:

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Profit before tax	237,311	130,600	184,875	67,708
Tax calculated at prescribed rate of 19% (2016:17%)	45,089	22,202	35,126	11,510
Effect of change in tax rate	-	(1,666)	-	(2,006)
Income not assessable for tax purposes	(2,089)	(2,935)	(11,133)	(5,831)
Expenses not deductible for tax purposes	3,238	5,510	(1,007)	3,396
Effect of unrecognised deferred tax assets on impairment of subsidiaries and associates	(14,810)	(2,083)	(14,202)	3,375
Tax allowances	(1,550)	(1,391)	(1,436)	(1,032)
Effect of unrecognised deferred tax assets on tax losses	(10,919)	(2,319)	(4,589)	(6,225)
Effects of different tax rates in other countries	(9,081)	(4,543)		-
Changes in recognition and measurement of deferred taxes	(5,066)	1,462	(6,734)	-
Withholding tax suffered in other countries for which no tax credit was available in Slovenia	2,302	974	2,302	974
Adjustment to tax in respect of prior periods	(2,688)	842	(2,117)	842
Other	(429)	(1,078)	(429)	(1,078)
Total	**3,997**	**14,975**	**(4,219)**	**3,925**

Income tax rates within NLB Group range from 9-32%. A tax rate of 19% was applied in Slovenia in 2017 (2016: 17%).

The majority of non-taxable income relates to dividends and income deemed to be dividends. NLB excluded EUR 57,053 thousand in dividend income and income deemed to be dividends from its tax base in 2017 (2016: EUR 29,592 thousand).

The effect of unrecognised deferred tax assets on impairments of subsidiaries and associates represents mainly a decrease of the tax base of NLB due to utilisation of previously tax non-deductible expenses for impairments of subsidiary that was divested in the year 2017.

NLB recognised deferred tax assets accrued on the basis of temporary differences in an amount that, given future profit estimates, is expected to be reversed in the foreseeable future (i.e. within five years). Due to some uncertainties regarding external factors (regulatory environment, market situation, etc.,) a lower range of expected outcomes was considered for purposes of deferred tax assets calculation. NLB did not recognise deferred tax assets arising from tax losses. NLB recognised deferred tax assets on all temporary differences, except for impairments of non-strategic capital investments where deferred tax assets are recognised in the amount that, taking into account other recognised deferred tax assets, reaches the total amount of deferred tax assets, for which a reversal is expected within five years.

Other NLB Group members did not recognise deferred tax assets for tax losses where there is uncertainty about whether the tax losses can be utilised, because it is not probable that future taxable profits will be available against which the deferred tax assets can be utilised, and where the utilisation of unused tax losses is limited to five years.

NLB did not recognise deferred tax assets on temporary differences arising from the impairment of investments in strategic subsidiaries and associates in amount of EUR 322,186 thousand as at 31.12.2017 (31.12.2016: EUR 530,302 thousand), where it is not probable that the temporary difference will reverse in the foreseeable future. Impairments of investments in non-strategic subsidiaries on which NLB did not recognise deferred tax assets due to exceeding the total balance of deferred tax assets that are expected to be reversed within five years amount to EUR 382,462 thousand (2016: EUR 297,214 thousand).

4.15. Earnings per share

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

Diluted earnings per share are the same as basic earnings per share for NLB Group and NLB, since subordinated loans and issued debt securities have no future conversion options, and consequently there are no dilutive potential ordinary shares.

	NLB Group		NLB	
	2017	2016	2017	2016
Net profit attributable to the owners of the parent (in EUR thousand)	225,069	110,017	189,094	63,783
Weighted average number of ordinary shares (in thousand)	20,000	20,000	20,000	20,000
Basic earnings per share (in EUR per share)	11.3	5.5	9.5	3.2
Diluted earnings per share (in EUR per share)	11.3	5.5	9.5	3.2

5. Notes to the statement of financial position

5.1. Cash, cash balances at central banks, and other demand deposits at banks

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Cash	269,696	260,612	143,726	128,519
Balances and obligatory reserves with central banks	798,758	776,648	350,804	375,561
Demand deposits at banks	188,027	261,754	75,480	112,959
Total	**1,256,481**	**1,299,014**	**570,010**	**617,039**

Slovenian banks are required to maintain a compulsory reserve with the Bank of Slovenia relative to the volume and structure of their customer deposits. Other banks in NLB Group maintain a compulsory reserve in accordance with local legislation. NLB and other banks in NLB Group fulfil their compulsory reserve deposit requirements.

5.2. Trading assets

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Derivatives, excluding hedging instruments				
Swap contracts	11,739	15,185	11,734	15,179
- currency swaps	384	397	379	391
- interest rate swaps	11,355	14,551	11,355	14,551
- currency interest rate swaps	-	237	-	237
Options	847	405	847	405
- interest rate options	276	-	276	-
- securities options	571	405	571	405
Forward contracts	439	3,352	435	3,352
- currency forward	439	3,352	435	3,352
Total derivatives	**13,025**	**18,942**	**13,016**	**18,936**
Securities				
Bonds	4,117	19,735	4,117	19,735
- Republic of Slovenia	-	19,735	-	19,735
- other issuers	4,117	-	4,117	-
Treasury bills - Republic of Slovenia	55,047	30,012	55,047	30,012
Commercial papers - foreign banks	-	19,010	-	19,010
Total securities	**59,164**	**68,757**	**59,164**	**68,757**
Total	**72,189**	**87,699**	**72,180**	**87,693**
- quoted securities	59,164	49,747	59,164	49,747
of these debt instruments	59,164	49,747	59,164	49,747
- unquoted securities	-	19,010	-	19,010
of these debt instruments	-	19,010	-	19,010

The notional amounts of derivative financial instruments are disclosed in note 5.24.b.

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

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

in EUR thousand

NLB Group and NLB	Carrying amount	Fair value
the date of reclassification		69,766
as at 31.12.2009	72,030	65,278
as at 31.12.2010	75,928	67,000
as at 31.12.2011	84,429	55,922
as at 31.12.2012	86,501	53,958
as at 31.12.2013	80,218	55,260
as at 31.12.2014	87,667	72,986
as at 31.12.2015	85,009	76,258
as at 31.12.2016	85,315	78,953
as at 31.12.2017	82,133	79,974

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

in EUR thousand

NLB Group and NLB	Interest income in period								
	2017	2016	2015	2014	2013	2012	2011	2010	2009
Financial assets held for trading reclassified to loans and receivables	2,060	2,079	2,053	2,103	2,153	2,449	3,446	4,471	2,836

in EUR thousand

NLB Group and NLB	Gains/(losses) that would have been recognised if the assets had not been reclassified								
	2017	2016	2015	2014	2013	2012	2011	2010	2009
Financial assets held for trading reclassified to loans and receivables	1,021	2,695	3,272	17,726	1,302	(52)	(11,078)	1,722	(4,647)

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

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

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Private equity fund	634	2,011	634	2,011
Other investments	4,369	4,683	-	-
Total	**5,003**	**6,694**	**634**	**2,011**

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

in EUR thousand

	NLB Group and NLB	
	31.12.2017	31.12.2016
Structured deposit	635	2,011
Total	**635**	**2,011**

In NLB, investments in private equity funds in the amount of EUR 634 thousand (31.12.2016: EUR 2,011 thousand) are designated at fair value through profit or loss to reduce the accounting mismatch that would otherwise arise. Financial liability, designated at fair value through profit or loss in the amount of EUR 635 thousand (31.12.2016: EUR 2,011 thousand) is the structured deposit from customers from which the returns depend on the returns from private equity funds, classified as financial assets, that are measured at fair value through profit or loss.

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

5.4. Available-for-sale financial assets

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

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Bonds	1,805,250	1,619,228	1,554,565	1,262,363
- governments	1,210,080	1,146,150	959,395	789,285
- Republic of Slovenia	377,612	442,802	377,612	380,411
- other EU members	571,669	405,655	571,669	405,655
- non-EU members	260,799	297,693	10,114	3,219
- banks	548,623	453,179	548,623	453,179
- other issuers	46,547	19,899	46,547	19,899
Cash certificates	-	199	-	-
Shares	8,670	29,050	2,334	22,737
National Resolution Fund	44,514	44,570	44,514	44,570
Treasury bills	136,182	104,617	40,070	55,093
- Republic of Slovenia	40,070	57,096	40,070	55,093
- non-EU members	96,112	47,521	-	-
Commercial bills	281,877	274,489	136,279	209,331
Total	**2,276,493**	**2,072,153**	**1,777,762**	**1,594,094**
- quoted securities	1,816,373	1,533,697	1,595,115	1,334,925
of these equity instruments	3,598	24,312	480	20,927
of these debt instruments	1,812,775	1,509,385	1,594,635	1,313,998
- unquoted securities	460,120	538,456	182,647	259,169
of these equity instruments	49,586	49,308	46,368	46,380
of these debt instruments	410,534	489,148	136,279	212,789

b) Movements of available-for-sale financial assets

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	2,072,153	1,737,191	1,594,094	1,248,359
Effects of translation of foreign operations to presentation currency	3,564	(2,048)	-	-
Transfer to non-current assets and disposal group classified as held for sale (note 5.8.b)	(3,790)	-	-	-
Additions	2,105,251	1,766,455	881,646	666,304
Disposals and maturity	(1,911,882)	(1,463,553)	(695,299)	(336,736)
Net interest income (note 4.1.)	26,148	31,426	13,716	17,881
Exchange differences on monetary assets	(4,454)	1,260	(3,253)	594
Changes in fair values	(10,474)	1,620	(13,119)	(2,110)
Impairment (note 4.12.)	(23)	(198)	(23)	(198)
- impairment of equity securities	(23)	(198)	(23)	(198)
Balance as at 31.12.	**2,276,493**	**2,072,153**	**1,777,762**	**1,594,094**

As at 31.12.2017, the value of equity instruments obtained by NLB Group from taking possession of collateral and recognised in the statement of financial position is EUR 3,536 thousand (31.12.2016: EUR 24,162 thousand), and by NLB it amounted to EUR 480 thousand (31.12.2016: EUR 20,832 thousand) (note 6.1.o).

By selling equity securities available for sale, NLB Group realised a net gain in the amount of EUR 9,964 thousand (2016: EUR 13,478 thousand), and NLB a net gain in the amount of EUR 9,835 thousand (2016: EUR 13,472 thousand). This gain is included in 'Gains Less Losses from Financial Assets and Liabilities not Classified at Fair Value through Profit or Loss' (note 4.4.).

c) Accumulated other comprehensive income related to available-for-sale financial assets

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	53,001	48,321	37,218	37,996
Effects of translation of foreign operations to presentation currency	(2)	(3)	-	-
Net gains/(losses) from changes in fair value	4,957	18,532	1,781	14,652
Gains/losses transferred to net profit on disposal or impairment	(12,216)	(14,630)	(11,685)	(14,481)
Deferred income tax (note 5.18.)	1,657	(1,207)	1,882	(949)
Share of other comprehensive income of associates and joint ventures	201	1,988	-	-
Balance as at 31.12.	**47,598**	**53,001**	**29,196**	**37,218**
- debt securities	43,865	41,989	28,346	28,574
- equity securities	3,733	11,012	850	8,644

5.5. Derivatives for hedging purposes

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

NLB Group entities use various derivatives such as interest rate swaps (IRS) and currency interest rate swaps (CIRS) to close open positions in an individual maturity bucket. Micro and macro fair value hedges are used for that purpose, i.e. the swapping of a fixed interest rate on a hedged item for a variable interest rate. Micro cash flow hedges are also used, i.e. the swapping of a variable interest rate on a hedged item for a fixed interest rate. All cash flow hedges were made on liability items, while fair value hedges were used on both liability and asset items.

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

Hedge accounting rules were not applied in economic hedges using CIRS. Thus, the effects of valuation are disclosed in the income statement in the line 'Gains Less Losses from Financial Assets and Liabilities Held for Trading.'

a) Fair value adjustment in hedge accounting recognised in profit or loss

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Fair value hedge	**(813)**	**(770)**	**(813)**	**32**
Net effects from hedging instruments	5,599	715	5,599	715
Net effects from hedged items	(6,412)	(1,485)	(6,412)	(683)
Cash flow hedge	**-**	**(2,469)**	**-**	**(2,469)**
Transfer from other comprehensive income	-	(2,469)	-	(2,469)
Total	**(813)**	**(3,239)**	**(813)**	**(2,437)**

As at 31.12.2017 and 2016, NLB Group and NLB have no relationships designated for cash flow hedge accounting.

b) Notional amounts of interest rate swaps

in EUR thousand

	Notional amount	Fair value	
NLB Group and NLB		**Asset**	**Liability**
Fair value hedge			
31.12.2017	406,218	1,188	25,529
31.12.2016	108,554	217	29,024

c) Accumulated other comprehensive income related to cash flow hedging

in EUR thousand

	NLB Group and NLB	
	2017	2016
Balance as at 1.1.	-	(2,243)
Net losses on hedging instruments	-	(343)
Transfer to income statement	-	3,046
Deferred income tax (note 5.18.)	-	(460)
Balance as at 31.12.	**-**	**-**

There was no hedge ineffectiveness that NLB nor NLB Group should have recognised in the income statement.

5.6. Loans and advances

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Debt securities (companies)	82,133	85,315	82,133	85,315
Loans to banks	510,107	435,537	462,322	408,056
Loans and advances to customers	6,912,333	6,912,067	4,587,477	4,843,594
Other financial assets	66,077	61,014	38,389	36,151
Total	**7,570,650**	**7,493,933**	**5,170,321**	**5,373,116**

a) Loans and advances to banks

Analysis by type of loans and advances

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Loans	2,856	945	23,390	19,399
Time deposits	506,322	433,883	437,427	387,599
Purchased receivables	1,505	1,058	1,505	1,058
	510,683	**435,886**	**462,322**	**408,056**
Allowance for impairment (note 5.14.b)	(576)	(349)	-	-
Total	**510,107**	**435,537**	**462,322**	**408,056**

b) Loans and advances to customers

Analysis by type of loans and advances

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Loans	6,958,796	7,198,486	4,661,317	5,098,336
Finance lease receivables	169,806	192,923	-	-
Overdrafts	305,600	298,351	176,171	178,899
Credit card business	115,225	112,106	59,394	60,338
Called guarantees	9,658	13,577	7,658	10,744
Reverse sale and repurchase agreements	-	25	-	25
	7,559,085	**7,815,468**	**4,904,540**	**5,348,342**
Allowance for impairment (note 5.14.)	(646,752)	(903,401)	(317,063)	(504,748)
Total	**6,912,333**	**6,912,067**	**4,587,477**	**4,843,594**

Analysis of loans and advances by sector

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Government	457,080	775,986	358,675	668,300
Financial organisations	77,202	74,344	268,184	273,310
Companies	3,006,105	2,970,229	1,878,056	1,950,869
Individuals	3,371,946	3,091,508	2,082,562	1,951,115
Total	**6,912,333**	**6,912,067**	**4,587,477**	**4,843,594**

Finance leases

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

in EUR thousand

NLB Group	31.12.2017	31.12.2016
The gross investment in finance leases by maturity		
- not later than 1 year	57,816	71,291
- later than 1 year and not later than 5 years	121,986	127,319
- later than 5 years	8,550	12,808
	188,352	**211,418**
Unearned future finance income on finance leases	(18,548)	(18,495)
Net investment in finance leases	**169,804**	**192,923**
- present value of minimum lease payments	169,804	192,923
The net investment in finance leases by maturity		
- not later than 1 year	51,539	64,337
- later than 1 year and not later than 5 years	110,277	116,944
- later than 5 years	7,988	11,642
Total	**169,804**	**192,923**

Finance and operating lease transactions are carried out by NLB Group through specialised subsidiaries that offer car leasing, leasing of commercial and production equipment, and others.

The majority of the lease agreements entered into by NLB Group as lessor contracts are finance lease agreements (operating leases account for less than 10% of all lease agreements). The majority of agreements are concluded for a non-cancellable period of between 48 and 60 months, with an unguaranteed residual value representing a purchase option typically between 1 and 2% of the gross investment.

As at 31.12.2017, the allowance for unrecoverable finance lease receivables included in the allowance for loan impairment amounted to EUR 23,240 thousand (31.12.2016: EUR 42,511 thousand).

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

c) Other financial assets

Analysis by type of other financial assets

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Credit card receivables	24,522	21,961	19,642	17,375
Receivables in the course of collection	13,398	13,235	10,467	11,481
Debtors	8,018	11,934	1,029	929
Fees and commissions	6,170	7,311	4,723	5,699
Prepayments	2,204	2,217	-	-
Receivables from purchase agreements for equity securities	163	164	163	164
Other financial assets	23,307	19,645	5,556	4,274
	77,782	**76,467**	**41,580**	**39,922**
Allowance for impairment (note 5.14.c)	(11,705)	(15,453)	(3,191)	(3,771)
Total	**66,077**	**61,014**	**38,389**	**36,151**

Receivables in the course of collection are temporary balances which will be transferred to the appropriate item in the days following their occurrence.

Other financial assets include receivables to pension funds for prior pension payments, receivables from insurance companies, claims in enforcement procedures, claims for sold securities and trust services, claims from refunds, paid duties and legal costs.

Analysis of other financial assets by sector

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Banks	16,519	14,058	10,308	8,377
Government	14,819	13,708	1,761	1,753
Financial organisations	13,855	10,969	9,222	8,364
Companies	5,387	6,632	2,157	3,168
Individuals	15,497	15,647	14,941	14,489
Total	**66,077**	**61,014**	**38,389**	**36,151**

d) Movement of called non-financial guarantees

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	4,229	5,678	3,509	4,838
Effects of translation of foreign operations to presentation currency	12	(13)	-	-
Called guarantees	4,101	2,520	1,167	1,595
Paid guarantees	(4,062)	(1,525)	(508)	(493)
Write-offs	(2,905)	(2,431)	(2,905)	(2,431)
Balance as at 31.12.	**1,375**	**4,229**	**1,263**	**3,509**

5.7. Held-to-maturity financial assets

a) Analysis by type of held-to-maturity financial assets

in EUR thousand

	NLB Group and NLB	
	31.12.2017	31.12.2016
Bonds	609,785	611,532
- governments	560,565	591,468
- Republic of Slovenia	353,634	411,914
- other EU members	206,931	179,554
- banks	45,885	16,729
- other issuers	3,335	3,335
	609,785	**611,532**
Allowance for impairment	(73)	(83)
Total	**609,712**	**611,449**
- quoted	609,712	611,449

b) Movements of held-to-maturity financial assets

in EUR thousand

	NLB Group and NLB	
	2017	2016
Balance as at 1.1.	611,449	565,535
Additions	74,108	116,897
Decreases	(91,071)	(88,897)
Interest income (note 4.1.)	16,446	17,997
Impairment (note 4.12.)	10	(83)
Exchange differences on monetary assets	(1,230)	-
Balance as at 31.12.	**609,712**	**611,449**

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

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

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Property and equipment	4,105	4,263	1,483	1,788
Equity investment	-	-	1,081	-
Assets of a disposal group classified as held for sale	7,526	-	-	-
Total non-current assets held for sale	**11,631**	**4,263**	**2,564**	**1,788**
Liabilities of a disposal group classified as held for sale	**440**	**-**	**-**	**-**

Item 'Property and equipment' includes business premises, apartments, and assets received as collateral that are in the process of sale. NLB classified the subsidiary NLB Nov Penziski Fond, Skopje as the disposal group held for sale, due to its expected sale in 1st quarter of 2018. Items 'Assets and liabilities of a disposal group classified as held for sale' represent assets and associated liabilities from NLB Nov Penziski Fond, Skopje.

b) Major classes of disposal group classified as held for sale

in EUR thousand

NLB Group	31.12.2017
Assets	
Available-for-sale financial assets	3,790
Loans and advances to banks	3,354
Other financial assets	180
Property and equipment	20
Intangible assets	44
Other assets	138
Total assets classified as held for sale	**7,526**
Liabilities	
Other financial liabilities	335
Provisions	61
Other liabilities	44
Total liabilities classified as held for sale	**440**
NET ASSETS CLASSIFIED AS HELD FOR SALE	**7,086**
Accumulated other comprehensive income	
Foreign currency translation adjustment (cumulative)	42
Available-for-sale financial assets valuation	65

Disclosers in 6.1 include also the data of NLB Nov Penziski Fond, Skopje.

c) Analysis of movements

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	4,263	4,629	1,788	1,776
Effects of translation of foreign operations to presentation currency	104	(53)	-	-
Transfer from/(into) property and equipment (note 5.9.)	2,588	481	67	418
Transfer from/(into) other assets	67	-	67	-
Transfer from/(into) investment property (note 5.10.)	(201)	-	(201)	-
Transfer to non-current assets and disposal group classified as held for sale	7,526	-	1,081	-
Disposals	(745)	(217)	(493)	(128)
Valuation	(1,971)	(577)	255	(278)
Balance as at 31.12.	**11,631**	**4,263**	**2,564**	**1,788**

5.9. Property and equipment

in EUR thousand

	NLB Group				NLB			
2017	**Land & Buildings**	**Computers**	**Other equipment**	**Total**	**Land & Buildings**	**Computers**	**Other equipment**	**Total**
Cost								
Balance as at 1.1.2017	327,240	73,525	108,068	508,833	201,618	50,659	59,276	311,553
Effects of translation of foreign operations to presentation currency	1,410	217	463	2,090	-	-	-	-
Additions	3,269	5,254	5,555	14,078	2,057	3,982	2,098	8,137
Disposals	(351)	(8,955)	(8,512)	(17,818)	(9)	(7,632)	(3,310)	(10,951)
Transfer to/from investment property (note 5.10.)	(5,846)	-	-	(5,846)	(5,825)	-	-	(5,825)
Transfer to/from non-current assets and disposal group held for sale (note 5.8. b) and c)	(4,010)	(101)	(113)	(4,224)	(175)	-	-	(175)
Balance as at 31.12.2017	**321,712**	**69,940**	**105,461**	**497,113**	**197,666**	**47,009**	**58,064**	**302,739**
Depreciation and impairment								
Balance as at 1.1.2017	162,455	57,006	92,523	311,984	127,710	39,580	53,767	221,057
Effects of translation of foreign operations to presentation currency	416	170	365	951	-	-	-	-
Disposals	(190)	(8,289)	(7,522)	(16,001)	(6)	(7,631)	(3,309)	(10,946)
Depreciation (note 4.10.)	7,732	4,954	4,200	16,886	5,161	3,387	907	9,455
Impairment (note 4.12.)	717	-	-	717	390	-	-	390
Transfer to/from investment property (note 5.10.)	(4,163)	-	-	(4,163)	(4,160)	-	-	(4,160)
Transfer to/from non-current assets held for sale (note 5.8. b) and c)	(1,422)	(84)	(110)	(1,616)	(108)	-	-	(108)
Balance as at 31.12.2017	**165,545**	**53,757**	**89,456**	**308,758**	**128,987**	**35,336**	**51,365**	**215,688**
Net carrying value								
Balance as at 31.12.2017	**156,167**	**16,183**	**16,005**	**188,355**	**68,679**	**11,673**	**6,699**	**87,051**
Balance as at 1.1.2017	**164,785**	**16,519**	**15,545**	**196,849**	**73,908**	**11,079**	**5,509**	**90,496**

in EUR thousand

	NLB Group				NLB			
2016	**Land & Buildings**	**Computers**	**Other equipment**	**Total**	**Land & Buildings**	**Computers**	**Other equipment**	**Total**
Cost								
Balance as at 1.1.2016	329,096	73,285	123,775	526,156	202,303	51,279	65,307	318,889
Effects of translation of foreign operations to presentation currency	(674)	(91)	(207)	(972)	-	-	-	-
Additions	1,845	7,260	3,528	12,633	1,548	4,168	1,245	6,961
Disposals	(949)	(6,929)	(19,028)	(26,906)	(823)	(4,788)	(7,276)	(12,887)
Impairment (note 4.12.)	(754)	-	-	(754)	(150)	-	-	(150)
Transfer to/from non-current assets held for sale (note 5.8.)	(1,324)	-	-	(1,324)	(1,260)	-	-	(1,260)
Balance as at 31.12.2016	**327,240**	**73,525**	**108,068**	**508,833**	**201,618**	**50,659**	**59,276**	**311,553**
Depreciation and impairment								
Balance as at 1.1.2016	153,877	63,148	101,401	318,426	122,884	45,059	56,376	224,319
Effects of translation of foreign operations to presentation currency	(205)	(71)	(172)	(448)	-	-	-	-
Disposals	(606)	(10,733)	(13,016)	(24,355)	(572)	(8,601)	(3,447)	(12,620)
Depreciation (note 4.10.)	7,679	4,662	4,310	16,651	5,263	3,122	838	9,223
Impairment (note 4.12.)	2,553	-	-	2,553	977	-	-	977
Transfer to/from non-current assets and disposal group held for sale (note 5.8.)	(843)	-	-	(843)	(842)	-	-	(842)
Balance as at 31.12.2016	**162,455**	**57,006**	**92,523**	**311,984**	**127,710**	**39,580**	**53,767**	**221,057**
Net carrying amount								
Balance as at 31.12.2016	**164,785**	**16,519**	**15,545**	**196,849**	**73,908**	**11,079**	**5,509**	**90,496**
Balance as at 1.1.2016	**175,219**	**10,137**	**22,374**	**207,730**	**79,419**	**6,220**	**8,931**	**94,570**

NLB Group and NLB had no assets held under finance leases as at 31.12.2017 (31.12.2016: NLB Group EUR 6 thousand, NLB EUR 0).

The value of assets received by taking possession of collateral and included in property and equipment by NLB Group amounted to EUR 1,355 thousand (31.12.2016: EUR 1,523 thousand), and in NLB amounted to EUR 7 thousand (31.12.2016: EUR 7 thousand) (note 6.1.o).

The net carrying value of assets leased out by NLB Group under operating leases was EUR 2,913 thousand as at 31.12.2017 (31.12.2016: EUR 2,842 thousand). A total of 58.2% of assets leased out relates to motor vehicles (31.12.2016: 61.9%).

5.10. Investment property

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	83,663	93,513	8,151	8,613
Effects of translation of foreign operations to presentation currency	94	-	-	-
Additions	1,277	2,632	-	-
Disposals	(34,743)	(4,661)	(60)	-
Transfer from/(into) property and equipment (note 5.9.)	1,683	-	1,665	-
Transfer from/(into) non-current assets and disposal group held for sale (note 5.8.c)	201	-	201	-
Transfer from/(into) other assets	817	91	1,286	-
Net valuation to fair value (note 4.7. and 4.8.)	(1,154)	(7,912)	(1,986)	(462)
Balance as at 31.12.	**51,838**	**83,663**	**9,257**	**8,151**

The value of assets received by taking possession of collateral and included in investment property by NLB Group amounted to EUR 40,809 thousand (31.12.2016: EUR 48,658 thousand), and in NLB amounted to EUR 4,286 thousand (31.12.2016: EUR 3,750 thousand) (note 6.1.o).

Operating expenses arising from investment properties:

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Leased to others	1,076	965	323	297
Not leased to others	27	40	3	9
Total	**1,103**	**1,005**	**326**	**306**

Future minimum operating lease income from investment property:

in EUR thousand

NLB Group	2017	2016
Not later than one year	2,429	3,775
Later than one year and not later than five years	1,614	6,004
Later than five years	97	197
Total	**4,140**	**9,976**

Expected future operating lease income reported in 2017 is lower due to the sale of investment properties in 2017.

NLB Group realised rental income arising from investment properties in the amount of EUR 5,440 thousand (2016: EUR 5,942 thousand), and NLB in the amount of EUR 381 thousand (2016: EUR 260 thousand) (note 4.7.).

5.11. Intangible assets

in EUR thousand

	NLB Group			NLB
2017	**Software licenses**	**Goodwill**	**Total**	**Software licenses**
Cost				
Balance as at 1.1.2017	222,605	32,336	254,941	196,455
Effects of translation of foreign operations to presentation currency	340	-	340	-
Additions	15,246	-	15,246	12,466
Transfer to non-current assets and disposal group held for sale (note 5.8.b)	(293)	-	(293)	-
Write-offs	(5,602)	-	(5,602)	(5,179)
Balance as at 31.12.2017	**232,296**	**32,336**	**264,632**	**203,742**
Amortisation and impairment				
Balance as at 1.1.2017	192,164	28,807	220,971	173,110
Effects of translation of foreign operations to presentation currency	233	-	233	-
Amortisation (note 4.10.)	10,916	-	10,916	8,555
Transfer to non-current assets and disposal group held for sale (note 5.8.b)	(249)	-	(249)	-
Write-offs	(2,213)	-	(2,213)	(1,834)
Balance as at 31.12.2017	**200,851**	**28,807**	**229,658**	**179,831**
Net carrying value				
Balance as at 31.12.2017	**31,445**	**3,529**	**34,974**	**23,911**
Balance as at 1.1.2017	**30,441**	**3,529**	**33,970**	**23,345**

in EUR thousand

	NLB Group			NLB
2016	Software licenses	Goodwill	Total	Software licenses
Cost				
Balance as at 1.1.2016	216,723	32,336	249,059	193,080
Effects of translation of foreign operations to presentation currency	(124)	-	(124)	-
Additions	6,418	-	6,418	3,375
Write-offs	(412)	-	(412)	-
Balance as at 31.12.2016	**222,605**	**32,336**	**254,941**	**196,455**
Amortisation and impairment				
Balance as at 1.1.2016	180,925	28,807	209,732	163,453
Effects of translation of foreign operations to presentation currency	(90)	-	(90)	-
Amortisation (note 4.10.)	11,694	-	11,694	9,657
Write-offs	(365)	-	(365)	-
Balance as at 31.12.2016	**192,164**	**28,807**	**220,971**	**173,110**
Net carrying value				
Balance as at 31.12.2016	**30,441**	**3,529**	**33,970**	**23,345**
Balance as at 1.1.2016	**35,798**	**3,529**	**39,327**	**29,627**

5.12. Investments in subsidiaries, associates and joint ventures

a) Analysis by type of investment in subsidiaries

in EUR thousand

NLB	31.12.2017	31.12.2016
Banks	277,160	267,071
Other financial organisations	18,819	19,900
Enterprises	53,966	52,722
Total	**349,945**	**339,693**

In 2017, NLB Group sold its non-core subsidiary NLB Factoring – 'v likvidaci,' Ostrava. At sale, NLB Group recognised a loss at derecognition in amount of EUR 928 thousand, shown in item 'Gains Less Losses from Capital Investments in Subsidiaries, Associates, and Joint Ventures' and reclassified accumulated foreign exchange translation gains less losses from equity to profit or loss in amount of EUR 2,614 thousand.

Data on subsidiaries as included in the consolidated financial statements of NLB Group as at 31.12.2017:

in EUR thousand

	Nature of Business	Country of Incorporation	Equity as at 31.12.2017	Profit/(loss) for 2017	NLB's shareholding %	NLB's voting rights%	NLB Group's shareholding %	NLB Group's voting rights%
Core members								
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	156,609	40,004	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	66,975	5,385	99.83	99.83	99.83	99.83
NLB Banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	84,440	23,694	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Republic of Kosovo	66,705	14,197	81.21	81.21	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	69,086	8,300	97.34	97.35	97.34	97.35
NLB Banka a.d., Belgrade	Banking	Republic of Serbia	61,443	3,731	99,997	99,997	99,997	99,997
NLB Srbija d.o.o., Belgrade	Real estate	Republic of Serbia	30,582	1,484	100	100	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	8,744	3,747	100	100	100	100
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	7,513	1,218	51	51	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	1,320	82	100	100	100	100
Non-core members								
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	Finance	Republic of Slovenia	11,119	951	100	100	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Republic of Croatia	3,821	(967)	-	-	100	100
NLB Leasing Podgorica d.o.o., Podgorica - "u likvidaciji"	Finance	Republic of Montenegro	558	(295)	100	100	100	100
NLB Leasing d.o.o., Belgrade - u likvidaciji	Finance	Republic of Serbia	5,181	489	100	100	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	6,011	6,730	100	100	100	100
NLB Lizing d.o.o.e.l., Skopje - vo likvidacija	Finance	Republic of Macedonia	981	101	100	100	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	16,927	154	12.71	12.71	100	100
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	21,025	1,213	100	100	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Republic of Croatia	538	(124)	-	-	100	100
BH-RE d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	12	(12)	-	-	100	100
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	665	(114)	100	100	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	309	(133)	100	100	100	100
REAM d.o.o., Belgrade	Real estate	Republic of Serbia	231	(77)	100	100	100	100
SR-RE d.o.o., Belgrade	Real estate	Republic of Serbia	2,349	426	100	100	100	100
SPV 2 d.o.o., Belgrade	Real estate	Republika Srbija	1,613	(25)	100	100	100	100
NLB Propria d.o.o., Belgrade - v likvidaciji	Real estate	Republic of Slovenia	398	(483)	100	100	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	55	(38)	100	100	100	100
NLB InterFinanz AG, Zürich in Liquidation	**Finance**	**Switzerland**	**7,750**	**(1,771)**	**100**	**100**	**100**	**100**
NLB InterFinanz Praha s.r.o., Prague	Finance	Czech Republic	209	302	-	-	100	100
NLB InterFinanz d.o.o., Belgrade	Finance	Republic of Serbia	(16)	(17)	-	-	100	100
Prospera plus d.o.o., Ljubljana - v likvidaciji	**Tourist and catering trade**	**Republic of Slovenia**	**185**	**(240)**	**100**	**100**	**100**	**100**
LHB AG, Frankfurt	Finance	Republic of Germany	6,412	3,916	100	100	100	100

Data on subsidiaries as included in the consolidated financial statements of NLB Group as at 31.12.2016:

in EUR thousand

	Nature of Business	Country of Incorporation	Equity as at 31.12.2016	Profit/(loss) for 2016	NLB's shareholding %	NLB's voting rights%	NLB Group's shareholding %	NLB Group's voting rights%
Core members								
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	129,083	24,997	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	75,787	5,318	99.36	98.00	99.36	98.00
NLB Banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	74,607	14,117	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Republic of Kosovo	62,845	11,263	81.21	81.21	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	60,780	5,357	97.34	97.35	97.34	97.35
NLB Banka a.d., Belgrade	Banking	Republic of Serbia	45,526	2,152	99,997	99,997	99,997	99,997
NLB Srbija d.o.o., Belgrade	Real estate	Republic of Serbia	27,906	555	100	100	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	7,948	2,951	100	100	100	100
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	6,155	979	51	51	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	1,238	305	100	100	100	100
Non-core members								
NLB Leasing d.o.o., Ljubljana	Finance	Republic of Slovenia	10,112	(18,316)	100	100	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Republic of Croatia	4,716	(3,115)	-	-	100	100
NLB Leasing Podgorica d.o.o., Podgorica - "u likvidaciji"	Finance	Republic of Montenegro	853	(754)	100	100	100	100
NLB Leasing d.o.o., Belgrade - u likvidaciji	Finance	Republic of Serbia	4,495	(215)	100	100	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	(724)	(150)	100	100	100	100
NLB Lizing d.o.o.e.l., Skopje - vo likvidacija	Finance	Republic of Macedonia	873	8	100	100	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	16,899	(5,946)	12.71	12.71	100	100
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	19,812	(216)	100	100	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Republic of Croatia	653	(173)	-	-	100	100
BH-RE d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	3	(9)	-	-	100	100
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	37	(90)	100	100	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	443	(83)	100	100	100	100
REAM d.o.o., Belgrade	Real estate	Republic of Serbia	105	(104)	100	100	100	100
SR-RE d.o.o., Belgrade	Real estate	Republic of Serbia	1,837	(163)	100	100	100	100
NLB Propria d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	880	67	100	100	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	12	(40)	100	100	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	8,976	(4,716)	100	100	100	100
NLB InterFinanz Praha s.r.o., Prague	Finance	Czech Republic	(94)	23	-	-	100	100
NLB InterFinanz d.o.o., Belgrade	Finance	Republic of Serbia	1	(40)	-	-	100	100
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	373	6	100	100	100	100
LHB AG, Frankfurt	Finance	Republic of Germany	2,316	(428)	100	100	100	100
NLB Factoring a.s. - "v likvidaci", Brno	Finance	Czech Republic	93	(280)	100	100	100	100

Changes in ownership interest in subsidiaries of NLB Group in 2017 and 2016 are presented in note 3.

Data on subsidiaries with significant non-controlling interests, before intercompany eliminations

in EUR thousand

	NLB Banka, Skopje		NLB Banka, Prishtina	
	2017	2016	2017	2016
Non-controlling interest in equity in %	13.03	13.03	18.79	18.79
Non-controlling interest's voting rights in %	13.03	13.03	18.79	18.79
Income statement and statement of comprehensive income				
Revenues	82,983	80,036	34,741	32,815
Profit/(loss) for the year	**40,004**	**24,997**	**14,197**	**11,263**
Atributable to non-controlling interest	5,213	3,257	2,668	2,116
Other comprehensive income	1,311	(427)	(183)	88
Total comprehensive income	**41,315**	**24,570**	**14,014**	**11,351**
Atributable to non-controlling interest	5,383	3,201	2,633	2,133
Paid dividends to non-controlling interest	1,795	1,233	1,908	1,547
Statement of financial position				
Current assets	657,436	574,520	320,580	297,485
Non-current assets	578,475	578,569	263,506	218,630
Current liabilities	871,453	810,619	430,501	363,590
Non-current liabilities	207,849	213,387	86,880	89,680
Equity	**156,609**	**129,083**	**66,705**	**62,845**
Atributable to non-controlling interest	20,406	16,820	12,534	11,809

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

in EUR thousand

	NLB Group		NLB	
	NLB Group		NLB	
Carrying amount of the NLB Group's interest	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Other financial organisations	43,765	43,008	6,600	6,600
Enterprises	-	240	332	431
Total	**43,765**	**43,248**	**6,932**	**7,031**

NLB Group's associates

in EUR thousand

			2017		2016	
	Nature of Business	Country of Incorporation	Shareholding %	Voting rights %	Shareholding %	Voting rights %
Bankart d.o.o., Ljubljana	Card processing	Republic of Slovenia	39.44	39.44	39.44	39.44
Skupna pokojninska družba d.d., Ljubljana	Insurance	Republic of Slovenia	28.13	28.13	28.13	28.13
ARG - Nepremičnine d.o.o., Horjul	Real estate	Republic of Slovenia	75.00	75.00	75.00	75.00
Kreditni biro SISBON, d.o.o., Ljubljana - v likvidaciji	Credit bureau	Republic of Slovenia	-	-	29.68	29.68

By contractual agreement between the shareholders, NLB does not control ARG-Nepremičnine, Horjul, but does have a significant influence. Therefore, the entity is accounted as an associate.

Carrying amount of interests in associates included in the consolidated financial statements of NLB Group

in EUR thousand

	2017	2016
Carrying amount of the NLB Group's interest	**11,781**	**13,009**
NLB Group's share of:		
- Profit for the year	1,338	1,462
- Other comprehensive income	40	(234)
- Total comprehensive income	**1,378**	**1,228**

In 2017 NLB Group did not recognise a share of profit of an associate in the amount of EUR 65 thousand (31.12.2016: unrecognised profit EUR 48 thousand), as it still has the cumulative unrecognised share of losses of an associate that as at 31.12.2017 amounted to EUR 2,337 thousand (31.12.2016: EUR 2,402 thousand).

NLB Group's joint ventures

			2017	2016
	Nature of Business	Country of Incorporation	Voting rights%	Voting rights%
NLB Vita d.d., Ljubljana	Insurance	Republic of Slovenia	50	50
Prvi Faktor Group, Ljubljana	Finance	Republic of Slovenia	50	50

In 2017 NLB Group did not recognise a share of profit of a joint venture in the amount of EUR 2,949 thousand, as it still has a cumulative unrecognised share of losses of a joint venture that as at 31.12. amounted to EUR 14,371 thousand (31.12.2016: EUR 17,320 thousand).

Summarised financial information on material joint venture NLB Vita, Ljubljana included in the consolidated financial statements of NLB Group:

in EUR thousand

NLB Vita d.d., Ljubljana	2017	2016
Revenues	80,747	74,342
Interest income	7,310	7,038
Interest expense	(2)	(1)
Depreciation and amortisation	(212)	(241)
Income tax	(1,520)	(1,422)
Profit for the year	**6,889**	**7,394**
Other comprehensive income	298	4,434
Total comprehensive income	**7,186**	**11,828**
NLB Group's share of:		
- Profit for the year	3,444	3,697
- Other comprehensive income	149	2,216
	31.12.2017	**31.12.2016**
Total assets	453,028	409,513
Cash and cash equivalents	28	2,541
Total liabilities	389,060	349,035
Equity	**63,968**	**60,478**
NLB Group's ownership interest in joint venture	31,984	30,239
Carrying amount of the NLB Group's interest in joint venture	**31,984**	**30,239**

c) Movements of investments in associates and joint ventures

in EUR thousand

NLB Group	2017	2016
Balance as at 1.1.	43,248	39,696
Share of results before tax	5,585	6,097
Share of tax	(803)	(938)
Net gains/(losses) recognised in other comprehensive income	189	1,982
Dividends received	(4,215)	(3,587)
Liquidation of an associate	(239)	-
Other	-	(2)
Balance as at 31.12.	**43,765**	**43,248**

5.13. Other assets

in EUR thousand

	NLB Group		NLB	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Assets, received as collateral (note 6.1.o)	77,500	79,059	4,811	4,263
Inventories	8,879	8,913	335	460
Deferred expenses	4,324	4,597	2,886	3,096
Claim for taxes and other dues	1,675	1,305	375	389
Prepayments	971	684	285	211
Total	**93,349**	**94,558**	**8,692**	**8,419**

Assets received as collateral and inventories on NLB Group in the amount of EUR 76,222 thousand (31.12.2016: EUR 76,416 thousand) and on NLB in the amount of EUR 4,811 thousand (31.12.2016: EUR 4,263 thousand) consist of real estate.

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

a) Impairment of loans and advances to individuals

in EUR thousand

NLB Group	Granted overdrafts	Loans for houses and flats	Consumer loans	Other loans	Total
Balance as at 1.1.2016	18,556	49,351	53,401	21,511	142,819
Effects of translation of foreign operations to presentation currency	(32)	(49)	(123)	3	(201)
Impairment (note 4.12.)	2,587	4,436	3,261	2,516	12,800
Write-offs	(4,973)	(21,900)	(20,369)	(10,241)	(57,483)
Repayments of written-off receivables	-	-	199	1,143	1,342
Exchange differences	-	29	2	(87)	(56)
Other	-	-	(5)	-	(5)
Balance as at 31.12.2016	**16,138**	**31,867**	**36,366**	**14,845**	**99,216**
Effects of translation of foreign operations to presentation currency	40	84	252	(413)	(37)
Impairment (note 4.12.)	2,157	(1,072)	4,408	3,423	8,916
Write-offs	(4,725)	(1,405)	(1,546)	(4,421)	(12,097)
Repayments of written-off receivables	823	210	235	750	2,018
Exchange differences	-	(236)	(3)	434	195
Other	-	-	-	(4)	(4)
Balance as at 31.12.2017	**14,433**	**29,448**	**39,712**	**14,614**	**98,207**

in EUR thousand

NLB	Granted overdrafts	Loans for houses and flats	Consumer loans	Other loans	Total
Balance as at 1.1.2016	14,960	33,432	17,808	1,976	68,176
Impairment (note 4.12.)	2,303	5,495	1,930	517	10,245
Write-offs	(4,509)	(20,513)	(13,527)	(811)	(39,360)
Exchange differences	-	8	-	-	8
Balance as at 31.12.2016	**12,754**	**18,422**	**6,211**	**1,682**	**39,069**
Impairment (note 4.12.)	1,513	97	(18)	1,376	2,968
Write-offs	(1,817)	(976)	(456)	(359)	(3,608)
Repayments of written-off recievables	-	20	-	354	374
Exchange differences	-	(198)	-	-	(198)
Balance as at 31.12.2017	**12,450**	**17,365**	**5,737**	**3,053**	**38,605**

b) Impairment of loans and advances to legal entities

in EUR thousand

NLB Group	Loans and advances to government	Loans and advances to banks	Loans and advances to financial organisations	Loans and advances to large corporate customers	Loans and advances to Small- and medium-sized enterprises	Total
Balance as at 1.1.2016	19,872	242	45,383	329,224	725,537	1,120,258
Effects of translation of foreign operations to presentation currency	(7)	(1)	-	(318)	(703)	(1,029)
Impairment (note 4.12.)	(2,604)	74	(14,842)	(16,052)	56,578	23,154
Write-offs	(690)	(1)	(710)	(72,990)	(273,891)	(348,282)
Repayments of written-off receivables	110	35	-	3,354	7,581	11,080
Exchange differences	-	-	4	(719)	241	(474)
Other	(5)	-	(2)	-	(166)	(173)
Balance as at 31.12.2016	**16,676**	**349**	**29,833**	**242,499**	**515,177**	**804,534**
Effects of translation of foreign operations to presentation currency	14	4	3	(465)	(249)	(693)
Impairment (note 4.12.)	(7,706)	187	(2,244)	(34,422)	(5,862)	(50,047)
Write-offs	(352)	-	(22,596)	(45,633)	(141,024)	(209,605)
Repayments of written-off receivables	318	36	22	2,659	10,842	13,877
Exchange differences	(10)	-	(22)	742	1,609	2,319
Disposal of subsidiary	-	-	-	(4,153)	(6,898)	(11,051)
Other	-	-	-	-	(213)	(213)
Balance as at 31.12.2017	**8,940**	**576**	**4,996**	**161,227**	**373,382**	**549,121**

in EUR thousand

NLB	Loans and advances to government	Loans and advances to banks	Loans and advances to financial organisations	Loans and advances to large corporate customers	Loans and advances to Small- and medium-sized enterprises	Total
Balance as at 1.1.2016	6,799	197	56,231	200,000	363,512	626,739
Impairment (note 4.12.)	(163)	(196)	(5,005)	5,065	14,844	14,545
Write-offs	(689)	(1)	(446)	(39,415)	(138,831)	(179,382)
Repayments of written-off receivables	110	-	-	1,486	2,149	3,745
Exchange differences	-	-	17	6	9	32
Balance as at 31.12.2016	**6,057**	**-**	**50,797**	**167,142**	**241,683**	**465,679**
Impairment (note 4.12.)	(1,891)	-	(15,569)	(22,068)	(3,221)	(42,749)
Write-offs	-	-	(23,522)	(40,580)	(84,507)	(148,609)
Repayments of written-off receivables	210	-	-	1,617	2,383	4,210
Exchange differences	-	-	(22)	(21)	(30)	(73)
Balance as at 31.12.2017	**4,376**	**-**	**11,684**	**106,090**	**156,308**	**278,458**

c) Impairment of other financial assets

in EUR thousand

	NLB Group	NLB
Balance as at 1.1.2016	27,078	5,123
Effects of translation of foreign operations to presentation currency	43	-
Impairment (note 4.12.)	625	356
Write-offs	(12,417)	(1,726)
Exchange differences	(39)	(1)
Repayments of written-off receivables	165	19
Other	(2)	-
Balance as at 31.12.2016	**15,453**	**3,771**
Effects of translation of foreign operations to presentation currency	65	-
Impairment (note 4.12.)	1,130	587
Write-offs	(5,043)	(1,189)
Exchange differences	(17)	-
Repayments of written-off receivables	117	22
Balance as at 31.12.2017	**11,705**	**3,191**

5.15. Trading liabilities

in EUR thousand

	NLB Group		NLB	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Derivatives, excluding hedges				
Swap contracts	8,855	15,555	8,751	15,552
- currency swaps	367	328	263	325
- interest rate swaps	8,488	15,227	8,488	15,227
Options	276	-	276	-
- interest rate options	276	-	276	-
Forward contracts	371	3,236	371	3,235
- currency forward	371	3,236	371	3,235
Total	**9,502**	**18,791**	**9,398**	**18,787**

The notional amounts of derivative financial instruments are disclosed in note 5.24.b.

5.16. Financial liabilities, measured at amortised cost

Analysis by type of financial liabilities, measured at the amortised cost

in EUR thousand

	NLB Group		NLB	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Deposits from banks and central banks	40,602	42,334	72,072	74,977
Borrowings from banks and central banks	279,616	371,769	260,747	338,467
Due to customers	9,878,378	9,437,147	6,810,967	6,615,390
Borrowings from other customers	74,286	83,619	5,726	4,274
Debt securities in issue	-	277,726	-	277,726
Subordinated liabilities	27,350	27,145	-	-
Other financial liabilities	111,019	110,295	71,534	68,784
Total	**10,411,251**	**10,350,035**	**7,221,046**	**7,379,618**

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

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Deposits on demand				
- banks and central banks	36,331	34,828	71,383	74,434
- other customers	7,332,344	6,415,927	5,455,657	4,781,616
- governments	203,228	200,629	80,325	83,745
- financial organisations	156,713	124,918	140,379	101,536
- companies	1,692,840	1,584,892	1,042,298	1,015,371
- individuals	5,279,563	4,505,488	4,192,655	3,580,964
Other deposits				
- banks and central banks	4,271	7,506	689	543
- other customers	2,546,034	3,021,220	1,355,310	1,833,774
- governments	52,727	150,835	44,343	147,914
- financial organisations	129,030	122,401	66,826	78,767
- companies	281,527	350,431	185,156	246,584
- individuals	2,082,750	2,397,553	1,058,985	1,360,509
Total	**9,918,980**	**9,479,481**	**6,883,039**	**6,690,367**

b) Borrowings from banks and central banks and other customers

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Loans				
- banks and central banks	279,616	371,769	260,747	338,467
- other customers	74,286	83,619	5,726	4,274
- governments	17,058	20,063	-	-
- financial organisations	49,257	56,728	-	-
- companies	7,971	6,828	5,726	4,274
Total	**353,902**	**455,388**	**266,473**	**342,741**

As at 31.12.2017, NLB Group and NLB had EUR 341,691 thousand in undrawn borrowings (31.12.2016: EUR 347,434 thousand).

c) Debt securities in issue

in EUR thousand

	NLB Group and NLB	
	31.12.2017	31.12.2016
Carrying amount of issued securities		
- traded on active markets	-	277,726
Bonds (in %)		
- fixed rated	-	100.00

d) Subordinated liabilities

in EUR thousand

NLB Group				31.12.2017		31.12.2016	
	Currency	Due date	Interest rate	Carrying amount	Nominal value	Carrying amount	Nominal value
Subordinated loans							
	EUR	30.6.2018	6 months EURIBOR +5% p.a.	12,221	12,000	12,103	12,000
	EUR	30.6.2020	6 months EURIBOR + 7.7% p.a.	5,132	5,000	5,151	5,000
	EUR	26.6.2025	6 months EURIBOR + 6.25% p.a.	9,997	10,000	9,891	10,000
Total				**27,350**	**27,000**	**27,145**	**27,000**

e) Other financial liabilities

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Debit or credit card payables	36,578	32,704	32,132	29,350
Items in the course of payment	20,931	28,671	4,393	8,499
Accrued expenses	11,343	13,382	4,456	5,593
Suppliers	14,826	11,781	11,146	8,393
Accrued salaries	9,665	8,537	6,662	6,583
Fees and commissions	1,682	1,440	1,627	1,398
Other financial liabilities	15,994	13,780	11,118	8,968
Total	**111,019**	**110,295**	**71,534**	**68,784**

Other financial liabilities mainly include liabilities to insurance companies, liabilities to employees, received warranties, obligation for purchase of securities and trust services.

5.17. Provisions

a) Analysis by type of provisions

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Provisions for financial guarantees (note 5.24.a)	9,497	25,327	7,806	23,131
Provisions for non-financial guarantees (note 5.24.a)	19,724	22,745	19,069	21,777
Provisions for other credit commitments (note 5.24.a)	7,694	5,609	7,382	4,957
Employee benefit provisions	20,440	19,758	16,712	15,384
Restructuring provisions	15,284	10,014	14,687	8,750
Provisions for legal issues	15,786	15,194	4,958	3,282
Other provisions	214	2,267	203	2,265
Total	**88,639**	**100,914**	**70,817**	**79,546**

Provisions for legal issues are recognised based on expectations regarding the probable outcome of legal disputes.

As at 31.12.2017, NLB Group was involved in 38 (31.12.2016: 41) legal disputes with material claims against group members in a total amount of EUR 585,406 thousand, excluding accrued interest (31.12.2016: EUR 631,918 thousand). As at 31.12.2017, NLB was involved in 19 (31.12.2016: 19) legal disputes with material monetary claims against NLB. The total amount of these claims, excluding accrued interest, was EUR 399,824 thousand (31.12.2016: EUR 417,041 thousand).

In connection with legal issues, the biggest amount of material monetary claims relates to civil claims filed by Privredna banka Zagreb (the PBZ) and Zagrebačka banka (the ZaBa) against NLB, referring to the old savings of LB Branch Zagreb savers, which were transferred to these two banks in a principal amount of approximately EUR 167.1 million. Due to the fact the proceedings have been pending for such a long time, the penalty interest already exceeds the principal amount. As NLB is not liable for the old foreign currency savings, based on numerous process and content-related reasons, NLB has all along objected to these claims. Two key reasons NLB is not liable for the old foreign currency savings are that it was only founded on the basis of the Constitutional Act on 27 July 1994 (at the time the savings were deposited with LB Branch Zagreb, NLB did not yet exist), and NLB did not assume any of such obligations. Moreover, this is a former Yugoslavia succession matter, as the governments of the Republic of Slovenia and the Republic of Croatia agreed in a Memorandum of Understanding signed in 2013 whose intent was to find a solution to the transferred foreign currency savings of Ljubljanska banka in Croatia (LB) on the basis of the Agreement on Succession Issues. The Memorandum also said that the Republic of Croatia would ensure the stay all the proceedings commenced by the PBZ and the ZaBa in relation to the transferred foreign currency savings until the issue was finally resolved.

Despite the agreement in Memorandum of Understanding to stay all the proceedings commenced, the Court of Appeal, the County Court of Zagreb, ruled in three claims (as explained bellow in details) in favour of the plaintiff. NLB then filed in the case from May 2015 a constitutional appeal with the Constitutional Court of the Republic of Croatia and in relation to the ruling, dated 26 September 2017 (received on 16 November 2017) and the ruling, dated 21 November 2017(received on 26 January 2018) an extraordinary legal measure with the Supreme Court of the Republic of Croatia was filed against the aforementioned final judgements. In the other cases, with respect to which court procedures described above are pending, final judgments have not yet been issued.

Conversely, in another case, a claim filed by the PBZ was refused and the judgment became final in favour of NLB. Extraordinary legal measure with the Supreme Court of the Republic of Croatia, filed by the plaintiff, was dismissed by Supreme Court on 16 June 2015.

In May 2015 the Court of Appeal, the County Court of Zagreb, ruled in one claim to reject the complaints raised by the LB and NLB and awarded that the plaintiff PBZ be paid the principal value of EUR 254.76 and costs of the proceedings totalling HRK 15,781.25, both with accompanying accrued penalty interest. NLB then filed a constitutional appeal against the aforementioned final judgement as it found the court decision contrary to the legislation in force as well as the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia.

On 16 November 2017, NLB received the judgement of Županijski sud in Zagreb, which as the Court of the second instance changed the judgment of the Court of the first instance, with which the claim against NLB was refused, in such a way that the defendants NLB and LB are jointly and severally obliged to pay to the plaintiff

ZaBa the principal in the amount of EUR 492.430,53 plus interest, which exceeds the principal amount and litigation costs in the amount of approximately EUR 99 thousand with penalty interest. LB and NLB are, in accordance with the judgment, obliged to pay all relevant amounts jointly and severally. Given the fact that such ruling became final and enforceable and recognizing fundamental EU principles on mutual recognition of judgments, the payment had to be completed by 1 December 2017. Nevertheless, NLB challenged the judgment with the extraordinary legal measure on the Supreme Court of the Republic of Croatia and later, if necessary, will also challenge the judgment with all other available remedies, as the obligations of the old foreign currency savings in accordance with Slovenian Constitutional Law are not the liabilities of the NLB.

In another case Županijski sud in Zagreb, which as the Court of the second instance in a judgment dated 21 November 2017 upheld the judgment of the Court of first instance dated 21 January 2014, with which was decided that the defendants NLB and LB are jointly and severally obliged to pay to the plaintiff Privredna banka Zagreb ("PBZ") the principal in the amount of EUR 220.115,,98 plus interest and litigation costs in the amount of approximately EUR 93 thousand with penalty interest until payment. LB and NLB are, in accordance with the judgment, obliged to pay all relevant amounts jointly and severally. In accordance with the final judgment the payment should be completed up to and including 12 February 2018. NLB has challenged the judgment with the extraordinary legal measure with the Supreme Court of the Republic of Croatia and later, if necessary, will also challenge the judgment with all other available remedies, as the obligations of the old foreign currency savings in accordance with Slovenian Constitutional Law are not the liabilities of the NLB.

Provisions for these claims are not formed since NLB believes there are no legal grounds for them.

b) Movements in provisions for guarantees and commitments

Financial guarantees

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	25,327	47,737	23,131	44,583
Effects of translation of foreign operations to presentation currency	11	(16)	-	-
Additional provisions/provisions released (note 4.11.)	(2,587)	(4,521)	(2,069)	(3,565)
Utilised during year	(13,254)	(17,894)	(13,254)	(17,894)
Exchange differences	(3)	21	(2)	7
Balance as at 31.12.	**9,494**	**25,327**	**7,806**	**23,131**

Non-financial guarantees

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	22,745	31,034	21,777	29,863
Effects of translation of foreign operations to presentation currency	4	(2)	-	-
Additional provisions/provisions released (note 4.11.)	(3,024)	(8,295)	(2,716)	(8,093)
Exchange differences	(1)	8	8	7
Balance as at 31.12.	**19,724**	**22,745**	**19,069**	**21,777**

Other credit commitments

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	5,609	3,228	4,957	3,197
Effects of translation of foreign operations to presentation currency	2	(1)	-	-
Additional provisions/provisions released (note 4.11.)	2,151	2,384	2,489	1,761
Exchange differences	(65)	(2)	(64)	(1)
Balance as at 31.12.	**7,697**	**5,609**	**7,382**	**4,957**

c) Movements in employee benefit provisions

Post-employment benefits

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	13,130	14,205	10,886	11,786
Effects of translation of foreign operations to presentation currency	9	(2)	-	-
Transfer to non-current assets and disposal group held for sale	(9)	-	-	-
Additional provisions (note 4.9.)	559	594	462	473
Provisions released (note 4.9.)	(465)	(215)	-	-
Interest expenses (note 4.1.)	188	274	93	171
Utilised during year (payments)	(90)	(210)	(53)	(78)
Actuarial gains and losses	822	(1,516)	950	(1,466)
Balance as at 31.12.	**14,144**	**13,130**	**12,338**	**10,886**

Other employee benefits

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	6,628	7,060	4,498	4,773
Effects of translation of foreign operations to presentation currency	11	(2)	-	-
Transfer to non-current assets and disposal group held for sale	(52)	-	-	-
Additional provisions (note 4.9.)	4,131	4,065	2,584	2,628
Provisions released (note 4.9.)	(176)	(514)	-	(258)
Interest expenses (note 4.1.)	54	83	17	34
Utilised during year	(4,300)	(4,064)	(2,725)	(2,679)
Balance as at 31.12.	**6,296**	**6,628**	**4,374**	**4,498**

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

d) Movements in restructuring provisions

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	10,014	3,477	8,750	3,429
Effects of translation of foreign operations to presentation currency	5	(3)	-	-
Additional provisions (note 4.11.)	8,588	10,644	8,400	9,377
Utilised during year	(3,323)	(4,104)	(2,463)	(4,056)
Balance as at 31.12.	**15,284**	**10,014**	**14,687**	**8,750**

NLB Group has adopted a new business strategy and initiated key strategic initiatives, aiming among others towards a leaner organisation, optimisation of processes, implementation of a new IT strategy with a focus on digitalisation and simplification, and adjustment of the organisational structure. These initiatives will result in a decreased number of employees in the coming years. Built provisions are expected to be used for redundancy payments in the next three years.

e) Movements in provisions for legal issues

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	15,194	13,465	3,282	5,075
Effects of translation of foreign operations to presentation currency	175	(74)	-	-
Additional provisions (note 4.11.)	4,940	5,291	1,831	401
Provisions released (note 4.11.)	(4,258)	(1,039)	-	(256)
Utilised during year	(245)	(2,462)	(155)	(1,949)
Exchange differences	(20)	13	-	11
Balance as at 31.12.	**15,786**	**15,194**	**4,958**	**3,282**

f) Movements in other provisions

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	2,267	2,433	2,265	2,431
Additional provisions (note 4.11.)	32	-	-	-
Provisions released (note 4.11.)	(591)	(107)	(591)	(107)
Utilised during year	(1,494)	(59)	(1,471)	(59)
Balance as at 31.12.	**214**	**2,267**	**203**	**2,265**

5.18. Deferred income tax

a) Analysis by type of deferred income taxes

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Deferred income tax assets				
Valuation of financial instruments and capital investments	25,513	19,301	25,475	19,424
Impairment provisions	170	387	2	2
Employee benefit provisions	4,018	3,208	3,432	2,736
Depreciation and valuation of non-financial assets	976	1,113	162	175
Total deferred income tax assets	**30,677**	**24,009**	**29,071**	**22,337**
Deferred income tax liabilities				
Valuation of financial instruments	10,077	12,233	9,067	11,463
Depreciation and valuation of non-financial assets	1,097	1,278	246	252
Impairment provisions	1,996	3,471	-	-
Other	-	19	-	-
Total deferred income tax liabilities	**13,170**	**17,001**	**9,313**	**11,715**
Net deferred income tax assets	**18,603**	**7,735**	**19,758**	**10,622**
Net deferred income tax liabilities	**(1,096)**	**(727)**	**-**	**-**

	NLB Group		NLB	
	2017	2016	2017	2016
Included in the income statement for the current year	**8,691**	**(217)**	**7,164**	**3,083**
- valuation of financial instruments and capital investments	6,710	2,503	6,565	2,428
- impairment provisions	1,214	(3,505)	-	(6)
- employee benefit provisions	724	1,016	606	681
- depreciation and valuation of non-financial assets	37	(239)	(7)	(20)
- other	6	8	-	-
Included in other comprehensive income for the current year	**1,747**	**(1,858)**	**1,972**	**(1,600)**
- valuation of available-for-sale financial assets	1,657	(1,207)	1,882	(949)
- cash flow hedges	-	(460)	-	(460)
- actuarial assumptions and experience	90	(191)	90	(191)

As at 31.12.2017, NLB recognised EUR 29,071 thousand in deferred tax assets (31.12.2016: EUR 22,337 thousand). Unrecognised deferred tax assets amount to EUR 277,325 thousand (31.12.2016: EUR 265,149 thousand), of which EUR 204,657 thousand (31.12.2016: EUR 208,678 thousand) relates to unrecognised deferred tax assets from tax loss, and EUR 72,668 thousand (31.12.2016: EUR 56,471 thousand) to unrecognised deferred tax assets from impairments of non-strategic capital investments.

b) Movements in deferred income taxes

Deferred income tax assets

in EUR thousand

NLB Group	Employee benefit provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment provisions	Total
Balance as at 1.1.2016	2,385	17,479	1,130	554	21,548
Effects of translation of foreign operations to presentation currency	(2)	(1)	(1)	(4)	(8)
(Charged)/credited to profit and loss	1,016	2,488	(16)	(163)	3,325
(Charged)/credited to other comprehensive income	(191)	(665)	-	-	(856)
Balance as at 31.12.2016	**3,208**	**19,301**	**1,113**	**387**	**24,009**
Effects of translation of foreign operations to presentation currency	-	-	7	6	13
Transfer to non-current assets and disposal group held for sale	(4)	-	-	-	(4)
(Charged)/credited to profit and loss	724	6,607	(144)	(223)	6,964
(Charged)/credited to other comprehensive income	90	(395)	-	-	(305)
Balance as at 31.12.2017	**4,018**	**25,513**	**976**	**170**	**30,677**

in EUR thousand

NLB	Employee benefit provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment provisions	Total
Balance as at 1.1.2016	2,246	17,550	182	8	19,986
(Charged)/credited to profit and loss	681	2,413	(7)	(6)	3,081
(Charged)/credited to other comprehensive income	(191)	(539)	-	-	(730)
Balance as at 31.12.2016	**2,736**	**19,424**	**175**	**2**	**22,337**
(Charged)/credited to profit and loss	606	6,462	(13)	-	7,055
(Charged)/credited to other comprehensive income	90	(411)	-	-	(321)
Balance as at 31.12.2017	**3,432**	**25,475**	**162**	**2**	**29,071**

Deferred income tax liabilities

in EUR thousand

NLB Group	Impairment provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Other	Total
Balance as at 1.1.2016	129	11,249	1,056	27	12,461
Effects of translation of foreign operations to presentation currency	-	(3)	(1)	-	(4)
Charged/(credited) to profit and loss	3,342	(15)	223	(8)	3,542
Charged/(credited) to other comprehensive income	-	1,002	-	-	1,002
Balance as at 31.12.2016	**3,471**	**12,233**	**1,278**	**19**	**17,001**
Effects of translation of foreign operations to presentation currency	1	7	-	-	8
Transfer to non-current assets and disposal group held for sale	-	(8)	-	(13)	(21)
Disposal of subsidiary	(39)	-	-	-	(39)
Charged/(credited) to profit and loss	(1,437)	(103)	(181)	(6)	(1,727)
Charged/(credited)to other comprehensive income	-	(2,052)	-	-	(2,052)
Balance as at 31.12.2017	**1,996**	**10,077**	**1,097**	**-**	**13,170**

in EUR thousand

NLB	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Total
Balance as at 1.1.2016	10,608	239	10,847
Charged/(credited) to profit and loss	(15)	13	(2)
Charged/(credited) to other comprehensive income	870	-	870
Balance as at 31.12.2016	**11,463**	**252**	**11,715**
Charged/(credited) to profit and loss	(103)	(6)	(109)
Charged/(credited) to other comprehensive income	(2,293)	-	(2,293)
Balance as at 31.12.2017	**9,067**	**246**	**9,313**

5.19. Income tax relating to components of other comprehensive income

in EUR thousand

	NLB Group			NLB		
2017	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Actuarial gains and lossess	(810)	90	(720)	(950)	90	(860)
Available-for-sale financial assets	(7,261)	1,657	(5,604)	(9,904)	1,882	(8,022)
Share of associates and joint ventures	225	(36)	189	-	-	-
Total	**(7,846)**	**1,711**	**(6,135)**	**(10,854)**	**1,972**	**(8,882)**

in EUR thousand

	NLB Group			NLB		
2016	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Actuarial gains and lossess	1,515	(191)	1,324	1,466	(191)	1,275
Available-for-sale financial assets	3,899	(1,207)	2,692	171	(949)	(778)
Cash flow hedge	2,703	(460)	2,243	2,703	(460)	2,243
Share of associates and joint ventures	2,725	(743)	1,982	-	-	-
Total	**10,842**	**(2,601)**	**8,241**	**4,340**	**(1,600)**	**2,740**

5.20. Other liabilities

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Taxes payable	3,409	3,699	2,770	3,049
Deferred income	3,101	2,964	1,034	661
Payments received in advance	3,086	2,040	377	476
Total	**9,596**	**8,703**	**4,181**	**4,186**

5.21. Share capital

The share capital of NLB amounts to EUR 200,000 thousand and did not change during 2017. It comprises of 20,000,000 no-par-value ordinary registered shares, with the corresponding value of EUR 10.0 for one share. All issued shares are fully paid and there are no un-issued authorised shares. As at 31.12.2017 and 31.12.2016, the Republic of Slovenia was the only shareholder of NLB. NLB Group does not own treasury shares.

The book value of a NLB share on a consolidated level as at 31.12.2017 was 82.7 EUR (31.12.2016: EUR 74.8), and on solo level was EUR 69.1 (31.12.2016: EUR 63.2). It is calculated as the ratio of net assets' book value without other equity instruments issued and the number of shares.

Distributable profit as at 31.12.2017 amounts to EUR 270,627 thousand (31.12.2016: EUR 145,313 thousand), and consists of a net profit for 2017 in the amount of EUR 189,094 thousand (2016: EUR 63,783 thousand) and retained earnings from previous years in the amount of EUR 81,533 thousand. Its allocation will be subject to a decision by the Bank's Annual General Meeting.

In 2017 NLB paid dividends for previous year in the amount of 3,189 EUR per share (2016: 2,194 EUR), which decreased retained earnings for EUR 63,780 thousand (2016: EUR 43.880 thousand).

5.22. Accumulated other comprehensive income and reserves

a) Reserves

The share premium account as at 31.12.2017 and 31.12.2016 comprises paid-up premiums in the amount of EUR 822,173 thousand and the revaluation of share capital from previous years in the amount of EUR 49,205 thousand.

As at 31.12.2017 and 31.12.2016 profit reserves in the amount of EUR 13,522 thousand relate entirely to legal reserves in accordance with the Companies Act.

b) Accumulated other comprehensive income

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Available-for-sale financial assets - debt securities	43,860	41,954	28,346	28,574
Available-for-sale financial assets - equity securities	3,735	11,017	850	8,644
Actuarial defined benefit pension plans	(4,349)	(3,617)	(3,497)	(2,637)
Foreign currency translation	(17,248)	(20,139)	-	-
Hedge of a net investment in a foreign operation	754	754	-	-
Total	**26,752**	**29,969**	**25,699**	**34,581**

5.23. Capital adequacy ratios

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Paid up capital instruments	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Retained earnings - from previous years	296,773	246,656	81,533	81,530
Profit eligible - from current year	29,280	49,890	-	-
Accumulated other comprehensive income	(11,450)	(6,053)	(20)	5,205
Other reserves	13,522	13,522	13,522	13,522
Prudential filters: Value adjustments due to the requirements for prudent valuation	(2,389)	(2,213)	(1,886)	(1,734)
(-) Goodwill	(3,529)	(3,529)	-	-
(-) Other intangible assets	(31,445)	(30,397)	(23,911)	(23,345)
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-	(3,013)	-	(4,626)
COMMON EQUITY TIER 1 CAPITAL (CET1)	**1,362,140**	**1,336,241**	**1,140,616**	**1,141,930**
Additional Tier 1 capital	-	-	-	-
TIER 1 CAPITAL	**1,362,140**	**1,336,241**	**1,140,616**	**1,141,930**
Tier 2 capital	-	-	-	-
Total CAPITAL (OWN FUNDS)	**1,362,140**	**1,336,241**	**1,140,616**	**1,141,930**
RWA for credit risk	7,096,413	6,864,737	4,369,557	4,292,262
RWA for market risks	499,726	104,175	269,988	27,975
RWA for credit valuation adjustment risk	850	463	850	463
RWA for operational risk	949,493	892,753	593,750	561,091
Total RISK EXPOSURE AMOUNT (RWA)	**8,546,482**	**7,862,128**	**5,234,145**	**4,881,791**
Common Equity Tier 1 Ratio	15.9%	17.0%	21.8%	23.4%
Tier 1 Ratio	15.9%	17.0%	21.8%	23.4%
Total Capital Ratio	15.9%	17.0%	21.8%	23.4%

* Profit eligible from the current year and capital ratios envisage dividends payments in 100% of profit after tax of NLB (EUR 189 million)

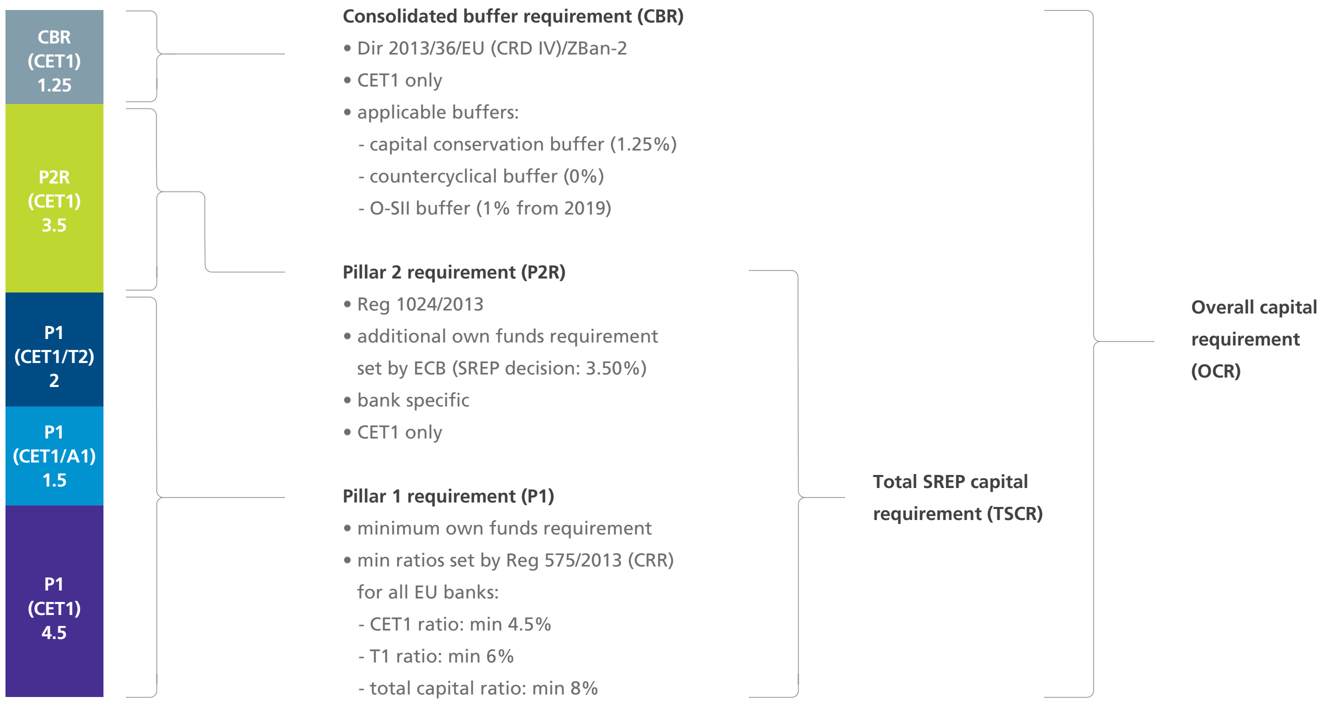
European bank capital legislation, comprising the CRR regulation and CRD IV directive, is based on the Basel III guidelines. Legislation defines three capital ratios reflecting a different quality of capital:

- Common Equity Tier 1 ratio (ratio between common or CET1 capital and weighted risk exposure amount or RWA), which must be at least 4.5%;
- Tier 1 capital ratio (Tier 1 capital to RWA), which must be at least 6%; and
- Total capital ratio (total capital to RWA), which must be at least 8%.

In addition to the aforementioned ratios, which form the Pillar 1 requirement, the Bank must meet other requirements and recommendations that are being imposed by the supervisory institutions or by the legislation:

- Pillar 2 Requirement (SREP requirement): bank specific, obligatory requirement set by the supervisory institution through the SREP process (together with the Pillar 1 requirement it represents the minimum total SREP requirement – TSCR);
- Applicable combined buffer requirement (CBR): system of capital buffers to be added on top of TSCR – breaching of the CBR is not a breach of capital requirement, but triggers limitations in payment of dividends and other distributions from capital. Some of the buffers are prescribed by law for all banks and some of them are bank specific, set by the supervisory institution (CBR and TSCR together form the overall capital requirement – OCR);
- Pillar 2 Guidance: capital recommendation over and above the OCR, set by the supervisory institution through the SREP process. It is bank-specific, and as a recommendation not obligatory. Any non-compliance does not affect dividends or other distributions from capital, however, it might lead to intensified supervision and imposition of measures to re-establish a prudent level of capital.

Table 24: NLB's overall capital requirement on the consolidated level for 2017



As of 1 January 2017, NLB was required to maintain the OCR on the level of 12.75% on consolidated basis and meet the following capital requirements on a consolidated basis:

- 9.25% CET 1 ratio (transitional),
- 10.75% Tier 1 ratio (transitional),
- 12.75% Total Capital ratio (transitional).

All capital ratios are inclusive of 3.5% Pillar 2 Requirement (P2R) and 1.25% Capital Conservation Buffer (CCB). As prescribed by CRD IV and the Banking Act (ZBan-2), CCB is linearly increasing and will reach the fully loaded level of 2.5% in 2019, whereas the Bank of Slovenia requires NLB to apply the O-SII buffer at the rate of 1% on the consolidated level from 2019 on.

In 2018, NLB is required to maintain the OCR on the level of 13.375% RWA on a consolidated basis. The increase of the requirement in comparison to the 2017 level is due to the phasing-in of the capital conservation buffer as prescribed by law.

As of 31.12.2017, NLB Group capital ratios on a consolidated basis stand at:

- 15.94% CET 1 ratio,
- 15.94% Tier 1 ratio,
- 15.94% Total Capital ratio.

The capital adequacy of the NLB Group and NLB at the end of year 2017 remains strong, at a level which covers all current and announced regulatory capital requirements, including capital buffers and other currently known requirements, and the pillar 2 Guidance. Moreover, it is within the stated risk appetite limit and above the EU average as published by the European Banking Authority (EBA).

In 2017, the capital of the Bank and the Group consists merely of the components of top quality CET1 capital (no subordinated instruments that would rank in lower capital categories), which is why all three capital ratios are the same.

In the scope of regulatory risks, which include credit risk, operational risk, and market risk, NLB Group uses the standardised approach for credit and market risks, while the calculation of capital requirement for operational risks is made according to the basic indicator approach. The same approaches are used for calculating the capital requirements for NLB on a standalone basis, except for the calculation of the capital requirement for operational risks where the standardised approach is used.

At the end of December 2017, the capital ratios for NLB Group stood at 15.9% (or 1.1 p.p. lower than at the end of 2016), and for NLB at 21.8% (or 1.6 .p.p. lower than at the end of 2016). The Group's lower capital adequacy derives from higher risk weighted assets (RWA). RWA for credit risk increased by EUR 231.7 million, mainly for retail exposures due to consumer and housing loans growth. RWA for market risks and CVA increased by EUR 395.9 million, particularly as a result of the requested correction of the treatment of the FX position on a consolidated level and treatment of equity investments in non-euro subsidiary banks. The requested correction from the regulator relates to structural positions arising from operations of NLB Group's non-euro subsidiaries banks. These positions are long, non- trading, and deliberately taken. On a consolidated level, foreign exchange translation differences from these positions are recognised in the consolidated capital and do not have an impact on the Group's profit and loss. By keeping our structural position open, NLB Group maintains capital ratio insensitive to foreign exchange movements. The Bank will try to partly or fully exclude this position from an open FX position in the future (by getting the approval from the regulator) and partly mitigate this capital adequacy decrease on consolidated and individual levels. The increase in the RWA for operating risks (EUR 56.7 million) arises from the higher three-year average of income, which represents the basis for the calculation.

In preparation of the internal capital adequacy assessment (ICAAP), NLB Group identifies risks not included in the calculation under the regulatory approach (Pilar 1), but have a significant impact on their operation. The scope of additional credit risks also includes the concentration risk that refers to the individual clients and groups of related parties and to the industry. NLB Group calculates the capital requirement for non-financial risks (which include profitability risk, strategic risk, legal risk, divestment risk, and reputation risk) if it assesses that an individual risk is crucial for NLB Group. In addition, the Pillar 2 risks include the effects of stress scenarios for credit (deterioration of the credit portfolio structure, decrease in real-estate market prices), currency, liquidity, interest rate risk in the banking book, credit spread risk, and market risk.

In March 2018, NLB received a letter from ECB on ECB's intention to adopt the decision to restrict distributions by NLB to its shareholders and to require a Contingent Capital Plan specifying the planned measures to increase the capital ratios in case that provision recognition criteria are met for the lawsuits against NLB pending in the courts of the Republic of Croatia. Details on legal issues are disclosed in note 5.17.

5.24. Off-balance sheet liabilities

a) Contractual amounts of off-balance sheet financial instruments

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Short-term guarantees	188,104	162,535	109,885	87,957
- financial	105,420	109,412	50,978	49,611
- non-financial	82,684	53,123	58,907	38,346
Long-term guarantees	553,436	586,895	408,119	447,125
- financial	209,091	222,869	127,357	140,031
- non-financial	344,345	364,026	280,762	307,094
Commitments to extend credit	1,130,250	1,075,940	898,927	881,198
Letters of credit	14,614	17,485	375	3,761
Other	4,109	8,329	69	118
	1,890,513	**1,851,184**	**1,417,375**	**1,420,159**
Provisions (note 5.17.b)	(36,915)	(53,681)	(34,257)	(49,865)
Total	**1,853,598**	**1,797,503**	**1,383,118**	**1,370,294**

Fee income from all issued non-financial guarantees amounted to EUR 5,240 thousand (2016: EUR 5,643 thousand) in NLB Group, and to EUR 4,617 thousand (2016: EUR 5,224 thousand) at NLB.

b) Analysis of derivative financial instruments by notional amounts

in EUR thousand

	NLB Group				NLB			
	31.12.2017		31.12.2016		31.12.2017		31.12.2016	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Swaps	158,109	1,696,447	57,188	810,972	141,137	1,696,447	57,188	810,972
- currency swaps	158,109	-	57,188	-	141,137	-	57,188	-
- interest rate swaps	-	1,696,447	-	808,898	-	1,696,447	-	808,898
- currency interest rate swaps	-	-	-	2,074	-	-	-	2,074
Options	11,262	26,125	10,703	1,495	11,262	26,125	10,703	1,495
- interest rate options	-	26,125	-	1,495	-	26,125	-	1,495
- securities options	11,262	-	10,703	-	11,262	-	10,703	-
Forward contracts	67,918	29,927	192,950	7,468	67,329	29,927	191,280	7,468
- currency forward	67,918	29,927	192,950	7,468	67,329	29,927	191,280	7,468
Futures	-	-	2,400	-	-	-	2,400	-
- currency futures	-	-	2,400	-	-	-	2,400	-
Total	**237,289**	**1,752,499**	**263,241**	**819,935**	**219,728**	**1,752,499**	**261,571**	**819,935**
	1,989,788		**1,083,176**		**1,972,227**		**1,081,506**	

The notional amounts of derivative financial instruments that qualify for hedge accounting at NLB Group and NLB amount to EUR 406,218 thousand (31.12.2016: EUR 108,554 thousand).

Derivatives that qualify for hedge accounting are used to hedge interest rate risk.

The fair values of derivative financial instruments are disclosed in notes 5.2., 5.5., and 5.15.

c) Operating lease commitments

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

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Real estate				
Not later than one year	1,534	1,775	801	957
Later than one year and not later than five years	5,471	6,283	2,982	3,668
Later than five years	1,367	1,666	1,399	1,709
Other				
Not later than one year	758	383	342	259
Later than one year and not later than five years	810	772	531	373
Total	**9,940**	**10,879**	**6,055**	**6,966**

d) Capital commitments

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Capital commitments for purchase of:				
- property and equipment	129	179	129	92
- intangible assets	3,023	1,363	2,855	1,260
Total	**3,152**	**1,542**	**2,984**	**1,352**

5.25. Funds managed on behalf of third parties

Funds managed on behalf of third parties are accounted separately from NLB Group's funds. Income and expenses arising with respect to these funds are charged to the respective fund, and no liability falls on NLB Group in connection with these transactions. NLB Group charges fees for its services.

Funds managed on behalf of third parties

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Fiduciary activities	24,638,065	21,511,615	23,532,746	20,518,240
Settlement and other services	1,684,218	1,509,864	1,647,375	1,482,693
Total	**26,322,283**	**23,021,479**	**25,180,121**	**22,000,933**

Fiduciary activities

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Assets				
Clearing or transaction account claims for client assets	**24,596,576**	**21,452,329**	**23,498,114**	**20,463,466**
- from financial instruments	24,591,369	21,444,586	23,493,388	20,456,016
- receipt, processing, and execution of orders	9,802,973	9,292,661	9,200,568	8,786,845
- management of financial instruments portfolio	422,222	380,344	-	-
- custody services	14,366,174	11,771,581	14,292,820	11,669,171
- to Central Securities Clearing Corporation or bank settlement account for sold financial instrument	685	820	204	527
- to other settlement systems and institutions for bought financial instrument (debtors)	4,522	6,923	4,522	6,923
Clients' money	**41,489**	**59,286**	**34,632**	**54,774**
- at settlement account for client assets	12,789	33,940	5,932	29,428
- at bank transaction accounts	28,700	25,346	28,700	25,346
Liabilities				
Clearing or transaction liabilities for client assets	**24,638,065**	**21,511,615**	**23,532,746**	**20,518,240**
- to client from cash and financial instruments	24,634,743	21,500,968	23,530,705	20,508,917
- receipt, processing, and execution of orders	9,807,819	9,297,620	9,205,414	8,791,804
- management of financial instruments portfolio	428,279	383,825	-	-
- custody services	14,398,645	11,819,523	14,325,291	11,717,113
- to Central Securities Clearing Corporation or bank settlement account for bought financial instrument	225	75	225	75
- to other settlement systems and institutions for bought financial instrument (creditors)	2,670	10,030	1,389	8,706
- to bank or settlement bank account for fees and costs, etc.	427	542	427	542

Fee income for funds managed on behalf of third parties

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Fiduciary activities (note 4.3.b)	8,386	8,323	6,917	6,716
Settlement and other services	1,296	796	943	633
Total	**9,682**	**9,119**	**7,860**	**7,349**

6. Risk management

NLB Group pays great attention and importance to the risk culture and awareness of all relevant risks within the entire Group. Risk management in NLB Group is implemented in accordance with the established internal policies and procedures which take into account European banking regulations, the regulations adopted by the Bank of Slovenia, the current EBA guidelines, and relevant good banking practices. In addition, the Group is constantly enhancing and complementing the existing methods and processes in all risk management segments.

Risk management function represents an important part of overall management and governance system in the Group. NLB Group Risk Management framework is defined and organised with regard to the Group's business and risk profile, based on forward looking perspective to meet internal objectives and all external requirements. The Group's Risk management framework supports business decision-making on strategic and operating levels, comprehensive steering, and proactive risk management by incorporating:

- risk appetite statement and risk strategy orientations,
- yearly review of strategic goals, budgeting, and capital planning process,
- the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP),
- recovery and resolution plan activities,
- other internal stress-testing capabilities and comprehensive risk analysis.

Set governance and different risk management tools enable adequate oversight of the Group's risk profile. Moreover, they proactively support business operations and enable efficient risk management by incorporating escalation procedures and different mitigation measures when necessary.

a) Risk management strategies and processes

The key goal of NLB Group's Risk Management is to proactively manage, assess, and monitor risks within the Group. Sound and holistic understanding of risk management is embedded into the entire organisation, focusing on risk identification in a very early stage, efficient risk management, and mitigation of them with aim to ensure the prudent and economic use of its capital. Key risk guidelines of NLB Group are defined by its Risk Appetite and Risk Strategy with regard to the Group's business model, and based on a forward-looking perspective, which are regularly revised and enhanced. The Strategy of NLB Group, the Risk Appetite and Risk Strategy guidelines and the key internal policies of NLB Group – which are approved by the Management Board and by the Supervisory Board – specify the strategic goals, risk appetite guidelines, approaches, and methodologies for monitoring, measuring, and managing all types of risk in order to meet internal objectives and all external requirements. In addition, main strategic risk guidelines are integrated into the annual business plan review and budgeting process.

NLB Group plans a prudent risk profile, optimal capital usage, and profitable operations for the long run, considering the risks assumed. The management of credit risk, which is the most important risk category in NLB Group, concentrates on taking moderate risks – diversified credit portfolio, adequate credit portfolio quality, sustainable cost of risk, and ensuring an optimal return considering the risks assumed. As regards liquidity risk, the tolerance is low, while the activities are geared towards constantly ensuring an appropriate level of liquidity, both in the short and long terms. Concerning market and operational risks, NLB Group follows the orientation that such risks must not significantly impact its operations. The tolerance for other risk types is low, and focuses on minimising their possible impacts on NLB Group's entire operations.

NLB regularly monitors its target Risk Appetite profile, both for NLB Group and NLB, and represents the key component of the risk mitigation process. The risk profile, on strategic and operational levels, enables detailed monitoring and proactive management of exposure to credit, market, interest, liquidity, and operational risk, while non-financial and other risks are managed within the ICAAP process. The usage of risk profile limits and potential deviations from limits and target values are reported regularly to the respective committees and/or the Management Board of the Bank. The comprehensive Risk Report is reviewed quarterly by the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank. The banking subsidiaries within NLB Group have adapted a corresponding approach to monitor their target risk profiles. Set governance and different risk management tools enable adequate oversight of the Group's risk profile. Besides, they proactively support Group's business operations and its management by incorporating escalation procedures and different mitigation measures when necessary. Additionally, the Group has set up early warning systems in different risk areas with the intention of strengthening existing internal controls and timely responses when necessary.

For the purpose of an efficient risk mitigation process, NLB Group applies a single set of standards to retail and corporate loan collateral, which represents a secondary source of repayment with the aim of efficient credit risk management and consuming capital economically. The Group has a system for monitoring and reporting collateral at fair (market) value in accordance with the International Valuation Standards (IVS). The eligibility of collateral, by types and ratios referring to prudent lending criteria, is set within internal lending guidelines. Credit risk mitigation principles and rules in NLB Group are described in more relevant details in the Section Credit risk management. When hedging market risks, namely interest rate risk and foreign exchange risk, in line with the set risk appetite, NLB Group follows the principle of natural hedge or using derivatives in line with hedge accounting principles.

NLB Group established comprehensive stress testing framework and other early warning systems in different risk areas with the intention to strengthen the existing internal controls and timely responding when necessary. Robust and uniform stress testing framework includes all material types of risk and several relevant stress scenarios, according to the vulnerability of the Group's business model. It is integrated into Risk appetite, ICAAP, ILAAP, and the Recovery plan to support proactive management of the Group's overall risk profile, namely capital and liquidity position on a forward-looking perspective. Additionally, other partial risk assessments are covered by sensitivity analysis based on relevant stressed risk parameters.

b) Risk management structure and organisation

A robust Risk Management framework is comprehensively integrated into decision-making, steering, and mitigation processes within the Group in order to proactively support its business operations. Risk management in NLB Group is in charge of managing, assessing, and monitoring risks within NLB as the main entity in Slovenia, and the competence centre for six banking subsidiary banks. Furthermore, NLB Group is also responsible to several companies for ancillary services, and a number of non-core subsidiaries which are in a controlled wind-down.

Overall, the organisation and delineation of competencies in the NLB Group's risk management structure is designed to prevent conflicts of interest and ensure a transparent and documented decision-making process that is subject to an appropriate upward and downward flow of information. Risk management in the NLB Group is centralised within the Risk management business-line, which is a specialised business-line encompassing several professional areas, for which the Global Risk Department, the Corporate and the Retail Credit Analysis Department, and Evaluation and Control Department are responsible within NLB, and which reports to the Assets and Liabilities Committee (ALCO) of the Management Board and the Risk Committee of the Supervisory Board. The Risk management business line is in charge of formulating and controlling the risk management policies of the NLB Group, overseeing the harmonisation of risk management policies within the NLB Group, monitoring the NLB Group's risk exposures, and the preparation of external and internal reports. The "NLB Group Risk Management Standards" are guidelines which represent the basis for the establishment and organisation of risk management and associated activities at each NLB Group member. These guidelines and standards in the area of credit, market, liquidity, operational, and other non-financial risk management represent the basis for the adaptation of the NLB Group members' business policies, organisational structures, work procedures, and reporting systems. NLB prescribes the methodologies and procedures, and governs and controls the NLB Group in accordance with EU and Slovenian regulation. At the same time, the NLB Group members must also fulfil the requirements set out in local legislation.

All members of the NLB Group, which are included in the financial statements of the NLB Group, report their exposure to risks to the competent organisational units within the Risk management business line. These organisational units then report all relevant risk information to the Assets and Liabilities Committee ('ALCO') of the Management Board and the Risk Committee of the Supervisory Board, which is where the Management Board and the Supervisory Board, adopt appropriate measures.

Credit ratings of clients that are materially important to the NLB Group and the issuing of credit risk opinions are centralised via the Credit Committee of NLB. The process follows the co-decision principle, in which the credit committee of the respective group member first approves their decision, following which the Credit Committee of NLB gives their opinion. The resolution of the Credit Committee of NLB is made on the basis of all available documentation, including a non-binding rating opinion prepared by the underwriting department of NLB. This same principle and process is set also for the issuing of credit exposures for the materially important clients of the NLB Group.

The NLB Group members

The primary responsibility for managing the risks assumed by the NLB Group members within the framework of their business strategy lies with each NLB Group member's management, which, in accordance with the set limits, targets and other guidelines established at the NLB Group level, pursue the NLB Group's strategic goals, implement the NLB Group's planned business results, and monitor and manage risks. In furtherance of this, the NLB Group members each adopt appropriate risk management policies approved by the supervisory board of the applicable member. The supervisory board of each NLB Group member also monitors the implementation of that member's risk management policies and assesses their effectiveness.

Risk monitoring in the NLB Group members is centralised within an independent and/or separate organisational unit. The centralised monitoring of risks aims to establish standardised and systemic approaches to risk management, and therefore, a comprehensive overview of the Group's and of each member's statement of financial position. In compliance with the risk management policies of the NLB Group, risk monitoring in each NLB Group member is separated from its management and/or business function in order to maintain the objectivity required when assessing business decisions. The organisational unit for managing risks directly reports to the Management Board and its committees (Credit Committee, ALCO and Operational Risk Committee), which report to the Supervisory Board (Risk Committee of the Supervisory Board or Board of Directors).

c) Risk measurement and reporting systems

As a systemic bank, NLB is subject to the Single Supervisory Mechanism (SSM), which is supervised by the Joint Supervisory Team of the ECB and the Bank of Slovenia. Each NLB Group member complies ECB regulation while the NLB Group subsidiaries operating outside Slovenia are compliant also with the rules set by the local regulators.

The NLB Group's measurement systems and the risk management principles are crucial elements of the risk management policies which, for the purpose of consolidated control, are aligned with all regulatory requirements of the Bank of Slovenia and the European Central Bank, taking into account the provisions of the Directive (CRD), Decision (CRR), and EBA guidelines. In regards to capital adequacy, the NLB Group applies the standardised approach to credit and market risk and the basic approach (a simplified approach with less data granularity) to operational risks, with the exception of NLB which applies the standardised approach.

NLB Group performs a uniform assessment and management of risks across the entire Group, taking into account the specifics of the markets in which individual Group members are operating in line with the Group's Risk management standards. For the purposes of measuring of exposure to credit, market, interest, operational, and non-financial risks, in addition to prescribed regulations, the NLB Group uses internal methodologies and approaches that enable more detailed monitoring and management of risks. These internal methodologies are aligned with the Basel and EBA guidelines, as well as best practices in banking methodologies.

As for risk reporting, the NLB Group's internal guidelines reflect, in addition to internal requirements, the substance and frequency of reporting required by the Bank of Slovenia and the ECB. In addition, each member of the NLB Group also complies with the requirements of its local regulations. Risk reporting is carried out in the form of standardised reports, pursuant to risk management policies founded on reasonable methodologies for measuring and harmonising exposure to risks, appropriate databases and the automation of report preparation, which ensures the quality of reports and reduces the possibility of errors.

d) Main emphasis of risk management in 2017

NLB Group was further enhancing the robustness of its risk management system in all respective risk categories in order to manage them proactively, comprehensively and prudently. Main focus is on risk identification in a very early stage, efficient risk management and mitigation process. Uniform stress testing framework, which includes internally-developed models, was also enhanced in connection with relevant expected macroeconomic factors. Besides other early warning systems were established in different risk areas with the intention to strengthen the existing internal controls and timely responding when necessary. Moreover, the Group is constantly developing a wide range of advanced approaches supported by mathematical and statistical models in the area of credit risk assessment in line with best banking practises to further enhance existing risk management tools, while at the same time enabling faster responsiveness towards clients. The activities related to International Financial Reporting Standard (IFRS) 9 requirements, which has entered into force in the beginning of 2018, including methodological adaptations and calculation of quantitative impacts, were fully implemented.

The most important risk in NLB Group, in line with strategic orientations, remains the credit risk category. NLB Group gives great emphasis to the credit portfolio quality, where the quality of new financing of corporate and retail clients, and a well-diversified portfolio structure represent the key goals. The Group managed to further reduce the volume of non-performing exposures, approaching average EU banking level. In addition, coverage ratio remains high, enabling further NPE reduction without significant influence on cost of risk in the years ahead. Positive trends have been recorded throughout the region in terms of clients putting greater trust in economic developments, alongside the related recovery in consumption and the real estate market. Economic upswing and other one-off occurrences resulted in negative cost of risk on the Group level, whose evolution was otherwise very stable and in line with strategic business orientations and expectations.

In the negative interest rate environment, the Group faced growing excess liquidity, whereby significant attention was put to the structure and concentration of the liquidity reserves, also having in mind potential adverse negative market movements. Excess liquidity and market demand for fixed interest rates products resulted in moderately increased interest rate risk exposure, which stayed within relatively low to moderate tolerance toward this risk. The Group was included into the ECB Stress Test 2017 – interest rate risk in banking book which resulted in a favourable adjustment of Pillar 2 Guidance as a part of overall Supervisory review and evaluation process (SREP) requirements. Moreover, during 2017 the Group's capital and liquidity position remained strong at both, the Group and subsidiary bank levels, standing well above the targeted risk appetite profile.

There was also a large emphasis on the management of operational risks, where NLB Group follows the guideline that such risk may not considerably influence its operations. Special attention was paid to the development of a stress testing system, based on modelling data on loss events and a scenario analysis referring to high severity/low frequency events. Furthermore, key risk indicators were established as an early warning system for the broader field of operational risks with the aim of improving existing internal controls and timely responding when necessary.

6.1. Credit risk management

a) Introduction

In its operations, NLB Group is exposed to credit risk, or the risk of losses due to the failure of a debtor to settle its liabilities to NLB Group. For that reason, it proactively and comprehensively monitors and assesses the aforementioned risk. In that process, NLB Group follows the International Financial Reporting Standards, regulations issued by the Bank of Slovenia, and the EBA guidelines. This area is governed in greater detail by the internal methodologies and procedures set out in internal acts.

Through regular reviews of the business practices and the credit portfolios of NLB entities, NLB ensures that the credit risk management of those entities functions in accordance with NLB Group's risk management standards in order to ensure meaningfully uniform procedures at the consolidated level.

NLB Group manages credit risk at two levels:

- At the level of the individual customer/group of customers, where appropriate procedures are followed in various phases of the relationship with a customer prior to, during, and after the conclusion of an agreement. Prior to concluding an agreement, a customer's performance, financial position, and past cooperation with NLB are assessed. It is also important to secure high-quality collateral that does not affect a customer's credit rating. This is followed by various forms of monitoring a customer, in particular an assessment of its ability to generate sufficient cash flows for the regular settlement of its liabilities and contractual obligations. As regards this detection of risks, regular monitoring of clients within the Early Warning System (EWS) is important. For the purpose of objectively assessing a client's operation comprehensively, internal scoring models for particular client segments have been developed.

- The quality of the credit portfolio, including on-balance and off-balance sheet exposures, is actively monitored and analysed at the level of the overall portfolio of NLB Group and NLB. Comprehensive analyses are regularly performed in terms of client segmentation (depending on the client type and size), credit rating structure, arrears, and/or volume of non-performing/past due and restructured receivables, coverage with impairments and provisions, collateral received, concentrations arising from a group of related clients and concentrations within an industry, currency exposure, and other indicators of risks in the credit portfolio. A lot of attention is put on regular monitoring of new deals and other changes or trends, with the emphasis on the early detection of increased risks and their optimisation in relation of profitability. NLB Group appropriately diversifies its portfolio to mitigate specific components of credit risk (i.e. the risk deriving from operations with a specific customer, sector, positions in financial instruments, or other specific events). Increasing emphasis is also placed on stress tests that forecast the effects of negative macroeconomic movements on the portfolio, on the level of impairments and provisions, and on capital adequacy within the second pillar. Capital requirements for credit risk at NLB Group level within the first pillar are calculated according to the standardised approach, while within the second pillar as a credit risk add-on and a concentration risk assessment are carried out. From a forward-looking prospective, also stress test results are taken into consideration within the own estimation of Pillar 2 requirements.

NLB and other NLB Group members assess the level of credit risk losses on an individual basis for material claims, and at the group level for the rest of the portfolio.

The primary aim of an individual review is to determine whether objective evidence of impairment exists. Such evidence includes information regarding significant financial problems encountered by a customer, regarding actual breaches of contractual obligations such as arrears in the settlement of liabilities, whether financial assets will be restructured for economic or legal reasons, and the likelihood that a customer will enter into bankruptcy or a financial reorganisation. Expected future cash flows (from ordinary operations and the possible redemption of collateral) are assessed following an individual review. If their discounted value differs from the book value of the financial asset in question, impairment must be recognised. If objective evidence of impairment does not exist, losses are assessed at the group level.

Collective impairments are made for the remainder of the portfolio, which is not assessed on an individual basis. To that end, the portfolio is broken down into groups of similar claims, and then further into sub-groups with respect to their credit rating. Here, impairments are created regarding the probability of default (PD) and regarding the average rate of default or loss given default (LGD) associated with non-performing claims. The probability of default is determined by transition matrices which illustrate the migration of customers between rating categories, using an unweighted moving average. The average rate of default or loss given default, which indicates how much we will lose on average when a claim becomes non-performing, is determined based on the amount of impairments created for non-performing loans as the non-weighted average of loss given default. When creating collective provisions for commitments, on the basis of empirical data regarding the redemption of guarantees in the past, the probability of the redemption of guarantees is taken into account when creating collective provisions.

As part of the IFRS 9 project, NLB Group prepared a full upgrade of the collective impairment methodology based on IFRS 9 requirements. NLB developed a staging concept based on the estimated increase of credit risk of a single exposure since initial recognition. Furthermore, NLB developed more sophisticated models for measuring risk parameters, prepared the calculation of Expected Credit Losses based on new regulatory requirements, and developed a model validation and back testing concept. The transition to IFRS 9 requirements was performed in full scale as of 1 January 2018 on the level of NLB Group. With the adoption of the new impairment methodology, NLB Group recorded positive effects, arising mainly from collective impairments due to very favourable macroeconomic trends and an improved quality of the credit portfolio (note 2.34.).

b) Main emphasis in 2017

In the process of constantly complementing and enhancing credit risk management NLB Group focuses on taking moderate risks and at the same time ensuring an optimal return considering the risks assumed. The Group puts considerable emphasis on new corporate and retail financing, the sustainability of the credit risk volatility in terms of its structure, and the cost of risk, including the sustainable size of the subsidiary banks. Moreover, the Group is constantly developing a wide range of advanced approaches supported by mathematical and statistical models in the area of credit risk assessment in line with best banking practises to further enhance existing risk management tools, while at the same time enabling faster responsiveness towards clients.

Preserving high credit portfolio quality represents the most important key aim, with a focus on the quality of new placements leading to a diversified portfolio of customers. The Group is actively present on the market, financing existing and new creditworthy clients. The lower indebtedness of companies in Slovenia and their successful deleveraging has had a positive influence on the approval of new loans. In the retail segment, positive trends have been recorded throughout the region in terms of clients putting greater trust in economic developments, alongside the related recovery in consumption and the real estate market. The efforts, arising from the improved credit standards, resulted in the cumulatively very low new non-performing loans (NPL) formation. In addition, the favourable macroeconomic environment across the region resulted in the negative cost of risk, whose evolution during the year was otherwise very stable and sustainable in line with strategic orientations.

The restructuring approaches built in the past are focused on early warning detection of clients with potential financial difficulties and their proactive resolution. The strong commitment to reduce the NPE legacy on the Group level continued in 2017. Precisely set targets and constant monitoring of the realisation supported a further substantial reduction in the volume of the non-performing portfolio. As at 31.12.2017 the share of non-performing exposure by EBA methodology was 6.7% (reduced from 10.0% at the end of 2016). Moreover, the coverage ratio remains high at 62.2%, which is well above the EU average published by the EBA (44.7% in 3Q 2017).

c) Internal rating system and authorisations

in EUR thousand

NLB Group	31.12.2017				31.12.2016			
	Gross loans and advances	Loans and advances (%)	Impairment provision	Impairment provision (%)	Gross loans and advances	Loans and advances (%)	Impairment provision	Impairment provision (%)
A	4,952,528	60.7	24,149	0.5	4,872,072	58.4	23,763	0.5
B	1,972,025	24.2	57,310	2.9	1,852,289	22.2	60,619	3.3
C	393,247	4.8	47,711	12.1	410,975	4.9	64,451	15.7
D and E	837,455	10.3	518,158	61.9	1,201,333	14.4	754,917	62.8
Total	**8,155,255**	**100.0**	**647,328**	**7.9**	**8,336,669**	**100.0**	**903,750**	**10.8**

*Other financial assets are not included.

in EUR thousand

NLB	31.12.2017				31.12.2016			
	Gross loans and advances	Loans and advances (%)	Impairment provision	Impairment provision (%)	Gross loans and advances	Loans and advances (%)	Impairment provision	Impairment provision (%)
A	3,493,876	64.1	10,889	0.3	3,581,311	61.3	11,653	0.3
B	1,320,299	24.2	28,653	2.2	1,087,449	18.6	24,464	2.2
C	163,861	3.0	16,614	10.1	454,477	7.8	45,873	10.1
D and E	470,959	8.6	260,907	55.4	718,476	12.3	422,758	58.8
Total	**5,448,995**	**100.0**	**317,063**	**5.8**	**5,841,713**	**100.0**	**504,748**	**8.6**

*Other financial assets are not included.

The NLB Group's client credit rating classification is based on an internally developed methodology, drawing from internal statistical analyses, good banking practices, as well as Bank of Slovenia regulations, and ECB and EBA guidelines and requirements. The rating methodology is used across the entire NLB Group. The rating methodology includes a uniform credit grade scale of 12 rating classes, out of which nine represent performing clients and three non-performing clients. Rating Group A (AAA to A rating classes) includes the best clients with a low degree of default probability, characterised by high capital adequacy and a high coverage of financial liabilities with free cash flow. Rating Group A is considered as investment grade classification.

Rating Group B (BBB to B rating classes) includes clients with a low credit risk, one class higher than 'A' rating group clients. These clients show stable performance, acceptable financial ratios, and qualitative elements and have a sufficient cash flow to settle their obligations, but some are more sensitive to changes in the industry or the economy. The Rating Group B investment classification is an investment grade for BBB, and an 'invest with care' for BB and B. Rating Group C (CCC to C rating classes) includes clients who are exposed to a higher and above-average level of credit risk. Sometimes CCC rated clients are financed by the bank, as support brings more positive effects, however, Rating Group C is overall considered as a substantial risk. The Bank reasonably restricts cooperation with such clients and decreases its exposure to them.

Rating Group D, (D and DF rating classes) and 'E' represents non-performing clients that are treated as defaulted. D, DF, and E rating classified clients are ordinarily transferred to the specialised units for restructuring (which performs business and financial restructuring with a goal of minimising losses and restoring the client to a performing status) or workout and legal support (with the goal of minimising losses due to default).

A standard corporate rating methodology, with the prescribed set of parameters (qualitative and quantitative) applies to all the NLB Group bank entities. Groups of connected clients are treated as materially important for the NLB Group whenever exposure exceeds EUR 5 million. Materially important clients are submitted to the NLB Sub-Credit Committee.

NLB regularly reviews the business practices and credit portfolios of NLB Group entities to make sure they are operating in accordance with the minimum risk management standards of NLB Group. This ensures appropriate standard processes for managing and reporting credit risks at the consolidated level.

d) Maximum exposure to credit risk

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Cash, cash balances at central banks, and other demand deposits at banks	1,256,481	1,299,014	570,010	617,039
Debt securities classified as loans and receivables	82,133	85,315	82,133	85,315
Loans to government	457,080	775,986	358,675	668,300
Loans to banks	513,461	435,537	462,322	408,056
Loans to financial organisations	77,202	74,344	268,184	273,310
Loans to individuals	3,371,946	3,091,508	2,082,562	1,951,115
Granted overdrafts	176,769	182,322	140,209	147,779
Loans for houses and flats	1,740,167	1,589,762	1,307,246	1,208,996
Consumer loans	1,217,349	1,090,120	519,213	480,626
Other loans	237,661	229,304	115,894	113,714
Loans to other customers	3,006,105	2,970,229	1,878,056	1,950,869
Loans to large corporate customers	1,479,627	1,534,628	1,216,085	1,296,126
Loans to small- and medium-sized enterprises	1,526,478	1,435,601	661,971	654,743
Other financial assets	66,257	61,014	38,389	36,151
Trading assets	72,189	87,699	72,180	87,693
Financial assets designated at fair value through profit or loss	102	734	-	-
Available-for-sale financial assets	2,227,099	1,998,533	1,730,914	1,526,787
Held-to-maturity financial assets	609,712	611,449	609,712	611,449
Derivatives - hedge accounting	1,188	217	1,188	217
Total net financial assets	**11,740,955**	**11,491,579**	**8,154,325**	**8,216,301**
Guarantees	741,540	749,430	518,004	535,082
Financial guarantees	314,511	332,281	178,335	189,642
Non-financial guarantees	427,029	417,149	339,669	345,440
Loan commitments	1,130,250	1,075,940	898,927	881,198
Other potential liabilities	18,723	25,814	444	3,879
Total contingent liabilities	**1,890,513**	**1,851,184**	**1,417,375**	**1,420,159**
Total maximum exposure to credit risk	**13,631,468**	**13,342,763**	**9,571,700**	**9,636,460**

Maximum exposure to credit risk is a presentation of NLB Group's exposure to credit risk separately by individual types of financial assets and conditional obligations. Exposures stated in the above table are shown for the balance sheet items in their net book value as reported in the statement of financial position, and for off-balance sheet items in the amount of their nominal value.

NLB Group has 94.5% (31.12.2016: 92.9%) of loans and advances that are neither past due nor impaired, 1.5% (31.12.2016: 1.7%) of loans and advances past due but not impaired, and 3.9% (31.12.2016: 5.4%) of individually impaired loans. NLB has 95.5% (31.12.2016: 94.5%) of loans and advances that are neither past due nor impaired, 0.7% (31.12.2016: 0.5%) of loans and advances past due but not impaired, and 3.8% (31.12.2016: 5.0%) of individually impaired loans.

e) Collateral from loans and advances

in EUR thousand

	NLB Group			
	Fully/over collateralised loans and advances		Loans and advances not or not fully covered with collateral	
31.12.2017	**Net value of loans and advances**	**Fair value of collateral**	**Net value of loans and advances**	**Fair value of collateral**
Debt securities	82,133	82,133	-	-
Loans to government	160,860	226,325	296,220	6,979
Loans to banks	-	-	513,461	-
Loans to financial organisations	27,812	68,696	49,390	366
Loans to individuals	2,024,762	3,748,858	1,347,184	73,767
Granted overdrafts	-	-	176,769	1,104
Loans for houses and flats	1,508,710	2,971,950	231,457	49,014
Consumer loans	459,670	674,486	757,679	10,849
Other loans	56,382	102,422	181,279	12,800
Loans to other customers	1,773,629	4,142,117	1,232,476	384,075
Loans to large corporate customers	874,246	1,626,037	605,381	195,289
Loans to small- and medium-sized enterprises	899,383	2,516,080	627,095	188,786
Other financial assets	421	19,429	65,836	551
Total	**4,069,617**	**8,287,558**	**3,504,567**	**465,738**

in EUR thousand

	NLB Group			
	Fully/over collateralised loans and advances		Loans and advances not or not fully covered with collateral	
31.12.2016	**Net value of loans and advances**	**Fair value of collateral**	**Net value of loans and advances**	**Fair value of collateral**
Debt securities	85,315	85,315	-	-
Loans to government	251,551	317,715	524,435	33
Loans to banks	6	14	435,531	532
Loans to financial organisations	19,431	71,350	54,913	296
Loans to individuals	1,908,266	3,568,947	1,183,242	82,845
Granted overdrafts	-	-	182,322	958
Loans for houses and flats	1,372,758	2,759,543	217,004	60,596
Consumer loans	479,756	710,314	610,364	9,643
Other loans	55,752	99,090	173,552	11,648
Loans to other customers	1,782,319	4,175,647	1,187,910	403,571
Loans to large corporate customers	898,439	1,659,912	636,189	155,478
Loans to small- and medium-sized enterprises	883,880	2,515,735	551,721	248,093
Other financial assets	659	7,634	60,355	355
Total	**4,047,547**	**8,226,622**	**3,446,386**	**487,632**

in EUR thousand

31.12.2017	NLB Fully/over collateralised loans and advances: Net value of loans and advances	Fully/over collateralised loans and advances: Fair value of collateral	Loans and advances not or not fully covered with collateral: Net value of loans and advances	Loans and advances not or not fully covered with collateral: Fair value of collateral
Debt securities	82,133	82,133	-	-
Loans to government	157,829	171,317	200,846	3,528
Loans to banks	-	-	462,322	-
Loans to financial organisations	27,364	64,781	240,820	205
Loans to individuals	1,572,108	2,614,244	510,454	26,702
Granted overdrafts	-	-	140,209	-
Loans for houses and flats	1,194,249	2,197,811	112,997	25,918
Consumer loans	377,675	413,519	141,538	782
Other loans	184	2,914	115,710	2
Loans to other customers	1,077,102	2,075,580	800,954	285,985
Loans to large corporate customers	712,545	1,124,947	503,540	168,676
Loans to small- and medium-sized enterprises	364,557	950,633	297,414	117,309
Other financial assets	22	1,996	38,367	487
Total	**2,916,558**	**5,010,051**	**2,253,763**	**316,907**

in EUR thousand

31.12.2016	NLB Fully/over collateralised loans and advances: Net value of loans and advances	Fully/over collateralised loans and advances: Fair value of collateral	Loans and advances not or not fully covered with collateral: Net value of loans and advances	Loans and advances not or not fully covered with collateral: Fair value of collateral
Debt securities	85,315	85,315	-	-
Loans to government	223,474	230,986	444,826	-
Loans to banks	-	-	408,056	77
Loans to financial organisations	18,826	68,974	254,484	-
Loans to individuals	1,491,043	2,463,534	460,072	41,862
Granted overdrafts	-	-	147,779	-
Loans for houses and flats	1,089,934	2,018,702	119,062	41,214
Consumer loans	401,096	444,816	79,530	648
Other loans	13	16	113,701	-
Loans to other customers	1,128,371	2,196,939	822,498	320,580
Loans to large corporate customers	745,588	1,188,052	550,538	139,999
Loans to small- and medium-sized enterprises	382,783	1,008,887	271,960	180,581
Other financial assets	82	2,429	36,069	285
Total	**2,947,111**	**5,048,177**	**2,426,005**	**362,804**

f) Credit protection policy

NLB Group applies a single set of standards to retail and corporate loan collateral, as developed by the members through the collateral harmonisation project. The master document regulating loan collateral in NLB Group is the Loan Collateral Policy in NLB Group and NLB. The Policy has been adopted by the Management Board of NLB and by the supervisory bodies of respective members for other members of NLB Group. The Policy represents the basic orientations bank employees must take into account when signing, evaluating, monitoring, and reporting collateral, with the aim of reducing credit risk.

NLB Group primarily accepts collateral complying with the Basel II requirements with the aim of improving credit risk management and consuming capital economically. In accordance with Basel II, collateral may consist of pledged deposits, government guarantees, bank guarantees, debt securities issued by central governments and central banks, bank debt securities, and real-estate mortgages (the real estate must be located in the European Economic Area for the effect on capital to be recognised).

Loans made to companies and sole proprietors may be secured by other forms of collateral, as well (for example, a lien on movable property, a pledge of an equity stake, collateral by pledged/assigned receivables, etc.) if it is assessed that the collateral could generate a cash flow if it were needed as a secondary source of payment. In the case of a lower probability that such an item of collateral would generate a cash flow, a conservative approach is followed, namely, such collateral can be taken, but for reporting purposes the value is zero.

g) The processes for valuing collateral

Pursuant to the law, NLB Group has set up a system for monitoring and reporting collateral at fair (market) value.

The market value of real estate or movable property used as collateral is obtained from valuation reports of licensed appraisers or, for low contract amounts, from sales agreements not older than one year. The market value of financial instruments held by NLB Group is obtained from the organised market – the stock exchange – for listed financial instruments or determined in accordance with the internal methodology for unlisted financial instruments (such collateral is used exceptionally and on a small scale in loans granted to companies and sole proprietors).

NLB has compiled a reference list of licensed appraisers. All appraisals must be made for the purpose of secured lending and in accordance with the International Valuation Standards (IVS). Appraisals related to retail loans are generally ordered only from appraisers with whom the Bank has a contract for real-estate valuations. For corporate loans, appraisals are usually submitted by clients. If a client submits an appraisal not made by an appraiser included on the Bank's reference list, the expert department employing licensed appraisers (certified appraisers in construction with licences granted by the Ministry of Justice, and certified real-estate value appraisers with licences granted by the Slovenian Institute of Auditors) will verify the appraisal. The expert department is also responsible for reviewing valuations of real estate serving as collateral for large loans.

Other NLB Group members obtain valuations from in-house appraisers and outsourced appraisers, all having the necessary licences. NLB Group has compiled a reference list of appraisers for valuations of real estate located outside Slovenia. Appraisals must be made in accordance with the IVS. For larger loans, real-estate evaluations must be reviewed by an internal licensed appraiser with knowledge of the local real-estate market.

When assuring collateral, NLB Group follows the internal regulations which define the minimum security or pledge ratios. NLB Group strives to obtain collateral with a higher value than the underlying exposure (depending on the borrower's rating, loan maturity etc.) with the aim of reducing negative consequences resulting from any major swings in market prices of the assets used as collateral. In the case of a reduced value of collateral and/or deteriorated debtor credit rating, additional collateral is sought as necessary and in accordance with the contractual provisions.

If real estate, movable property, and financial instruments serve as collateral, the Bank's lien should be entered as a top ranking. Exceptionally, where the value of the mortgaged real estate is large enough, the lien can be entered with a different priority order.

NLB Group monitors the value of collateral during the loan repayment period in accordance with the mandatory periods and internal instructions. For example, the value of collateral using mortgaged real estate is monitored annually by either preparing individual assessments or using the internal methodology for preparing an own value appraisal of real estate (which applies to Slovenia, Serbia, Montenegro, and Bosnia and Herzegovina) based on public records and indexes of real-estate value published by the relevant government authorities (the Surveying and Mapping Authority in Slovenia).

h) The main types of collateral taken by the Bank

NLB Group accepts different forms of material and personal security as loan collateral.

Material loan collateral gives the right in case of the debtor (borrower) defaulting on their contractual obligations to sell specific property to recover claims, keep specific non-cash property or cash, or reduces or offsets the amount of exposure against the counterparty's debt to the Bank.

NLB Group accepts the following material types of loan collateral:

- asset-backed collateral:
  - collateral backed by business and residential real estate;
  - collateral backed by movable property;
  - cash receivable collateral;
- collateral by a pledge of financial assets (bank deposits or cash-like instruments, debt securities of different issuers, investment fund units, equity securities, or convertible bonds);
- pledge of an equity stake;
- pledge or assignment of receivables as collateral; and
- other material forms of loan collateral (life insurance policies pledged to the Bank, etc.).

Personal loan collateral is a method for reducing credit risk whereby a third party undertakes to pay the debt in case of the primary debtor (borrower) defaulting.

NLB Group accepts the following types of personal loan collateral:

- joint and several guarantees by retail and corporate clients;
- bank guarantees;
- government guarantees (e.g. of the Republic of Slovenia);
- guarantees by national and regional development agencies; and
- insurance with an insurance company, etc.

Loans are very often secured by a combination of collateral types.

The general recommendations on loan collateral are specified in the internal instructions and include the elements specified below. The decision on the type of collateral and the coverage of loan by collateral depends on the analysis of data on the debtor (the debtor's credit rating and creditworthiness) and loan maturity; the difference arises from whether the loan is granted to retail or a corporate client. Corporate clients (companies and sole proprietors) must submit bills of exchange with written authorities for the creditor to fill them.

NLB has also created, in the area of real-estate loan collateral, an 'on-line' connection with the Surveying and Mapping Authority in Slovenia which allows direct and immediate verification of the existence of property.

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

i) Evaluation risk of collateral

Client/counterparty credit risk is the key decision parameter when approving exposures. Collateral is a secondary source of repayment, and therefore decisions on approvals of exposures should not primarily be based on the provided collateral. However, collateral is an important comfort element in the approval process and, depending on the credit rating of the client, a prerequisite. NLB Group has prescribed the minimum ratios between the value of collateral and the loan amount, depending on the type of collateral and the client rating. The ratios are based on experience, regulatory guidelines, and are prescribed in the Collateral Manual.

NLB Group pays particular attention to closely monitoring the fair value of collateral, and to receiving regular and independent revaluations by applying the International Valuation Standards. Through a detailed examination of all collateral received, NLB has ensured that only collateral is taken into account from which payment can be realistically expected if it is liquidated.

NLB Group has the largest concentration on collaterals arising from mortgages on real estate, which is a comparatively reliable and quality type of collateral; however, among others due to the falling real estate market prices in recent history, the Bank closely monitors the real-estate collateral values and, where required, establishes higher amounts of impairments and provisions for non-performing loans secured by real estate, based on estimated discounts of the real-estate value (specified in the Collateral Manual) which are expected to be achieved in a sale (expected payment from collateral).

Collateral consisting of securities entails market risk, specifically the risk of changes in the prices of securities on capital markets. To limit such risks and restrict the possibility of the value of instruments received as collateral falling below approved limits, the Rules determine minimum pledge ratios for securing loans on the basis of pledged securities and equity shares in NLB. Deviations from the Rules are subject to the prior approval of the respective decision bodies of the Bank. The ratio between the loan amount and the securities' value is determined with regard to the securities' liquidity, maturity, correlation with changes in market indexes, i.e. by considering the key features reflecting the level of volatility of market prices, and the ability to sell the securities at the market price. For certain types of securities, the ratio is also determined by considering the issuer's credit rating, which reflects the credit risk entailed in collateral-using securities. In the case of adverse changes in the capital markets, the loan-to-collateral ratio may fall below the prescribed limit; in such a case, the debtor will be asked to provide additional securities or another type of collateral.

Collateral consisting of the sureties of corporate clients, sureties of private individuals, and bank guarantees entail the credit risk of the provider of the collateral. NLB Group includes the amount of the guarantees received in the exposure of the guarantor, and guarantees are only taken into account as collateral if the guarantor has sufficient overall creditworthiness.

The Collateral Manual regulates which forms of collateral are acceptable, and which preconditions a type of collateral needs to fulfil to be able to be considered.

j) Net loans and advances neither past due nor impaired

in EUR thousand

	NLB Group					NLB				
31.12.2017	A	B	C	D and E	Total	A	B	C	D and E	Total
Debt securities	82,133	-	-	-	82,133	82,133	-	-	-	82,133
Loans to government	289,716	152,180	7,460	11	449,367	282,201	72,564	244	-	355,009
Loans to banks	397,689	115,001	751	-	513,441	341,512	120,559	251	-	462,322
Loans to financial organisations	45,448	17,955	13,692	-	77,095	40,522	180,631	46,933	-	268,086
Loans to individuals	3,219,833	38,474	27,055	159	3,285,521	2,019,919	2,446	12,308	-	2,034,673
Granted overdrafts	164,326	1,550	4,420	-	170,296	129,903	200	4,183	-	134,286
Loans for houses and flats	1,681,992	10,515	10,581	-	1,703,088	1,274,361	1,813	5,935	-	1,282,109
Consumer loans	1,163,595	22,310	7,853	37	1,193,795	507,963	76	601	-	508,640
Other loans	209,920	4,099	4,201	122	218,342	107,692	357	1,589	-	109,638
Loans to other customers	861,666	1,557,306	270,397	6,334	2,695,703	700,560	912,760	82,940	4,218	1,700,478
Loans to large corporate customers	614,105	664,577	95,488	2,193	1,376,363	596,106	506,763	34,279	733	1,137,881
Loans to small- and medium-sized enterprises	247,561	892,729	174,909	4,141	1,319,340	104,454	405,997	48,661	3,485	562,597
Other financial assets	42,706	13,147	1,342	72	57,267	26,432	9,740	810	1	36,983
Total	**4,939,191**	**1,894,063**	**320,697**	**6,576**	**7,160,527**	**3,493,279**	**1,298,700**	**143,486**	**4,219**	**4,939,684**

in EUR thousand

	NLB Group					NLB				
31.12.2016	A	B	C	D and E	Total	A	B	C	D and E	Total
Debt securities	85,315	-	-	-	85,315	85,315	-	-	-	85,315
Loans to government	566,017	186,441	15,020	20	767,498	541,763	117,206	3,208	-	662,177
Loans to banks	337,639	97,798	81	-	435,518	320,201	87,774	81	-	408,056
Loans to financial organisations	38,473	4,562	30,300	-	73,335	33,873	2,096	236,541	-	272,510
Loans to individuals	2,922,528	31,441	24,684	90	2,978,744	1,878,392	2,710	15,531	-	1,896,633
Granted overdrafts	168,673	1,576	3,844	-	174,093	137,655	221	3,658	-	141,534
Loans for houses and flats	1,529,074	7,563	12,389	3	1,549,029	1,169,230	2,003	10,392	-	1,181,625
Consumer loans	1,028,158	18,250	5,539	11	1,051,958	468,478	128	926	-	469,532
Other loans	196,624	4,052	2,912	76	203,664	103,029	358	555	-	103,942
Loans to other customers	853,188	1,433,753	241,794	33,353	2,562,089	689,070	850,513	148,625	30,146	1,718,354
Loans to large corporate customers	622,397	689,474	77,223	15,493	1,404,587	603,429	546,134	27,984	13,920	1,191,467
Loans to small- and medium-sized enterprises	230,792	744,279	164,571	17,860	1,157,502	85,641	304,379	120,641	16,226	526,887
Other financial assets	44,634	9,996	1,847	56	56,533	25,229	7,629	1,602	-	34,460
Total	**4,847,794**	**1,763,991**	**313,726**	**33,519**	**6,959,030**	**3,573,843**	**1,067,928**	**405,588**	**30,146**	**5,077,505**

k) Net loans and advances past due but not individually impaired

in EUR thousand

	NLB Group				NLB			
31.12.2017	**Up to 30 days**	**Up to 90 days**	**Over 90 days**	**Total**	**Up to 30 days**	**Up to 90 days**	**Over 90 days**	**Total**
Loans to government	2,059	1,936	-	3,995	-	-	-	-
Loans to banks	20	-	-	20	-	-	-	-
Loans to financial organisations	15	-	-	15	6	-	-	6
Loans to individuals	27,979	16,180	827	44,986	16,447	5,242	8	21,697
Granted overdrafts	2,284	1,079	31	3,394	2,033	1,044	-	3,077
Loans for houses and flats	6,777	4,076	410	11,263	4,346	1,800	-	6,146
Consumer loans	8,617	5,264	128	14,009	6,088	1,522	-	7,610
Other loans	10,301	5,761	258	16,320	3,980	876	8	4,864
Loans to other customers	33,298	10,309	15,287	58,894	1,451	242	10,730	12,423
Loans to large corporate customers	6,306	3,174	10,752	20,232	-	-	10,730	10,730
Loans to small- and medium-sized enterprises	26,992	7,135	4,535	38,662	1,451	242	-	1,693
Other financial assets	6,768	118	46	6,932	10	16	4	30
Total	**70,139**	**28,543**	**16,160**	**114,842**	**17,914**	**5,500**	**10,742**	**34,156**

in EUR thousand

	NLB Group				NLB			
31.12.2016	**Up to 30 days**	**Up to 90 days**	**Over 90 days**	**Total**	**Up to 30 days**	**Up to 90 days**	**Over 90 days**	**Total**
Loans to government	401	1,345	-	1,746	-	-	-	-
Loans to banks	19	-	-	19	-	-	-	-
Loans to financial organisations	207	-	2	209	-	-	-	-
Loans to individuals	56,097	10,782	1,216	68,095	21,758	4,229	-	25,987
Granted overdrafts	3,856	1,141	26	5,023	2,204	1,057	-	3,261
Loans for houses and flats	10,040	2,212	174	12,426	4,889	1,115	-	6,004
Consumer loans	22,567	4,850	549	27,966	6,028	1,484	-	7,512
Other loans	19,634	2,579	467	22,680	8,637	573	-	9,210
Loans to other customers	40,889	8,203	5,600	54,692	2,378	106	24	2,508
Loans to large corporate customers	5,361	474	323	6,158	124	-	24	148
Loans to small- and medium-sized enterprises	35,528	7,729	5,277	48,534	2,254	106	-	2,360
Other financial assets	2,136	46	170	2,352	54	2	1	57
Total	**99,749**	**20,376**	**6,988**	**127,113**	**24,190**	**4,337**	**25**	**28,552**

* The loans and advances disclosed in the above tables are not individually impaired since they are fully or over collateralised.

l) Individually impaired loans and advances

in EUR thousand

	NLB Group			NLB		
31.12.2017	**Gross value**	**Impairment provision**	**Net value**	**Gross value**	**Impairment provision**	**Net value**
Loans to government	8,652	(4,934)	3,718	6,107	(2,441)	3,666
Loans to financial organisations	2,899	(2,807)	92	2,899	(2,807)	92
Loans to individuals	107,917	(66,478)	41,439	49,882	(23,690)	26,192
Granted overdrafts	9,134	(6,055)	3,079	7,416	(4,570)	2,846
Loans for houses and flats	46,904	(21,088)	25,816	32,562	(13,571)	18,991
Consumer loans	36,253	(26,708)	9,545	6,332	(3,369)	2,963
Other loans	15,626	(12,627)	2,999	3,572	(2,180)	1,392
Loans to other customers	695,443	(443,935)	251,508	397,123	(231,968)	165,155
Loans to large corporate customers	208,288	(125,256)	83,032	157,383	(89,909)	67,474
Loans to small- and medium-sized enterprises	487,155	(318,679)	168,476	239,740	(142,059)	97,681
Other financial assets	10,278	(8,220)	2,058	3,938	(2,562)	1,376
Total	**825,189**	**(526,374)**	**298,815**	**459,949**	**(263,468)**	**196,481**

in EUR thousand

	NLB Group			NLB		
31.12.2016	**Gross value**	**Impairment provision**	**Net value**	**Gross value**	**Impairment provision**	**Net value**
Loans to government	12,556	(5,814)	6,742	9,260	(3,137)	6,123
Loans to financial organisations	26,261	(25,461)	800	26,229	(25,429)	800
Loans to individuals	113,027	(68,358)	44,669	52,059	(23,564)	28,495
Granted overdrafts	10,974	(7,768)	3,206	7,925	(4,941)	2,984
Loans for houses and flats	50,730	(22,423)	28,307	35,152	(13,785)	21,367
Consumer loans	35,351	(25,155)	10,196	7,484	(3,902)	3,582
Other loans	15,972	(13,012)	2,960	1,498	(936)	562
Loans to other customers	1,008,733	(655,285)	353,448	600,636	(370,629)	230,007
Loans to large corporate customers	323,493	(199,610)	123,883	252,848	(148,337)	104,511
Loans to small- and medium-sized enterprises	685,240	(455,675)	229,565	347,788	(222,292)	125,496
Other financial assets	14,225	(12,096)	2,129	4,746	(3,112)	1,634
Total	**1,174,802**	**(767,014)**	**407,788**	**692,930**	**(425,871)**	**267,059**

m) Net loans analysis

in EUR thousand

31.12.2017	NLB Group			
	Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	82,133	-	-	82,133
Loans to government	449,367	3,995	3,718	457,080
Loans to banks	513,441	20	-	513,461
Loans to financial organisations	77,095	15	92	77,202
Loans to individuals	3,285,521	44,986	41,439	3,371,946
Granted overdrafts	170,296	3,394	3,079	176,769
Loans for houses and flats	1,703,088	11,263	25,816	1,740,167
Consumer loans	1,193,795	14,009	9,545	1,217,349
Other loans	218,342	16,320	2,999	237,661
Loans to other customers	2,695,703	58,894	251,508	3,006,105
Loans to large corporate customers	1,376,363	20,232	83,032	1,479,627
Loans to small- and medium-sized enterprises	1,319,340	38,662	168,476	1,526,478
Other financial assets	57,267	6,932	2,058	66,257
Total	**7,160,527**	**114,842**	**298,815**	**7,574,184**

in EUR thousand

31.12.2016	NLB Group			
	Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	85,315	-	-	85,315
Loans to government	767,498	1,746	6,742	775,986
Loans to banks	435,518	19	-	435,537
Loans to financial organisations	73,335	209	800	74,344
Loans to individuals	2,978,744	68,095	44,669	3,091,508
Granted overdrafts	174,093	5,023	3,206	182,322
Loans for houses and flats	1,549,029	12,426	28,307	1,589,762
Consumer loans	1,051,958	27,966	10,196	1,090,120
Other loans	203,664	22,680	2,960	229,304
Loans to other customers	2,562,089	54,692	353,448	2,970,229
Loans to large corporate customers	1,404,587	6,158	123,883	1,534,628
Loans to small- and medium-sized enterprises	1,157,502	48,534	229,565	1,435,601
Other financial assets	56,533	2,352	2,129	61,014
Total	**6,959,032**	**127,113**	**407,788**	**7,493,933**

in EUR thousand

	NLB			
31.12.2017	**Loans and advances neither past due nor impaired**	**Loans and advances past due but not impaired**	**Individually impaired loans and advances**	**Total**
Debt securities	82,133	-	-	82,133
Loans to government	355,009	-	3,666	358,675
Loans to banks	462,322	-	-	462,322
Loans to financial organisations	268,086	6	92	268,184
Loans to individuals	2,034,673	21,697	26,192	2,082,562
Granted overdrafts	134,286	3,077	2,846	140,209
Loans for houses and flats	1,282,109	6,146	18,991	1,307,246
Consumer loans	508,640	7,610	2,963	519,213
Other loans	109,638	4,864	1,392	115,894
Loans to other customers	1,700,478	12,423	165,155	1,878,056
Loans to large corporate customers	1,137,881	10,730	67,474	1,216,085
Loans to small- and medium-sized enterprises	562,597	1,693	97,681	661,971
Other financial assets	36,983	30	1,376	38,389
Total	**4,939,684**	**34,156**	**196,481**	**5,170,321**

in EUR thousand

	NLB			
31.12.2016	**Loans and advances neither past due nor impaired**	**Loans and advances past due but not impaired**	**Individually impaired loans and advances**	**Total**
Debt securities	85,315	-	-	85,315
Loans to government	662,177	-	6,123	668,300
Loans to banks	408,056	-	-	408,056
Loans to financial organisations	272,510	-	800	273,310
Loans to individuals	1,896,633	25,987	28,495	1,951,115
Granted overdrafts	141,534	3,261	2,984	147,779
Loans for houses and flats	1,181,625	6,004	21,367	1,208,996
Consumer loans	469,532	7,512	3,582	480,626
Other loans	103,942	9,210	562	113,714
Loans to other customers	1,718,354	2,508	230,007	1,950,869
Loans to large corporate customers	1,191,467	148	104,511	1,296,126
Loans to small- and medium-sized enterprises	526,887	2,360	125,496	654,743
Other financial assets	34,460	57	1,634	36,151
Total	**5,077,505**	**28,552**	**267,059**	**5,373,116**

n) Forborne loans

in EUR thousand

31.12.2017	NLB Group All forborne exposures Total	Performing	Non - performing Impaired	Non - performing Defaulted	Impairment, provisions and value adjustments Performing forborne exposures	Impairment, provisions and value adjustments Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures
Loans and advances (including at amortised cost and fair value)	**606,884**	**78,035**	**528,849**	**528,849**	**(9,110)**	**(317,912)**	**194,738**
General governments	7,522	-	7,522	7,522	-	(3,882)	3,640
Other financial corporations	2,944	48	2,896	2,896	(3)	(2,806)	2
Non-financial corporations	558,775	67,871	490,904	490,904	(7,969)	(299,399)	176,317
Large corporate customers	230,371	37,392	192,979	192,979	(4,553)	(107,985)	73,083
Small- and medium- sized enterprises	328,404	30,479	297,925	297,925	(3,416)	(191,414)	103,234
Households	37,643	10,116	27,527	27,527	(1,138)	(11,825)	14,779
Granted overdrafts	675	663	12	12	(95)	(7)	-
Loans for houses and flats	21,998	6,050	15,948	15,948	(695)	(5,651)	4,346
Consumer loans	10,629	2,531	8,098	8,098	(294)	(3,467)	6,005
Other loans	4,341	872	3,469	3,469	(54)	(2,700)	4,428
Debt instruments other than HFT	**606,884**	**78,035**	**528,849**	**528,849**	**(9,110)**	**(317,912)**	**194,738**
Loan commitments given	**10,638**	**1,128**	**9,510**	**9,510**	**-**	**-**	**3,421**
Total exposures with forbearance measures	**617,522**	**79,163**	**538,359**	**538,359**	**(9,110)**	**(317,912)**	**198,159**

in EUR thousand

31.12.2016	NLB Group All forborne exposures Total	Performing	Non - performing Impaired	Non - performing Defaulted	Impairment, provisions and value adjustments Performing forborne exposures	Impairment, provisions and value adjustments Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures
Loans and advances (including at amortised cost and fair value)	**922,883**	**114,786**	**808,097**	**808,097**	**(16,288)**	**(492,158)**	**279,935**
General governments	10,759	1,490	9,269	9,269	(498)	(3,175)	6,089
Other financial corporations	31,012	6,287	24,725	24,725	(574)	(23,933)	639
Non-financial corporations	838,843	91,363	747,480	747,480	(13,342)	(453,526)	259,025
Large corporate customers	331,545	43,492	288,053	288,053	(5,816)	(180,993)	91,450
Small- and medium- sized enterprises	507,298	47,871	459,427	459,427	(7,526)	(272,533)	167,575
Households	42,269	15,646	26,623	26,623	(1,874)	(11,524)	14,182
Granted overdrafts	123	94	29	29	(10)	(18)	-
Loans for houses and flats	24,518	11,078	13,440	13,440	(1,344)	(5,009)	4,235
Consumer loans	11,554	3,334	8,220	8,220	(426)	(3,418)	6,258
Other loans	6,074	1,140	4,934	4,934	(94)	(3,079)	3,689
Debt instruments other than HFT	**922,883**	**114,786**	**808,097**	**808,097**	**(16,288)**	**(492,158)**	**279,935**
Loan commitments given	**23,636**	**1,151**	**22,485**	**22,485**	**-**	**-**	**15,399**
Total exposures with forbearance measures	**946,519**	**115,937**	**830,582**	**830,582**	**(16,288)**	**(492,158)**	**295,334**

in EUR thousand

31.12.2017	NLB All forborne exposures Total	Performing	Non - performing Impaired	Non - performing Defaulted	Impairment, provisions and value adjustments Performing forborne exposures	Impairment, provisions and value adjustments Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures
Loans and advances (including at amortised cost and fair value)	**398,889**	**57,609**	**341,280**	**341,280**	**(5,762)**	**(186,782)**	**139,111**
General governments	6,017	-	6,017	6,017	-	(2,373)	3,643
Other financial corporations	2,944	48	2,896	2,896	(3)	(2,806)	2
Non-financial corporations	365,879	50,535	315,344	315,344	(4,962)	(174,989)	125,712
Large corporate customers	188,022	33,283	154,739	154,739	(3,850)	(80,692)	62,447
Small- and medium- sized enterprises	177,857	17,252	160,605	160,605	(1,112)	(94,297)	63,265
Households	24,049	7,026	17,023	17,023	(797)	(6,614)	9,754
Granted overdrafts	675	663	12	12	(95)	(7)	-
Loans for houses and flats	19,948	5,404	14,544	14,544	(618)	(5,306)	3,037
Consumer loans	2,332	478	1,854	1,854	(54)	(896)	4,113
Other loans	1,094	481	613	613	(30)	(405)	2,604
Debt instruments other than HFT	**398,889**	**57,609**	**341,280**	**341,280**	**(5,762)**	**(186,782)**	**139,111**
Loan commitments given	**9,490**	**1,118**	**8,372**	**8,372**	**-**	**-**	**2,951**
Total exposures with forbearance measures	**408,379**	**58,727**	**349,652**	**349,652**	**(5,762)**	**(186,782)**	**142,062**

in EUR thousand

31.12.2016	NLB All forborne exposures Total	Performing	Non - performing Impaired	Non - performing Defaulted	Impairment, provisions and value adjustments Performing forborne exposures	Impairment, provisions and value adjustments Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures
Loans and advances (including at amortised cost and fair value)	**620,593**	**80,696**	**539,897**	**539,897**	**(8,085)**	**(321,083)**	**199,626**
General governments	9,161	-	9,161	9,161	-	(3,071)	6,089
Credit institutions	247	247	-	-	-	-	-
Other financial corporations	31,012	6,287	24,725	24,725	(574)	(23,933)	639
Non-financial corporations	552,812	61,940	490,872	490,872	(6,050)	(287,971)	184,600
Large corporate customers	268,096	35,884	232,212	232,212	(4,107)	(140,078)	79,862
Small- and medium- sized enterprises	284,716	26,056	258,660	258,660	(1,943)	(147,893)	104,738
Households	27,361	12,222	15,139	15,139	(1,461)	(6,108)	8,298
Granted overdrafts	123	94	29	29	(10)	(18)	-
Loans for houses and flats	22,307	10,114	12,193	12,193	(1,235)	(4,472)	2,292
Consumer loans	2,897	1,029	1,868	1,868	(134)	(958)	2,333
Other loans	2,034	985	1,049	1,049	(82)	(660)	3,673
Debt instruments other than HFT	**620,593**	**80,696**	**539,897**	**539,897**	**(8,085)**	**(321,083)**	**199,626**
Loan commitments given	**22,488**	**1,141**	**21,347**	**21,347**	**-**	**-**	**15,072**
Total exposures with forbearance measures	**643,081**	**81,837**	**561,244**	**561,244**	**(8,085)**	**(321,083)**	**214,698**

Forborne exposures by periods of restructuring

in EUR thousand

	NLB Group			
31.12.2017	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 12 months**
Performing exposures	3,656	910	2,259	62,100
Non-performing exposures	12,313	6,054	17,189	175,381
Total exposures with forbearance measures	**15,969**	**6,964**	**19,448**	**237,481**
31.12.2016				
Performing exposures	3,877	11,611	19,078	63,932
Non-performing exposures	6,130	38,624	10,282	260,903
Total exposures with forbearance measures	**10,007**	**50,235**	**29,360**	**324,835**

in EUR thousand

	NLB			
31.12.2017	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 12 months**
Performing exposures	2,950	420	1,446	47,031
Non-performing exposures	11,512	5,311	14,717	122,958
Total exposures with forbearance measures	**14,462**	**5,731**	**16,163**	**169,989**
31.12.2016				
Performing exposures	1,745	6,593	18,352	45,921
Non-performing exposures	4,368	25,018	7,705	181,723
Total exposures with forbearance measures	**6,113**	**31,611**	**26,057**	**227,644**

Main forbearance measurements, used by NLB Group and NLB are deferral of payment, reduction of interest rates, acquisition of collateral for partial repayment of claims and others, either as a single forbearance measurement or as a combination of those.

o) Repossessed assets

NLB Group and NLB received the following assets by taking possession of collateral held as security and held them at the reporting date:

in EUR thousand

	NLB Group		NLB	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Nature of assets	**Net value**		**Net value**	
Securities (note 5.4.b)	3,536	24,162	480	20,832
Investment property (note 5.10.)	40,809	48,658	4,286	3,750
Property and equipment (note 5.9.)	1,355	1,523	7	7
Investments in subsidiaries and associates	-	-	2,464	2,484
Real estates (note 5.13.)	76,222	76,416	4,811	4,263
Other assets (note 5.13.)	1,278	2,643	-	-
Total	**123,200**	**153,402**	**12,048**	**31,336**

p) Analysis of loans and advances by industry sectors

in EUR thousand

NLB Group	31.12.2017				31.12.2016			
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	514,037	(576)	513,461	6.78	435,886	(349)	435,537	5.81
Finance	60,485	(3,065)	57,420	0.76	132,156	(27,863)	104,293	1.39
Electricity, gas, and water	155,911	(8,846)	147,065	1.94	176,230	(19,754)	156,476	2.09
Construction industry	236,617	(69,045)	167,572	2.21	260,537	(109,189)	151,348	2.02
Heavy industry	819,887	(79,497)	740,390	9.78	852,257	(168,205)	684,052	9.13
Education	14,230	(872)	13,358	0.18	15,314	(696)	14,618	0.20
Agriculture, forestry, and fishing	52,168	(8,264)	43,904	0.58	43,309	(9,515)	33,794	0.45
Public sector	314,481	(6,285)	308,196	4.07	364,764	(12,270)	352,494	4.70
Individuals	3,470,153	(98,207)	3,371,946	44.52	3,190,724	(99,216)	3,091,508	41.25
Mining	15,404	(1,675)	13,729	0.18	31,913	(6,300)	25,613	0.34
Entrepreneurs	128,534	(5,585)	122,949	1.62	99,715	(6,642)	93,073	1.24
Services	662,657	(123,226)	539,431	7.12	962,743	(156,285)	806,458	10.76
Transport and communications	839,171	(35,281)	803,890	10.61	869,779	(39,908)	829,871	11.07
Trade industry	840,189	(204,457)	635,732	8.39	873,406	(242,743)	630,663	8.42
Health care and social security	31,331	(2,447)	28,884	0.38	27,936	(4,815)	23,121	0.31
Other financial assets	77,962	(11,705)	66,257	0.87	76,467	(15,453)	61,014	0.81
Total	**8,233,217**	**(659,033)**	**7,574,184**	**100.00**	**8,413,136**	**(919,203)**	**7,493,933**	**100.00**

in EUR thousand

NLB	31.12.2017				31.12.2016			
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	462,322	-	462,322	8.94	408,056	-	408,056	7.59
Finance	251,303	(9,150)	242,153	4.68	341,644	(45,910)	295,734	5.50
Electricity, gas, and water	109,457	(3,498)	105,959	2.05	112,083	(6,279)	105,804	1.97
Construction industry	111,832	(41,618)	70,214	1.36	136,071	(71,294)	64,777	1.21
Heavy industry	551,816	(30,004)	521,812	10.09	569,022	(88,472)	480,550	8.94
Education	8,779	(33)	8,746	0.17	10,643	(54)	10,589	0.20
Agriculture, forestry, and fishing	15,087	(958)	14,129	0.27	15,437	(1,223)	14,214	0.26
Public sector	199,650	(1,710)	197,940	3.83	248,993	(2,265)	246,728	4.59
Individuals	2,121,167	(38,605)	2,082,562	40.28	1,990,184	(39,069)	1,951,115	36.31
Mining	7,454	(626)	6,828	0.13	25,332	(5,297)	20,035	0.37
Entrepreneurs	50,923	(2,040)	48,883	0.95	46,148	(2,587)	43,561	0.81
Services	494,815	(74,158)	420,657	8.14	782,110	(91,419)	690,691	12.85
Transport and communications	747,971	(17,192)	730,779	14.13	777,964	(17,903)	760,061	14.15
Trade industry	304,589	(96,358)	208,231	4.03	366,587	(131,753)	234,834	4.37
Health care and social security	11,830	(1,113)	10,717	0.21	11,439	(1,223)	10,216	0.19
Other financial assets	41,580	(3,191)	38,389	0.74	39,922	(3,771)	36,151	0.67
Total	**5,490,575**	**(320,254)**	**5,170,321**	**100.00**	**5,881,635**	**(508,519)**	**5,373,116**	**100.00**

q) Analysis of net loans and advances by geographical sectors

in EUR thousand

	NLB Group		NLB	
Country	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Republic of Slovenia	4,469,598	4,633,952	4,478,793	4,663,239
Other European Union members	484,919	468,887	428,772	393,858
Other countries	2,619,667	2,391,094	262,756	316,019
Total	**7,574,184**	**7,493,933**	**5,170,321**	**5,373,116**

r) Analysis of debt securities and derivative financial instruments by geographical sectors

in EUR thousand

31.12.2017	NLB Group						NLB				
Country	**Loans and advances**	**Trading assets**	**Financial assets designated at fair value through profit or loss**	**Available-for-sale financial assets**	**Held-to-maturity financial assets**	**Derivative financial instruments**	**Loans and advances**	**Trading assets**	**Available-for-sale financial assets**	**Held-to-maturity financial assets**	**Derivative financial instruments**
Republic of Slovenia	82,133	55,047	-	507,643	356,896	8,395	82,133	55,047	432,494	356,896	8,395
Other members of European Union	-	-	102	1,257,881	252,816	5,238	-	-	1,257,881	252,816	5,238
- Italy	-	-	-	46,196	-	-	-	-	46,196	-	-
- Ireland	-	-	-	48,639	-	-	-	-	48,639	-	-
- France	-	-	102	156,078	47,443	1	-	-	156,078	47,443	1
- Belgium	-	-	-	55,131	26,120	75	-	-	55,131	26,120	75
- Netherlands	-	-	-	118,611	27,180	313	-	-	118,611	27,180	313
- Austria	-	-	-	40,911	48,858	29	-	-	40,911	48,858	29
- Germany	-	-	-	177,541	57,785	79	-	-	177,541	57,785	79
- Finland	-	-	-	56,876	12,500	-	-	-	56,876	12,500	-
- Sweden	-	-	-	64,406	-	-	-	-	64,406	-	-
- Denmark	-	-	-	42,487	-	-	-	-	42,487	-	-
- Luxembourg	-	-	-	69,382	31,907	-	-	-	69,382	31,907	-
- Great Britain	-	-	-	120,749	-	4,632	-	-	120,749	-	4,632
- Poland	-	-	-	49,459	-	-	-	-	49,459	-	-
- Slovakia	-	-	-	45,025	-	-	-	-	45,025	-	-
- Spain	-	-	-	31,357	-	-	-	-	31,357	-	-
- Other	-	-	-	*135,033*	*1,023*	*109*	-	-	*135,033*	*1,023*	*109*
United States of America	-	4,117	-	17,229	-	-	-	4,117	17,229	-	-
Other countries	-	-	-	444,346	-	580	-	-	23,310	-	571
- Macedonia	-	-	-	171,751	-	4	-	-	-	-	-
- Serbia	-	-	-	56,615	-	5	-	-	-	-	-
- Bosnia and Herzegovina	-	-	-	78,421	-	-	-	-	-	-	-
- Montenegro	-	-	-	49,401	-	-	-	-	-	-	-
- Kosovo	-	-	-	64,848	-	571	-	-	-	-	571
- Other	-	-	-	23,310	-	-	-	-	23,310	-	-
Total	**82,133**	**59,164**	**102**	**2,227,099**	**609,712**	**14,213**	**82,133**	**59,164**	**1,730,914**	**609,712**	**14,204**

in EUR thousand

31.12.2016	NLB Group						NLB				
Country	Loans and advances	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative financial instruments	Loans and advances	Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative financial instruments
Republic of Slovenia	85,315	49,747	-	544,187	415,165	13,347	85,315	49,747	479,792	415,165	13,347
Other members of European Union	-	19,010	734	1,031,073	196,284	5,399	-	19,010	1,031,073	196,284	5,399
- Italy	-	-	-	42,203	-	-	-	-	42,203	-	-
- Ireland	-	-	471	35,935	-	-	-	-	35,935	-	-
- France	-	-	103	149,327	48,720	10	-	-	149,327	48,720	10
- Belgium	-	-	-	45,511	16,031	98	-	-	45,511	16,031	98
- Netherlands	-	-	-	102,420	26,123	240	-	-	102,420	26,123	240
- Austria	-	19,010	-	29,609	40,878	1	-	19,010	29,609	40,878	1
- Germany	-	-	-	200,358	43,533	146	-	-	200,358	43,533	146
- Finland	-	-	-	39,220	3,247	-	-	-	39,220	3,247	-
- Sweden	-	-	160	64,610	-	-	-	-	64,610	-	-
- Denmark	-	-	-	67,722	-	-	-	-	67,722	-	-
- Luxembourg	-	-	-	57,222	16,729	-	-	-	57,222	16,729	-
- Great Britain	-	-	-	113,675	-	4,904	-	-	113,675	-	4,904
- Poland	-	-	-	17,173	-	-	-	-	17,173	-	-
- Slovakia	-	-	-	20,583	-	-	-	-	20,583	-	-
- Spain	-	-	-	25,930	-	-	-	-	25,930	-	-
- Other	-	-	-	*19,575*	*1,023*	-	-	-	*19,575*	*1,023*	-
United States of America	-	-	-	9,074	-	-	-	-	9,074	-	-
Other countries	-	-	-	414,199	-	413	-	-	6,848	-	407
- Macedonia	-	-	-	159,993	-	-	-	-	-	-	-
- Serbia	-	-	-	54,568	-	6	-	-	-	-	-
- Bosnia and Herzegovina	-	-	-	72,384	-	-	-	-	-	-	-
- Montenegro	-	-	-	54,765	-	-	-	-	-	-	-
- Kosovo	-	-	-	65,641	-	405	-	-	-	-	405
- Other	-	-	-	6,848	-	2	-	-	6,848	-	2
Total	**85,315**	**68,757**	**734**	**1,998,533**	**611,449**	**19,159**	**85,315**	**68,757**	**1,526,787**	**611,449**	**19,153**

Other members of the European Union included in the item 'Other' are Romania, Czech Republic, Hungary, Bulgaria, Cyprus, Croatia, Lithuania, Latvia, and Portugal.

s) Structure of debt securities of the banking book according to the Fitch credit rating agency

in EUR thousand

	NLB Group				NLB			
	31.12.2017		31.12.2016		31.12.2017		31.12.2016	
	Carrying value	in %	Carrying value	in %	Carrying value	in %	Carrying value	in %
Rating								
AAA	365,985	12.6	271,157	10.1	365,985	15.1	271,157	12.2
AA	373,302	12.8	349,839	13.0	373,302	15.4	349,839	15.7
A	1,486,656	51.0	1,455,975	54.0	1,411,405	58.3	1,455,401	65.5
BBB	200,019	6.9	138,526	5.1	200,019	8.3	132,254	5.9
Other	489,294	16.8	480,534	17.8	72,048	3.0	14,900	0.7
Total	**2,915,256**	**100.0**	**2,696,031**	**100.0**	**2,422,759**	**100.0**	**2,223,551**	**100.0**

t) Structure of debt securities of the trading book according to the Fitch credit rating agency

in EUR thousand

	31.12.2017		31.12.2016	
NLB Group and NLB	Carrying value	in %	Carrying value	in %
Rating				
A	-	-	49,747	72.4
AAA	4,117	7.0	-	-
F1	15,016	25.4	-	-
Other	40,031	67.7	19,010	27.6
Total	**59,164**	**100.0**	**68,757**	**100.0**

u) Internal rating of derivatives counterparties

	31.12.2017	31.12.2016
NLB Group and NLB	in %	in %
A	71.47	76.66
B	28.24	22.17
C	0.29	0.11
D and E	0.00	1.06
Total	**100.00**	**100.00**

All derivatives in the banking book are entered into with counterparties with an external investment-grade rating.

When derivatives are entered into on behalf of NLB Group's customers, such customers usually do not have an external rating, but all such transactions are covered through back-to-back transactions involving third parties with an external investment-grade rating.

v) Debt financial instruments in NLB's and NLB Group's portfolio that represent subordinated liabilities for the issuer

in EUR thousand

31.12.2017	NLB Group				NLB			
Internal rating	A	B	C	Total	A	B	C	Total
Available-for-sale financial assets	581	-	-	581	581	-	-	581
Loans and advances								
- loans and advances to banks	-	-	-	-	10,962	-	-	10,962
- loans and advances to customers	-	-	-	-	-	-	5,506	5,506
Total	**581**	**-**	**-**	**581**	**11,543**	**-**	**5,506**	**17,049**

in EUR thousand

31.12.2016	NLB Group				NLB			
Internal rating	A	B	C	Total	A	B	C	Total
Available-for-sale financial assets	583	-	-	583	583	-	-	583
Loans and advances								
- loans and advances to banks	-	-	-	-	10,961	3,989	-	14,950
- loans and advances to customers	-	-	-	-	-	-	5,898	5,898
Total	**583**	**-**	**-**	**583**	**11,544**	**3,989**	**5,898**	**21,431**

w) Presentation of net financial instruments by measurement category

in EUR thousand

31.12.2017	NLB Group Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Financial leases	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	1,256,481	-	-	-	1,256,481
Securities	59,164	5,003	2,280,283	82,133	-	609,712	-	3,036,295
- Bonds	4,117	102	1,809,040	82,133	-	609,712	-	2,505,104
- Shares	-	-	53,184	-	-	-	-	53,184
- Commercial bills		-	281,877	-	-	-	-	281,877
- Treasury bills	55,047	-	136,182	-	-		-	191,229
- Private equity fund	-	634	-	-	-	-	-	634
- Other investments	-	4,267	-	-	-	-	-	4,267
Derivatives	13,025	-	-	-	-	-	1,188	14,213
Loans and receivables	-	-	-	7,279,228	146,566	-	-	7,425,794
- Loans to government	-	-	-	448,198	8,882	-	-	457,080
- Loans to banks	-	-	-	513,461	-	-	-	513,461
- Loans to financial organisations	-	-	-	77,121	81	-	-	77,202
- Loans to individuals	-	-	-	3,295,336	76,610	-	-	3,371,946
Granted overdrafts	-	-	-	176,769	-	-	-	176,769
Loans for houses and flats	-	-	-	1,740,167	-	-	-	1,740,167
Consumer loans	-	-	-	1,217,349	-	-	-	1,217,349
Other loans	-	-	-	161,051	76,610	-	-	237,661
- Loans to other customers	-	-	-	2,945,112	60,993	-	-	3,006,105
Loans to large corporate customers	-	-	-	1,473,055	6,572	-	-	1,479,627
Loans to small- and medium-sized enterprises	-	-	-	1,472,057	54,421	-	-	1,526,478
Other financial assets	-	-	-	66,257	-	-	-	66,257
Total financial assets	**72,189**	**5,003**	**2,280,283**	**8,684,099**	**146,566**	**609,712**	**1,188**	**11,799,040**

in EUR thousand

	NLB Group							
31.12.2016	**Trading assets**	**Financial assets designated at fair value through profit or loss**	**Available-for-sale financial assets**	**Loans and receivables**	**Financial leases**	**Held-to-maturity financial assets**	**Derivatives for hedge accounting**	**Total**
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	1,299,014	-	-	-	1,299,014
Securities	68,757	6,694	2,072,153	85,340	-	611,449	-	2,844,393
- Bonds	19,735	734	1,619,228	85,315	-	611,449	-	2,336,461
- Shares	-	-	73,620	-	-	-	-	73,620
- Commercial bills	19,010	-	274,489	-	-	-	-	293,499
- Cash certificates	-	-	199	-	-	-	-	199
- Treasury bills	30,012	-	104,617	-	-	-	-	134,629
- Private equity fund	-	2,011	-	-	-	-	-	2,011
- Reverse sell and repurchase agreements	-	-	-	25	-	-	-	25
- Other investments	-	3,949	-	-	-	-	-	3,949
Derivatives	18,942	-	-	-	-	-	217	19,159
Loans and receivables	-	-	-	7,197,167	150,412	-	-	7,347,579
- Loans to government	-	-	-	765,154	10,832	-	-	775,986
- Loans to banks	-	-	-	435,537	-	-	-	435,537
- Loans to financial organisations	-	-	-	74,312	32	-	-	74,344
- Loans to individuals	-	-	-	3,027,652	63,856	-	-	3,091,508
Granted overdrafts	-	-	-	182,322	-	-	-	182,322
Loans for houses and flats	-	-	-	1,589,762	-	-	-	1,589,762
Consumer loans	-	-	-	1,090,120	-	-	-	1,090,120
Other loans	-	-	-	165,448	63,856	-	-	229,304
- Loans to other customers	-	-	-	2,894,512	75,692	-	-	2,970,204
Loans to large corporate customers	-	-	-	1,530,194	4,409	-	-	1,534,603
Loans to small- and medium-sized enterprises	-	-	-	1,364,318	71,283	-	-	1,435,601
Other financial assets	-	-	-	61,014	-	-	-	61,014
Total financial assets	**87,699**	**6,694**	**2,072,153**	**8,642,535**	**150,412**	**611,449**	**217**	**11,571,159**

in EUR thousand

	NLB						
31.12.2017	**Trading assets**	**Financial assets designated at fair value through profit or loss**	**Available-for-sale financial assets**	**Loans and receivables**	**Held-to-maturity financial assets**	**Derivatives for hedge accounting**	**Total**
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	570,010	-	-	570,010
Securities	59,164	634	1,777,762	82,133	609,712	-	2,529,405
- Bonds	4,117	-	1,554,565	82,133	609,712	-	2,250,527
- Shares	-	-	46,848	-	-	-	46,848
- Commercial bills	-	-	136,279	-	-	-	136,279
- Treasury bills	55,047	-	40,070	-		-	95,117
- Private equity fund	-	634	-	-	-	-	634
Derivatives	13,016	-	-	-	-	1,188	14,204
Loans and receivables	-	-	-	5,049,799	-	-	5,049,799
- Loans to government	-	-	-	358,675	-	-	358,675
- Loans to banks	-	-	-	462,322	-	-	462,322
- Loans to financial organisations	-	-	-	268,184	-	-	268,184
- Loans to individuals	-	-	-	2,082,562	-	-	2,082,562
Granted overdrafts	-	-	-	140,209	-	-	140,209
Loans for houses and flats	-	-	-	1,307,246	-	-	1,307,246
Consumer loans	-	-	-	519,213	-	-	519,213
Other loans	-	-	-	115,894	-	-	115,894
- Loans to other customers	-	-	-	1,878,056	-	-	1,878,056
Loans to large corporate customers	-	-	-	1,216,085	-	-	1,216,085
Loans to small- and medium-sized enterprises	-	-	-	661,971	-	-	661,971
Other financial assets	-	-	-	38,389	-	-	38,389
Total financial assets	**72,180**	**634**	**1,777,762**	**5,740,331**	**609,712**	**1,188**	**8,201,807**

in EUR thousand

	NLB						
31.12.2016	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	617,039	-	-	617,039
Securities	68,757	2,011	1,594,094	85,340	611,449	-	2,361,651
- Bonds	19,735	-	1,262,363	85,315	611,449	-	1,978,862
- Shares	-	-	67,307	-	-	-	67,307
- Commercial bills	19,010	-	209,331	-	-	-	228,341
- Treasury bills	30,012	-	55,093	-		-	85,105
- Private equity fund	-	2,011	-	-	-	-	2,011
- Reverse sell and repurchase agreements	-	-	-	25	-	-	25
Derivatives	18,936	-	-	-	-	217	19,153
Loans and receivables	-	-	-	5,251,625	-	-	5,251,625
- Loans to government	-	-	-	668,300	-	-	668,300
- Loans to banks	-	-	-	408,056	-	-	408,056
- Loans to financial organisations	-	-	-	273,285	-	-	273,285
- Loans to individuals	-	-	-	1,951,115	-	-	1,951,115
Granted overdrafts	-	-	-	147,779	-	-	147,779
Loans for houses and flats	-	-	-	1,208,996	-	-	1,208,996
Consumer loans	-	-	-	480,626	-	-	480,626
Other loans	-	-	-	113,714	-	-	113,714
- Loans to other customers	-	-	-	1,950,869	-	-	1,950,869
Loans to large corporate customers	-	-	-	1,296,126	-	-	1,296,126
Loans to small- and medium-sized enterprises	-	-	-	654,743	-	-	654,743
Other financial assets	-	-	-	36,151	-	-	36,151
Total financial assets	**87,693**	**2,011**	**1,594,094**	**5,990,155**	**611,449**	**217**	**8,285,619**

As at 31.12.2017 and 31.12.2016, all of NLB Group's financial liabilities, except for derivatives designated as hedging instruments, trading liabilities and financial liabilities designated at fair value through profit or loss, were carried at amortised cost.

6.2. Market risk

NLB defines market risk as the risk of potential financial losses due to changes in rates and/or market prices (exchange rates, credit spreads, and equity prices), or in parameters that affect prices (volatilities and correlations). Losses may impact profit or loss directly, for example in the case of trading book positions. However, for the banking book positions they are reflected in the revaluation reserve. The exposure to the market risk is to a certain degree integrated into the banking industry and offers an opportunity to create financial results and value.

The Global Risk Department of NLB is independent from the trading activities and reports to the bank's committee ALCO. They also monitor and manage exposure to market risks separately for the banking and trading books. Exposures and limits are monitored daily and reported to the ALCO committee on a regular basis.

The bank uses a wide selection of quantitative and qualitative tools for measuring, managing, and reporting market risks such as value-at-risk (VaR), sensitivity analysis, stress testing, back-testing, scenarios, other market risk mitigants (concentration of exposures, gap limits, stop-loss limits, etc.), net interest income sensitivity, economic value of equity, and economic capital. Stress testing provides an indication of the potential losses that could occur in severe market conditions.

In the area of currency risk, NLB Group pursues the goal of low exposure. NLB monitors the open position of NLB Group on an ongoing basis. The orientation of NLB Group in interest rate risk management is to prevent negative effects on the net revenues arising from changed market interest rates. In line with this, the tolerance for this risk is low. The conclusion of transactions involving derivatives at NLB is limited to the servicing of the clients' and hedging of the Group's own open positions. In accordance with the provisions of the Strategy on trading in financial instruments in NLB Group, the trading activities in other NLB Group members are very restricted. Thus, NLB is the only Group member with a trading book in accordance with CRR requirements.

Monitoring and managing NLB Group's exposure to market risks is decentralised. However, uniform guidelines and exposure limits for each type of risk are set for individual NLB Group entities. The methodologies are in line with regulatory requirements on individual and consolidated levels, while reporting to the regulator on the consolidated level is carried out using the standardised approach. Pursuant to the relevant policies, NLB Group entities must monitor and manage exposure to market risks and report to NLB accordingly. The exposure of an individual NLB Group entity is regularly monitored and reported to the Assets and Liabilities Committee of NLB Group (NLB Group ALCO).

6.2.1. Currency risk (FX)

Foreign currency risk (FX) is a risk of the potential losses from the open FX positions due to the changes of the foreign currency rates. The exposures of NLB to the movement of the FX rates have impact on the financial position and cash flows of the bank. The bank measures and manages the FX risk with a usage of combination of sensitivity analysis, VaR, scenarios, and stress testing.

In the trading book, similar to the other market risks, risk is managed on the basis of VaR limits which are approved by the Management Board of the bank and in accordance to the adopted policy of managing market risk in the trading book of NLB. Trading FX risk is managed on an integrated basis at a portfolio level.

NLB monitors and manages FX risk in the banking book according to the policy of managing FX risk in NLB. The policy is primarily composed to protect Common Equity Tier 1 against the negative effects of the volatility of the FX rates, whilst limiting the volatility in the profit and loss account. FX exposures in banking book result from core banking business activities.

Currency risk management in NLB Group is decentralised. Each member is responsible for its own currency risk policy, which also includes a limit system and is in line with local regulatory requirements, as well as the parent Bank's guidelines and standards. Policies are confirmed by either the local management board or supervisory board. NLB monitors and manages NLB Group currency risk exposure on a monthly basis for each member and on the consolidated level.

NLB Group banks follow the guidelines for managing FX lending in the NLB Group. The guidelines' goal is to address risks stemming from the potential excessive growth of FX lending, to identify hidden risks and tail-event risks related to FX lending, to mitigate the respective risk, to internalise the respective costs, and to hold adequate capital with respect to FX lending.

The positions of all currencies in the statement of financial position of NLB, for which a daily limit is set, are monitored daily. FX positions are managed by the Financial Markets Department on the basis of a report obtained from the Global Risk. The Financial Markets Department manages FX positions on the currency level so that they are always within the limits or closed.

Regarding structural FX positions on a consolidation level, assets and liabilities held in foreign operations are translated into euro currency at the closing FX rate on the balance sheet date. Foreign exchange differences of non-euro assets and liabilities against euro are recognised in OCI, and therefore affect shareholder's equity and CET1 capital. In December 2017 ECB requested for calculation of risk weighted assets a correction of treatment of the FX position on a consolidated level and treatment of equity investments in non-euro subsidiary banks (see note 5.23 Capital adequacy ratio). Group ALM employs strategies to manage this foreign currency exposure, including matched funding of assets and liabilities.

Exposure to currency risks is discussed at daily liquidity meetings and monthly meetings of the Assets and Liabilities Committee of NLB Group (ALCO), and quarterly on the consolidated level.

a) The amount of financial instruments denominated in euros and in foreign currency

in EUR thousand

	NLB Group				
31.12.2017	**EUR**	**USD**	**CHF**	**Other**	**Total**
Financial assets					
Cash, cash balances at central banks, and other demand deposits at banks	824,534	33,545	41,046	357,356	1,256,481
Trading assets	68,067	4,117	-	5	72,189
Financial assets designated at fair value through profit or loss	5,003	-	-	-	5,003
Available-for-sale financial assets	1,996,373	26,908	3,056	250,156	2,276,493
Derivatives - hedge accounting	1,188	-	-	-	1,188
Loans and advances					
- debt securities	82,133	-	-	-	82,133
- loans and advances to banks	359,268	103,836	-	47,003	510,107
- loans and advances to customers	5,952,008	30,474	69,381	860,470	6,912,333
- other financial assets	43,162	111	27	22,777	66,077
Held-to-maturity financial assets	600,328	9,384	-	-	609,712
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	-	-	-	719
Total financial assets	**9,932,783**	**208,375**	**113,510**	**1,537,767**	**11,792,435**
Financial liabilities					
Trading liabilities	9,398	-	-	104	9,502
Financial liabilities designated at fair value through profit or loss	635	-		-	635
Derivatives - hedge accounting	25,529	-	-	-	25,529
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	20,091	4,677	6,555	9,279	40,602
- borrowings from banks and central banks	247,326	18,425	13,865	-	279,616
- due to customers	8,443,684	185,880	71,900	1,176,914	9,878,378
- borrowings from other customers	74,206	-	-	80	74,286
- subordinated liabilities	27,350	-	-	-	27,350
- other financial liabilities	93,128	1,058	1,930	14,903	111,019
Total financial liabilities	**8,941,347**	**210,040**	**94,250**	**1,201,280**	**10,446,917**
Net on-balance sheet financial position	**991,436**	**(1,665)**	**19,260**	**336,487**	**1,345,518**
Derivative financial instruments	11,906	-	(12,818)	(8,014)	(8,926)
Net financial position	**1,003,342**	**(1,665)**	**6,442**	**328,473**	**1,336,592**
31.12.2016					
Total financial assets	**9,851,121**	**228,678**	**132,544**	**1,359,494**	**11,571,837**
Total financial liabilities	**8,986,936**	**226,191**	**102,137**	**1,084,597**	**10,399,861**
Net on-balance sheet financial position	**864,185**	**2,487**	**30,407**	**274,897**	**1,171,976**
Derivative financial instruments	26,519	2,077	(21,417)	(13,954)	(6,775)
Net financial position	**890,704**	**4,564**	**8,990**	**260,943**	**1,165,201**

in EUR thousand

	NLB				
31.12.2017	**EUR**	**USD**	**CHF**	**Other**	**Total**
Financial assets					
Cash, cash balances at central banks, and other demand deposits at banks	511,551	15,735	10,305	32,419	570,010
Trading assets	68,063	4,117	-	-	72,180
Financial assets designated at fair value through profit or loss	634	-	-	-	634
Available-for-sale financial assets	1,751,068	24,342	-	2,352	1,777,762
Derivatives - hedge accounting	1,188	-	-	-	1,188
Loans and advances					
- debt securities	82,133				82,133
- loans and advances to banks	378,241	58,393	-	25,688	462,322
- loans and advances to customers	4,482,928	25,834	70,369	8,346	4,587,477
- other financial assets	38,260	64	1	64	38,389
Held-to-maturity financial assets	600,328	9,384	-	-	609,712
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	-	-	-	719
Total financial assets	**7,915,113**	**137,869**	**80,675**	**68,869**	**8,202,526**
Financial liabilities					
Trading liabilities	9,398	-	-	-	9,398
Financial liabilities designated at fair value through profit or loss	635	-	-	-	635
Derivatives - hedge accounting	25,529	-	-	-	25,529
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	36,352	15,255	9,292	11,173	72,072
- borrowings from banks and central banks	228,457	18,425	13,865	-	260,747
- due to customers	6,623,766	104,325	43,688	39,188	6,810,967
- borrowings from other customers	5,726	-	-	-	5,726
- other financial liabilities	69,858	409	269	998	71,534
Total financial liabilities	**6,999,721**	**138,414**	**67,114**	**51,359**	**7,256,608**
Net on-balance sheet financial position	**915,392**	**(545)**	**13,561**	**17,510**	**945,918**
Derivative financial instruments	11,906	-	(12,818)	(8,014)	(8,926)
Net financial position	**927,298**	**(545)**	**743**	**9,496**	**936,992**
31.12.2016					
Total financial assets	**7,947,091**	**169,016**	**99,948**	**70,242**	**8,286,297**
Total financial liabilities	**7,140,090**	**169,184**	**78,138**	**42,028**	**7,429,440**
Net on-balance sheet financial position	**807,001**	**(168)**	**21,810**	**28,214**	**856,857**
Derivative financial instruments	26,519	2,077	(21,417)	(13,954)	(6,775)
Net financial position	**833,520**	**1,909**	**393**	**14,260**	**850,082**

b) FX sensitivity analysis

	NLB Group and NLB	
Scenarios	31.12.2017	31.12.2016
USD	+/-6%	+/-8%
CHF	+/-5%	+/-4%
CZK	+/-3%	+/-1%
RSD	+/-2%	+/-2%
MKD	+/-3%	+/-1%
JPY	+/-7%	+/-12.5%
AUD	+/-7%	+/-11%
HUF	+/-3%	+/-5%
HRK	+/-2%	+/-2%
BAM	+/-0%	+/-0%

in EUR thousand

	NLB Group		NLB	
31.12.2017	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensive income
Appreciation of				
USD	221	-	92	-
CHF	(308)	211	26	-
CZK	2	-	1	-
RSD	7	2,125	8	-
MKD	47	5,412	64	-
Other	(72)	338	6	-
Effects on comprehensive income	**(103)**	**8,086**	**197**	**-**
Depreciation of				
USD	(196)	-	(82)	-
CHF	281	(192)	(24)	-
CZK	(2)	-	(1)	-
RSD	(7)	(2,046)	(8)	-
MKD	(44)	(5,048)	(60)	-
Other	70	(327)	(6)	-
Effects on comprehensive income	**102**	**(7,613)**	**(181)**	**-**

in EUR thousand

	NLB Group		NLB	
31.12.2016	**Effects on income statement**	**Effects on other comprehensive income**	**Effects on income statement**	**Effects on other comprehensive income**
Appreciation of				
USD	271	-	79	-
CHF	(205)	227	13	-
CZK	(8)	23	2	-
RSD	(3)	1,567	2	-
MKD	1	1,425	1	-
Other	(16)	251	70	-
Effects on comprehensive income	**40**	**3,493**	**167**	**-**
Depreciation of				
USD	(229)	-	(67)	-
CHF	187	(208)	(12)	-
CZK	7	(22)	(2)	-
RSD	2	(1,506)	(2)	-
MKD	(1)	(1,390)	(1)	-
Other	23	(243)	(60)	-
Effects on comprehensive income	**(11)**	**(3,369)**	**(144)**	**-**

6.2.2. Managing market risks in the trading book

Market risk exposure in the trading book arises mostly as a result of the changes in interest rates, credit spreads, FX rates, and equity prices.

The Management Board determines total risk appetite and limits by the risk type. The limits are monitored daily by the Global Risk Department.

NLB uses an internal VaR model based on the variance-covariance method for other market risks. The daily calculation of the VAR value is adjusted to Basel standards (99% confidence interval, a monitored period of 250 business days, a 10-day holding position period).

6.2.3. Interest rate risk

Interest rate risk is the risk to NLB Group's capital and profit or loss arising from changes in market interest rates. Interest rate risk management of NLB Group includes all interest rate-sensitive on- and off-balance sheet assets and liabilities which are divided into the trading and banking books according to regulatory standards. It takes into account the positions in each currency, adjusted for a credit risk. Interest rate risk management in NLB Group is adopted in accordance with the conservative risk strategy and is based on general Basel standards on interest rate management in the banking book (IRRB; hereinafter: 'Standards') and European Banking Authority guidelines.

In the trading book interest rate risk is measured on the basis of the VaR method and BPV method, in accordance with the adopted policy for managing market risk in the trading book of NLB.

The interest rate risk in the banking book is measured and monitored within a framework of Interest rate risk management policy that establishes consistent methodologies, models, and limit systems. NLB Group manages interest rate risk exposure through application of two main measures:

- Economic value sensitivity – using BPV method (Basis Point Value), which measures the extent to which the value of the portfolio would change if interest rates changes according to the scenario.
- Sensitivity of net interest income – using EaR method (Earnings at Risk), which measures the impact of the interest rate change on future net interest income over a one-year period, assuming constant balance sheet volume and structure.

NLB Group regularly measures interest rate risk exposure in the banking book under various standardised and additional scenarios of changes in level and shape of interest rate yield curve and, furthermore, applies a cash flow modelling approach for positions with uncertain maturity and behavioural options. The latter was upgraded in 2017 according to new regulatory Standards with a renewal of non-maturing deposits allocation methodology, and with introduction of a methodology for positions with behavioural options.

The interest rate risk is closely measured, monitored, and managed within approved risk limits and controls. The Group manages interest rate positions and stabilises its interest rate margin primarily with the pricing policy and a fund transfer pricing policy. An important part of the interest rate risk management is presented by the banking book securities portfolio, whose primary purpose is to maintain adequate liquidity reserves, while it also contributes to the stability of the interest rate margin, which is why valuation risk has been included in the Group's interest rate risk management model.

NLB Group manages interest rates risk also by using plain vanilla derivative financial instruments (interest rate swaps, overnight index swaps, cross currency swaps, and forward rate agreements), most of which are treated according to hedge accounting rules. Interest rate risk exposure arises mainly from banking book positions; particularly in a current low interest rate environment, where NLB Group recorded increased volume of fixed interest rate loans and long-term banking book securities on the assets side and transformation of deposits from term to sight.

The management of NLB Group's interest rate exposure is decentralised. Each member of NLB Group is responsible for its own interest rate risk policy, which includes limit system and is in line with local regulatory requirements, as well as with the parent Bank's guidelines and standards. NLB regularly monitors the interest rate risk exposure of individual member of NLB Group in accordance with the Standards for Risk Management in NLB Group. The aforementioned document comprises guidelines for uniform and effective interest rate risk management within individual NLB Group members.

Interest rate risk in the banking book is measured, monitored, and reported weekly in the case of NLB by Global Risk Department, while positions are managed by Financial Markets and monthly on the Group level. Exposure to interest rate risk is discussed on ALCO monthly on NLB's individual level and quarterly on the consolidated level.

a) Analysis of financial instruments according to the exposure to interest rate risk

Illustrated below are the carrying amounts of financial instruments categorised by the earlier of contractual reprising or residual maturity.

in EUR thousand

	NLB Group							
31.12.2017	**Total**	**Non-interest bearing**	**Interest bearing**	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	1,256,481	531,414	725,067	725,067	-	-	-	-
Trading assets	72,189	13,025	59,164	-	55,060	5	2,438	1,661
Financial assets designated at fair value through profit or loss	5,003	4,901	102	-	-	102	-	-
Available-for-sale financial assets	2,276,493	53,184	2,223,309	100,425	143,970	538,822	818,030	622,062
Derivatives - hedge accounting	1,188	1,188	-	-	-	-	-	-
Loans and advances								
- debt securities	82,133	-	82,133	-	-	1,896	-	80,237
- loans and advances to banks	510,107	18	510,089	176,384	28,839	304,676	190	-
- loans and advances to customers	6,912,333	49,484	6,862,849	1,657,695	1,188,308	2,473,342	1,072,627	470,877
- other financial assets	66,077	66,077	-	-	-	-	-	-
Held-to-maturity financial assets	609,712	-	609,712	38,070	40,228	6,874	260,537	264,003
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	719	-	-	-	-	-	-
Total financial assets	**11,792,435**	**720,010**	**11,072,425**	**2,697,641**	**1,456,405**	**3,325,717**	**2,153,822**	**1,438,840**
Financial liabilities								
Trading liabilities	9,502	9,502	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	635	635	-	-	-	-	-	-
Derivatives - hedge accounting	25,529	25,529	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	40,602	5,788	34,814	34,573	-	-	241	-
- borrowings from banks and central banks	279,616	-	279,616	4,681	78,127	177,165	19,459	184
- due to customers	9,878,378	58,429	9,819,949	7,777,903	489,698	1,140,149	407,809	4,390
- borrowings from other customers	74,286	-	74,286	850	2,685	9,069	36,099	25,583
- subordinated liabilities	27,350	-	27,350	326	12,054	14,970	-	-
- other financial liabilities	111,019	111,019	-	-	-	-	-	-
Total financial liabilities	**10,446,917**	**210,902**	**10,236,015**	**7,818,333**	**582,564**	**1,341,353**	**463,608**	**30,157**
Total interest repricing gap				**(5,120,692)**	**873,841**	**1,984,364**	**1,690,214**	**1,408,683**

in EUR thousand

31.12.2016	NLB Group Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	1,299,014	450,644	848,370	848,370	-	-	-	-
Trading assets	87,699	18,942	68,757	284	49,085	9,168	10,220	-
Financial assets designated at fair value through profit or loss	6,694	5,960	734	-	-	-	734	-
Available-for-sale financial assets	2,072,153	73,620	1,998,533	110,145	267,093	494,924	759,436	366,935
Derivatives - hedge accounting	217	217	-	-	-	-	-	-
Loans and advances								
- debt securities	85,315	-	85,315	-	-	1,891	-	83,424
- loans and advances to banks	435,537	7	435,530	114,962	42,138	276,794	1,636	-
- loans and advances to customers	6,912,067	54,612	6,857,455	1,816,432	1,387,083	2,524,693	840,204	289,043
- other financial assets	61,014	61,014	-	-	-	-	-	-
Held-to-maturity financial assets	611,449	-	611,449	37,691	63,047	16,866	264,360	229,485
Fair value changes of the hedged items in portfolio hedge of interest rate risk	678	678	-	-	-	-	-	-
Total financial assets	**11,571,837**	**665,694**	**10,906,143**	**2,927,884**	**1,808,446**	**3,324,336**	**1,876,590**	**968,887**
Financial liabilities								
Trading liabilities	18,791	18,791	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	2,011	2,011	-	-	-	-	-	-
Derivatives - hedge accounting	29,024	29,024	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	42,334	332	42,002	41,439	563	-	-	-
- borrowings from banks and central banks	371,769	-	371,769	6,779	134,777	203,215	26,381	617
- due to customers	9,437,147	61,672	9,375,475	7,035,752	572,913	1,342,213	417,065	7,532
- borrowings from other customers	83,619	-	83,619	1,298	8,769	26,878	40,966	5,708
- debt securities in issue	277,726	-	277,726	-	-	277,726	-	-
- subordinated liabilities	27,145	-	27,145	200	11,938	15,007	-	-
- other financial liabilities	110,295	110,295	-	-	-	-	-	-
Total financial liabilities	**10,399,861**	**222,125**	**10,177,736**	**7,085,468**	**728,960**	**1,865,039**	**484,412**	**13,857**
Total interest repricing gap				**(4,157,584)**	**1,079,486**	**1,459,297**	**1,392,178**	**955,030**

in EUR thousand

31.12.2017	NLB Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	570,010	143,725	426,285	426,285	-	-	-	-
Trading assets	72,180	13,016	59,164	-	55,060	5	2,438	1,661
Financial assets designated at fair value through profit or loss	634	634	-	-	-	-	-	-
Available-for-sale financial assets	1,777,762	46,848	1,730,914	18,190	50,856	384,130	663,277	614,461
Derivatives - hedge accounting	1,188	1,188	-	-	-	-	-	-
Loans and advances								
- debt securities	82,133	-	82,133	-	-	1,896	-	80,237
- loans and advances to banks	462,322	9	462,313	105,616	23,889	325,375	7,433	-
- loans and advances to customers	4,587,477	44,318	4,543,159	1,354,311	1,019,785	1,615,885	309,278	243,900
- other financial assets	38,389	38,389	-	-	-	-	-	-
Held-to-maturity financial assets	609,712	-	609,712	38,070	40,228	6,874	260,537	264,003
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	719	-	-	-	-	-	-
Total financial assets	**8,202,526**	**288,846**	**7,913,680**	**1,942,472**	**1,189,818**	**2,334,165**	**1,242,963**	**1,204,262**
Financial liabilities								
Trading liabilities	9,398	9,398	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	635	635	-	-	-	-	-	-
Derivatives - hedge accounting	25,529	25,529	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	72,072	-	72,072	72,072				
- borrowings from banks and central banks	260,747	-	260,747	85	77,786	170,702	12,174	-
- due to customers	6,810,967	-	6,810,967	5,866,793	348,703	514,937	78,363	2,171
- borrowings from other customers	5,726	-	5,726	-	-	2	5,716	8
- other financial liabilities	71,534	71,534	-	-	-	-	-	-
Total financial liabilities	**7,256,608**	**107,096**	**7,149,512**	**5,938,950**	**426,489**	**685,641**	**96,253**	**2,179**
Total interest repricing gap				**(3,996,478)**	**763,329**	**1,648,524**	**1,146,710**	**1,202,083**

in EUR thousand

	NLB							
31.12.2016	**Total**	**Non-interest bearing**	**Interest bearing**	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	617,039	128,519	488,520	488,520	-	-	-	-
Trading assets	87,693	18,936	68,757	284	49,085	9,168	10,220	-
Financial assets designated at fair value through profit or loss	2,011	2,011	-	-	-	-	-	-
Available-for-sale financial assets	1,594,094	67,307	1,526,787	27,709	195,730	371,601	569,219	362,528
Derivatives - hedge accounting	217	217	-	-	-	-	-	-
Loans and advances								
- debt securities	85,315	-	85,315	-	-	1,891	-	83,424
- loans and advances to banks	408,056	7	408,049	77,061	28,596	302,392	-	-
- loans and advances to customers	4,843,594	43,021	4,800,573	1,422,972	1,316,675	1,682,375	227,870	150,681
- other financial assets	36,151	36,151	-	-	-	-	-	-
Held-to-maturity financial assets	611,449	-	611,449	37,691	63,047	16,866	264,360	229,485
Fair value changes of the hedged items in portfolio hedge of interest rate risk	678	678	-	-	-	-	-	-
Total financial assets	**8,286,297**	**296,847**	**7,989,450**	**2,054,237**	**1,653,133**	**2,384,293**	**1,071,669**	**826,118**
Financial liabilities								
Trading liabilities	18,787	18,787	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	2,011	2,011	-	-	-	-	-	-
Derivatives - hedge accounting	29,024	29,024	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	74,977	-	74,977	74,977	-	-	-	-
- borrowings from banks and central banks	338,467	-	338,467	4,708	133,117	186,846	13,796	-
- due to customers	6,615,390	-	6,615,390	5,281,645	408,851	744,327	174,193	6,374
- borrowings from other customers	4,274	-	4,274	-	-	-	4,265	9
- debt securities in issue	277,726	-	277,726	-	-	277,726	-	-
- other financial liabilities	68,784	68,784	-	-	-	-	-	-
Total financial liabilities	**7,429,440**	**118,606**	**7,310,834**	**5,361,330**	**541,968**	**1,208,899**	**192,254**	**6,383**
Total interest repricing gap				**(3,307,093)**	**1,111,165**	**1,175,394**	**879,415**	**819,735**

b) Net interest income sensitivity analysis and an economic view of interest rate risk in the banking book

The analysis of interest income sensitivity assumes a move in interest rates by 50 basis points in the one year period. The analysis is based on the assumption that the positions used remain unchanged, and that the yield curve shift is parallel. The assessment of the impact of a change in interest rates of 50 basis points on the amount of net interest income of the banking book position:

in EUR thousand

	NLB Group			NLB		
2017	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**
Interest income sensitivity						
EUR	11,682	9,027	14,764	10,729	7,867	13,486
USD	464	378	544	308	234	380
CHF	171	134	226	174	134	227
OTHER	1,293	953	1,641	33	24	41

in EUR thousand

	NLB Group			NLB		
2016	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**
Interest income sensitivity						
EUR	12,009	11,154	13,121	12,025	11,155	12,699
USD	417	319	507	311	182	407
CHF	161	78	247	166	83	248
OTHER	1,238	1,058	1,390	45	31	50

The values in the table are calculated on the basis of monthly calculations of short-term interest rate gaps, where the applied parallel shift of the yield curve by 50 basis points represents a realistic and practical scenario. The "average" value represents the arithmetic mean of monthly calculations, while the "maximum" and "minimum" values represent the highest and lowest values calculated during the period. In 2017 (as of 31th July 2017), the Bank has changed the methodological approach of calculating the sensitivity of net interest income, which is implemented in new technological support.

The BPV (Basis Point Value) method is a measure of sensitivity of financial instruments to market interest rates, i.e. changes of the required return. The BPV method is used to assess the change in the value of a position in case market interest rates change by +/- 200 basis points. In this method, a parallel shift of the yield curve is assumed. The basis point value is the measurement of the change in the market value of a position in the case of an assumed change in market interest rates by a certain number of basis points, which is expressed in monetary units. NLB weekly calculates the absolute value of potential negative economic effects that would result from a parallel shift in interest rates by 200 bp.

The assessment of the impact of a change in interest rates of 200 basis points on the economic value of the banking book position:

in EUR thousand

2017	NLB Group Average (assessment)	NLB Group Minimum (assessment)	NLB Group Maximum (assessment)	NLB Average (assessment)	NLB Minimum (assessment)	NLB Maximum (assessment)
Interest risk in banking book - BPV	210,157	193,355	225,787	159,149	149,053	172,964
Interest risk in banking book - BPV, as % of equity	15.82%	14.47%	16.94%	14.00%	13.05%	15.14%

in EUR thousand

2016	NLB Group Average (assessment)	NLB Group Minimum (assessment)	NLB Group Maximum (assessment)	NLB Average (assessment)	NLB Minimum (assessment)	NLB Maximum (assessment)
Interest risk in banking book - BPV	162,224	145,727	198,017	120,515	105,469	153,501
Interest risk in banking book - BPV, as % of equity	12.59%	11.36%	14.82%	10.60%	9.29%	13.48%

The values in the table have been calculated on the basis of weekly calculations of interest rate gaps for NLB and monthly on the Group level. The applied parallel shift of the yield curve is by 200 basis points. The "average" value represents the arithmetic mean while the "maximum" and "minimum" values represent the highest and lowest values calculated during the period. The calculation does not take the allocation of the core part of non-maturing deposits into account or other behavioural assumptions.

Exposure to interest rate risk of the banking book mainly arises from investments in long-term debt securities and loans with fixed interest rate, as well as from transformation of term to sight deposits. Long-term interest positions of other members in NLB Group, of which present a majority of their exposure to interest-rate risk (an economic point of view), mainly arise from a portfolio of mortgage loans with a fixed interest rate.

6.2.4. Risk of changes in prices in the portfolio of equity securities in the banking book

NLB Group's financial instruments trading strategy includes guidelines for the effective management of risks associated with equity investments. Trading with equity securities is not permitted in subsidiaries. Only stockbrokerage services are provided.

In terms of equity security investments, NLB has adopted policies for managing these investments that were approved by the Management and the Supervisory Board. The policies relate to the investment structure of the portfolio, its diversification, and the monitoring and measurement of risks. In addition to a standardised methodology, NLB also uses an internal model which has been adapted in accordance with the requirements of the Basel standards for monitoring and measuring risks related to the equity portfolio.

The carrying value of the equities portfolio in the banking book of NLB Group and NLB is represented in note 5.4.

6.3. Liquidity risk

Liquidity risk is the risk that NLB Group is unable to meet all of its actual and potential payments or collateral posting obligations, as well as the risk that NLB Group is unable to fund the growth of assets at reasonable prices, or only at excessive cost.

There are two types of risk:

- Funding liquidity risk is the risk of not being able to accommodate both expected and unexpected current and future cash outflows and collateral needs because insufficient cash is available. Eventually, this will affect the Group's daily operations or its financial conditions.
- Market Liquidity risk is a risk that the Group cannot sell an asset on time at a reasonable price due to insufficient market depth (insufficient supply and demand) or market disruptions. Market risk includes the sensitivity in liquidity value of a portfolio due to changes in the applicable haircuts and market value. It also concerns uncertainty about the time required to realise the liquidity value of the assets.

Liquidity risk is defined as an important risk type at NLB Group, which has to be managed carefully. NLB Group has a liquidity risk management framework in place that enables maintaining a low risk tolerance for liquidity risk. NLB Group formulated a set of liquidity risk metrics and limits to manage liquidity position within the requirements set by the regulator. By maintaining a smooth long-term maturity profile, limiting dependence on wholesale funding and holding a solid liquidity buffer, the NLB Group maintains a sound and robust liquidity position, even under severely adverse conditions.

The Management Board approves the Liquidity Risk Management Policy, which outlines the key principles for the bank's liquidity management. ALCO receives a regular report on the liquidity positon and the performance against approved limits and targets. ALCO oversees the development of the bank's funding and liquidity positon and decides on liquidity risk-related issues in NLB Group.

Risk tolerance for liquidity risk is low, therefore NLB Group maintains an adequate level of liquidity to provide sufficient funds for settling its liabilities at all times, even if a specific stress scenario is realised. NLB Group measures and manages its liquidity in three stages:

- Current exposure and compliance with the limits,
- Forward-looking and stress testing,
- Liquidity in exceptional circumstances.

The objectives of monitoring and managing liquidity risk in NLB Group are as follows:

- ensuring a sufficient level of liquid assets;
- minimising the costs of maintaining liquidity;
- optimising the amount of liquidity reserves;
- ensuring an appropriate level of liquidity for different situations and stress scenarios; and
- anticipating emergencies or crisis conditions, and implementing contingency plans in the event of extraordinary circumstances;
- preparing dynamic projections of liquidity taking several cash-flow scenarios of the bank into account;
- preparing proposals for establishing additional financial assets as collateral for sources of funding

Overall assessment of the liquidity position of NLB Group is assessed in the Internal Liquidity Adequacy Assessment Process (ILAAP) at least once per year for NLB Group, and it includes a clear formal statement on liquidity adequacy, supported by an analysis of ILAAP outcomes. NLB Group maintains a sufficient amount of liquidity reserves in the form of high credit quality debt securities that are eligible for refinancing via the ECB/central bank or on the market. In the current situation, NLB Group also strives to follow as closely as possible the long-term trend of diversification on both the liability and asset sides of the balance sheet. NLB Group regularly performs stress tests with the aim of testing the liquidity stability and the availability of liquidity reserves in various stress situations. In addition, special attention is given to the fulfilment of the liquidity regulation (CRR/CRD), with monitoring and reporting of the liquidity coverage ratio (LCR) according to the Delegated Act and net stable funding ratio (NSFR). This also includes monitoring and reporting of Additional Liquidity Monitoring Metrics (ALMM) on solo and consolidated levels. In accordance with the Commission Implementing Regulation (EU), NLB Group regularly monitors and issues quarterly reports on asset encumbrance.

The Group prepares regularly static liquidity mismatch table by residual maturity and dynamic liquidity projections taking several cash-flow scenarios into account to ensure monitoring over the liquidity position of each NLB Group member.

The Group manages its liquidity position (liquidity within one day) daily, for a period of several days or weeks in advance, based on the planning and monitoring of cash flows. Liquidity management on the operational level is decentralized in NLB Group. Each NLB Group member is responsible for its own liquidity position and carries out the following activities:

- managing intraday liquidity;
- planning and monitoring cash flows;
- monitoring and complying with the liquidity regulations of the central bank;
- adopting business decisions;
- forming and managing liquidity reserves; and
- performing liquidity stress test to define the liquidity buffer for smooth functioning of the payment system in stressed circumstances.

NLB Group members actively manage liquidity over the course of a day, taking into account the characteristics of payment settlements to ensure the timely settlement of liabilities in normal and stressed circumstances.

The Group members have defined a liquidity management plan for exceptional circumstances that lays down guidelines and a plan of activities for recognising problems, searching for solutions, and handling exceptional circumstances. It also provides for the establishment of a system of liquidity management that ensures the maintenance of NLB Group's liquidity and protects the commercial interests of its customers and shareholders.

Liquidity risk management in NLB Group is decentralised under strict monitoring by NLB as a parent bank. Reporting to NLB by all group members is done on a daily basis. Global Risk gives guidelines and defines minimal standards for group members regarding liquidity risk management in NLB Group Risk Management Standards. Decentralized liquidity management means that each group member is responsible for ensuring adequate liquidity via the necessary sources of funding and their appropriate diversification and maturity, and by managing liquidity reserves and fulfilling the requirements of regulations governing liquidity. The exposure of an individual NLB Group member towards liquidity risk is regularly monitored and reported to ALCO and to local Assets and Liabilities Committees.

a) Managing NLB Group's liquidity reserves

NLB Group has liquidity reserves available to cover liabilities that fall or may become due. Liquidity reserves must become available on short notice. Liquidity reserves comprise cash, the settlement account at the central bank, sight deposits and short-term deposits at banks, debt securities and loans eligible as collateral for Eurosystem's liquidity providing operations, on the basis of which the Bank may generate the requisite liquidity at any time. Available liquidity reserves are liquidity reserves decreased by the reserve requirement, required balances for the continuous performance of payment transactions, encumbered securities, and/or credit claims for different purposes (secured funding).

The minimum and optimum amount of liquidity reserves is determined on the basis of the methodology pertaining to liquidity risk stress tests. The amount represents the survival of a severe stress over a period of three months in a combined stress scenario.

The structure of liquidity reserves is shown in the following table.

Liquid assets

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Liquid assets				
Cash, cash balances at central banks, and other demand deposits at banks	1,256,481	1,299,014	570,010	617,039
Placements with banks	506,322	433,883	437,427	387,599
Trading book securities	59,164	68,757	59,164	68,757
Banking book securities	2,915,154	2,695,297	2,422,759	2,223,551
ECB eligible loans	717,503	849,080	717,503	849,080
Total liquid assets	**5,454,624**	**5,346,031**	**4,206,863**	**4,146,026**

As at 31.12.2017, 74.6% (31.12.2016: 75.8%) of debt securities in the banking book of NLB Group were government securities (including government guaranteed bonds – GGB), and 18.0% (31.12.2016: 20.8%) were senior unsecured bonds.

The purpose of banking book securities is to provide liquidity, along with stabilisation of the interest margin and interest rate risk management simultaneously. When managing the portfolio, NLB Group uses conservative principles, particularly with respect to the portfolio's structure in terms of issuers' ratings and asset class. The framework for managing the banking book securities are the Policy for managing debt securities in the Financial markets' banking book and the Policy for Managing Domestic (Slovene) Corporate Debt Securities in Large Corporates, which clearly define the objectives and characteristics of the associated portfolio.

The ECB-eligible credit claims comprise loans which fulfil the high eligibility criteria set by the ECB itself and for domestic loans are specified in the general terms about execution of monetary policy framework (Part 4) adopted by the Bank of Slovenia. NLB is the only member of NLB Group that complies with the conditions set by the Eurosystem to classify as an eligible counterparty. This is why these ECB credit claims are included among liquidity reserves.

Members of NLB Group manage their liquid assets on a decentralised basis in compliance with the local liquidity regulation and valid policies of NLB Group.

b) Encumbered assets

in EUR thousand

2017	NLB Group				NLB			
	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities
Loans on demand	-	-	986,785	-	-	-	426,284	-
Equity instruments	-	-	58,085	58,085	-	-	47,482	47,482
Debt securities	63,341	69,441	2,911,079	2,951,137	62,625	68,725	2,419,298	2,459,356
Loans and advances other than loans on demand	58,763	-	7,429,754	-	53,964	-	5,034,224	-
Other assets	-	-	729,938	-	-	-	668,955	-
Total	**122,104**		**12,115,641**		**116,589**		**8,596,243**	

in EUR thousand

2016	NLB Group				NLB			
	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities
Loans on demand	-	-	1,038,402	-	-	-	488,520	-
Equity instruments	-	-	79,580	79,580	-	-	69,318	69,318
Debt securities	94,340	102,049	2,670,448	2,716,271	94,340	102,049	2,197,968	2,243,792
Loans and advances other than loans on demand	44,557	-	7,364,061	-	37,987	-	5,249,814	-
Other assets	-	-	747,623	-	-	-	640,019	-
Total	**138,897**		**11,900,114**		**132,327**		**8,645,639**	

c) Collateral received - unencumbered

The nominal amount of collateral received or own debt securities issued not available for encumbrance is shown in the table below:

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Equity instruments	193,439	174,680	180,034	161,636
Loans and advances other than loans on demand	118,179	127,851	29,024	39,846
Other assets	7,415,905	7,380,987	3,763,844	3,755,558
Total	**7,727,523**	**7,683,518**	**3,972,902**	**3,957,040**

d) Source of encumbrance

in EUR thousand

	NLB Group				NLB			
	2017		2016		2017		2016	
	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral
Derivatives	33,529	53,964	35,755	37,987	33,529	53,964	35,755	37,987
Deposits and loans	5,277,263	63,341	5,099,974	94,340	5,276,547	62,625	5,099,974	94,340
Other securities of encumbrance	4,570	4,799	6,570	6,570	-	-	-	-
Total	**5,315,362**	**122,104**	**5,142,299**	**138,897**	**5,310,076**	**116,589**	**5,135,729**	**132,327**

As at 31.12.2017, NLB Group and NLB had a large share of unencumbered assets. On the NLB Group level the amount of encumbered assets equalled EUR 122.1 million, relating to the deposit guarantee scheme and to secure funding received from international financial organisations.

e) Non-derivative cash flows

The tables below illustrate the cash flows from non-derivative financial instruments by residual maturities at the end of the year. The amounts disclosed in the table are the undiscounted contractual cash flows determined on the basis of spot rates at the end of the reporting period.

in EUR thousand

	NLB Group					
31.12.2017	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Financial liabilities and credit-related commitments						
Financial liabilities designated at fair value through profit or loss	-	-	635	-	-	635
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	40,270	-	91	241	-	40,602
- borrowings from banks and central banks	1,713	1,054	24,459	84,451	172,238	283,915
- due to customers	7,731,796	410,400	1,083,863	633,462	60,026	9,919,547
- borrowings from other customers	968	3,207	9,413	42,712	24,499	80,799
- subordinated liabilities	-	470	13,331	7,951	11,511	33,263
- other financial liabilities	96,322	4,367	10,330	-	-	111,019
Credit risk related commitments	559,723	169,374	398,157	224,571	111,659	1,463,484
Non-financial guarantees	33,400	36,611	108,823	174,670	73,525	427,029
Total	**8,464,192**	**625,483**	**1,649,102**	**1,168,058**	**453,458**	**12,360,293**
Total financial assets	**2,369,713**	**623,597**	**2,198,452**	**4,662,531**	**3,158,566**	**13,012,859**

in EUR thousand

	NLB Group					
31.12.2016	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Financial liabilities and credit-related commitments						
Financial liabilities designated at fair value through profit or loss	-	-	1,457	554	-	2,011
Financial liabilities measured at amortised cost						-
- deposits from banks and central banks	41,947	167	-	222	-	42,336
- borrowings from banks and central banks	4,984	7,015	172,540	137,280	56,492	378,311
- due to customers	6,912,469	461,621	1,349,330	704,753	59,223	9,487,396
- borrowings from other customers	1,343	3,276	10,960	45,228	30,170	90,977
- debt securities in issue	-	-	282,348	-	-	282,348
- subordinated liabilities	-	532	2,193	23,569	12,013	38,307
- other financial liabilities	98,829	3,522	7,668	276	-	110,295
Credit risk related commitments	511,700	185,749	402,635	242,572	91,378	1,434,034
Non-financial guarantees	17,217	38,617	103,531	191,815	65,970	417,150
Total	**7,588,489**	**700,499**	**2,332,662**	**1,346,269**	**315,246**	**12,283,165**
Total financial assets	**2,422,252**	**744,482**	**2,308,621**	**4,488,567**	**2,782,468**	**12,746,390**

in EUR thousand

	NLB					
31.12.2017	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Financial liabilities and credit-related commitments						
Financial liabilities designated at fair value through profit or loss	-	-	635	-	-	635
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	72,072	-	-	-	-	72,072
- borrowings from banks and central banks	85	700	18,127	73,935	171,768	264,615
- due to customers	5,798,144	256,865	570,680	137,951	53,610	6,817,250
- borrowings from other customers	-	-	2	5,716	8	5,726
- other financial liabilities	67,530	3,703	301	-	-	71,534
Credit risk related commitments	470,604	151,287	266,874	140,326	48,615	1,077,706
Non-financial guarantees	27,411	29,058	83,344	155,612	44,244	339,669
Total	**6,435,846**	**441,613**	**939,963**	**513,540**	**318,245**	**8,649,207**
Total financial assets	**1,147,586**	**385,419**	**1,445,862**	**3,269,949**	**2,656,192**	**8,905,008**

in EUR thousand

	NLB					
31.12.2016	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Financial liabilities and credit-related commitments						
Financial liabilities designated at fair value through profit or loss	-	-	1,457	554	-	2,011
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	74,977	-	-	-	-	74,977
- borrowings from banks and central banks	3,173	5,211	161,423	118,333	55,868	344,008
- due to customers	5,205,105	314,863	780,567	270,662	55,392	6,626,589
- borrowings from other customers	-	-	-	4,265	9	4,274
- debt securities in issue	-	-	282,348	-	-	282,348
- other financial liabilities	65,854	2,930	-	-	-	68,784
Credit risk related commitments	437,335	165,656	274,160	166,079	31,489	1,074,719
Non-financial guarantees	14,225	32,702	83,194	171,579	43,740	345,440
Total	**5,800,669**	**521,362**	**1,583,149**	**731,472**	**186,498**	**8,823,150**
Total financial assets	**1,250,372**	**534,380**	**1,614,007**	**3,317,296**	**2,248,475**	**8,964,530**

When determining the gap between the financial liabilities and financial assets in the maturity bucket of up to one month, it is necessary to be aware of the fact that financial liabilities include total demand deposits, and that NLB may apply a stability weight of 60% to demand deposits when ensuring compliance with the central bank's regulations concerning calculation of the liquidity position. To ensure NLB Group's and NLB's liquidity, and based on its approach to risk, in previous years NLB Group compiled a substantial amount of high-quality liquid investments, mostly government securities and selected loans, which are accepted as adequate financial assets by the ECB.

Liabilities and credit-related commitments are included in maturity buckets based on their residual contractual maturity.

f) An analysis of the statement of financial position by residual maturity

in EUR thousand

	NLB Group					
31.12.2017	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	1,256,481	-	-	-	-	1,256,481
Trading assets	13,025	55,060	5	2,438	1,661	72,189
Financial assets designated at fair value through profit or loss	-	102	-	-	4,901	5,003
Available-for-sale financial assets	209,496	122,418	471,898	804,389	668,292	2,276,493
Derivatives - hedge accounting	1,188	-	-	-	-	1,188
Loans and advances						
- debt securities	-	-	1,896	-	80,237	82,133
- loans and advances to banks	176,371	28,837	304,431	468	-	510,107
- loans and advances to customers	600,801	338,179	1,226,362	2,967,158	1,779,833	6,912,333
- other financial assets	64,608	91	1,160	218	-	66,077
Held-to-maturity financial assets	4,512	40,233	18,024	282,908	264,035	609,712
Fair value changes of hedged in portfolio hedge of interest rate risk	98	-	-	352	269	719
Non-current assets and disposal group classified as held for sale	-	-	11,631	-	-	11,631
Property and equipment	-	-	-	17,708	170,647	188,355
Investment property	-	-	-	45,300	6,538	51,838
Intangible assets	-	-	-	14,036	20,938	34,974
Investments in associates, and joint ventures	-	-	-	-	43,765	43,765
Current income tax assets	-	-	2,795	-	-	2,795
Deferred income tax assets	-	-	-	18,389	214	18,603
Other assets	5,862	1,128	32,988	53,221	150	93,349
Total assets	**2,332,442**	**586,048**	**2,071,190**	**4,206,585**	**3,041,480**	**12,237,745**
Trading liabilities	9,502	-	-	-	-	9,502
Financial liabilities designated at fair value through profit or loss	-	-	635	-	-	635
Derivatives - hedge accounting	25,529	-	-	-	-	25,529
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	40,270	-	91	241	-	40,602
- borrowings from banks and central banks	1,655	1,012	23,474	82,015	171,460	279,616
- due to customers	7,729,809	406,897	1,069,764	613,155	58,753	9,878,378
- borrowings from other customers	863	2,917	8,395	39,665	22,446	74,286
- subordinated liabilities	-	167	12,213	5,000	9,970	27,350
- other financial liabilities	96,322	4,367	10,330	-	-	111,019
Liabilities of disposal group classified as held for sale	-	-	440	-	-	440
Provisions	1,104	561	36,437	49,994	543	88,639
Current income tax liabilities	1,062	564	1,268	-	-	2,894
Deferred income tax liabilities	670	-	111	198	117	1,096
Other liabilities	5,728	173	2,817	878	-	9,596
Total liabilities	**7,912,514**	**416,658**	**1,165,975**	**791,146**	**263,289**	**10,549,582**
Credit risk related commitments	559,723	169,374	398,157	224,571	111,659	1,463,484
Non-financial guarantees	33,400	36,611	108,823	174,670	73,525	427,029
Total liabilities and credit-related commitments	**8,505,637**	**622,643**	**1,672,955**	**1,190,387**	**448,473**	**12,440,095**

in EUR thousand

	NLB Group					
31.12.2016	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	1,299,014	-	-	-	-	1,299,014
Trading assets	19,226	49,085	9,168	10,220	-	87,699
Financial assets designated at fair value through profit or loss	3,949	-	-	734	2,011	6,694
Available-for-sale financial assets	200,080	243,215	454,698	735,882	438,278	2,072,153
Derivatives - hedge accounting	217	-	-	-	-	217
Loans and advances						
- debt securities	-	-	1,891	-	83,424	85,315
- loans and advances to banks	115,030	42,157	276,758	1,592	-	435,537
- loans and advances to customers	682,223	301,455	1,372,325	2,858,422	1,697,642	6,912,067
- other financial assets	58,801	281	1,460	472	-	61,014
Held-to-maturity financial assets	4,471	63,056	17,200	297,206	229,516	611,449
Fair value changes of hedged in portfolio hedge of interest rate risk	164	-	-	180	334	678
Non-current assets and disposal group classified as held for sale	-	-	4,263	-	-	4,263
Property and equipment	-	-	-	23,368	173,481	196,849
Investment property	-	-	-	43,999	39,664	83,663
Intangible assets	-	-	-	10,818	23,152	33,970
Investments in associates, and joint ventures	-	-	240	-	43,008	43,248
Current income tax assets	490	244	2,124	30	-	2,888
Deferred income tax assets	-	-	-	7,553	182	7,735
Other assets	40,419	655	23,257	27,314	2,913	94,558
Total assets	**2,424,084**	**700,148**	**2,163,384**	**4,017,790**	**2,733,605**	**12,039,011**
Trading liabilities	18,791	-	-	-	-	18,791
Financial liabilities designated at fair value through profit or loss			1,457	554		2,011
Derivatives - hedge accounting	29,024	-	-	-	-	29,024
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	41,947	165	-	222	-	42,334
- borrowings from banks and central banks	4,855	6,920	171,008	133,715	55,271	371,769
- due to customers	6,909,677	456,725	1,331,996	681,072	57,677	9,437,147
- borrowings from other customers	1,298	2,987	9,868	41,616	27,850	83,619
- debt securities in issue	-	-	277,726	-	-	277,726
- subordinated liabilities	-	166	177	16,938	9,864	27,145
- other financial liabilities	98,829	3,522	7,668	276	-	110,295
Provisions	912	827	35,886	62,474	815	100,914
Current income tax liabilities	1,522	284	1,340	-	-	3,146
Deferred income tax liabilities	-	-	-	614	113	727
Other liabilities	6,975	152	1,093	483	-	8,703
Total liabilities	**7,113,830**	**471,748**	**1,838,219**	**937,964**	**151,590**	**10,513,351**
Credit risk related commitments	511,700	185,749	402,635	242,572	91,379	1,434,035
Non-financial guarantees	17,217	38,617	103,531	191,815	65,969	417,149
Total liabilities and credit-related commitments	**7,642,747**	**696,114**	**2,344,385**	**1,372,351**	**308,938**	**12,364,535**

in EUR thousand

	NLB					
31.12.2017	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	570,010	-	-	-	-	570,010
Trading assets	13,016	55,060	5	2,438	1,661	72,180
Financial assets designated at fair value through profit or loss	-	-	-	-	634	634
Available-for-sale financial assets	18,190	50,856	384,130	663,277	661,309	1,777,762
Derivatives - hedge accounting	1,188	-	-	-	-	1,188
Loans and advances						
- debt securities	-	-	1,896	-	80,237	82,133
- loans and advances to banks	105,585	23,902	314,626	7,257	10,952	462,322
- loans and advances to customers	404,586	199,815	638,382	1,947,576	1,397,118	4,587,477
- other financial assets	37,639	91	509	150	-	38,389
Held-to-maturity financial assets	4,512	40,233	18,024	282,908	264,035	609,712
Fair value changes of hedged in portfolio hedge of interest rate risk	98	-	-	352	269	719
Non-current assets and disposal group classified as held for sale	-	-	2,564	-	-	2,564
Property and equipment	-	-	-	12,453	74,598	87,051
Investment property	-	-	-	9,257	-	9,257
Intangible assets	-	-	-	13,225	10,686	23,911
Investments in subsidiaries, associates and joint ventures	-	-	-	31,532	325,345	356,877
Current income tax assets	-	-	2,196	-	-	2,196
Deferred income tax assets	-	-	-	19,758	-	19,758
Other assets	3,547	-	5,145	-	-	8,692
Total assets	**1,158,371**	**369,957**	**1,367,477**	**2,990,183**	**2,826,844**	**8,712,832**
Trading liabilities	9,398	-	-	-	-	9,398
Financial liabilities designated at fair value through profit or loss	-	-	635	-	-	635
Derivatives - hedge accounting	25,529	-	-	-	-	25,529
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	72,072	-	-	-	-	72,072
- borrowings from banks and central banks	85	666	17,312	71,687	170,997	260,747
- due to customers	5,797,927	256,230	568,109	136,144	52,557	6,810,967
- borrowings from other customers	-	-	2	5,716	8	5,726
- other financial liabilities	67,530	3,703	301	-	-	71,534
Provisions	358	437	25,024	44,998	-	70,817
Other liabilities	3,072	10	221	878	-	4,181
Total liabilities	**5,975,971**	**261,046**	**611,604**	**259,423**	**223,562**	**7,331,606**
Credit risk related commitments	470,604	151,287	266,874	140,326	48,615	1,077,706
Non-financial guarantees	27,411	29,058	83,344	155,612	44,244	339,669
Total liabilities and credit-related commitments	**6,473,986**	**441,391**	**961,822**	**555,361**	**316,421**	**8,748,981**

in EUR thousand

	NLB					
31.12.2016	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	617,039	-	-	-	-	617,039
Trading assets	19,220	49,085	9,168	10,220	-	87,693
Financial assets designated at fair value through profit or loss	-	-	-	-	2,011	2,011
Available-for-sale financial assets	27,709	195,730	371,601	569,219	429,835	1,594,094
Derivatives - hedge accounting	217	-	-	-	-	217
Loans and advances						
- debt securities	-	-	1,891	-	83,424	85,315
- loans and advances to banks	76,786	28,708	289,795	1,816	10,951	408,056
- loans and advances to customers	481,337	177,014	832,452	2,080,704	1,272,087	4,843,594
- other financial assets	35,400	29	492	230	-	36,151
Held-to-maturity financial assets	4,471	63,056	17,200	297,206	229,516	611,449
Fair value changes of hedged in portfolio hedge of interest rate risk	164	-	-	180	334	678
Non-current assets and disposal group classified as held for sale	-	-	1,788	-	-	1,788
Property and equipment	-	-	-	16,588	73,908	90,496
Investment property	-	-	-	8,151	-	8,151
Intangible assets	-	-	-	9,883	13,462	23,345
Investments in subsidiaries, associates and joint ventures	-	-	79	38,361	308,284	346,724
Current income tax assets	-	-	2,124	-	-	2,124
Deferred income tax assets	-	-	-	10,622	-	10,622
Other assets	3,423	-	4,996	-	-	8,419
Total assets	**1,265,766**	**513,622**	**1,531,586**	**3,043,180**	**2,423,812**	**8,777,966**
Trading liabilities	18,787	-	-	-	-	18,787
Financial liabilities designated at fair value through profit or loss	-	-	1,457	554	-	2,011
Derivatives - hedge accounting	29,024	-	-	-	-	29,024
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	74,977	-	-	-	-	74,977
- borrowings from banks and central banks	3,167	5,140	160,295	115,212	54,653	338,467
- due to customers	5,204,618	313,155	776,673	266,779	54,165	6,615,390
- borrowings from other customers	-	-	-	4,265	9	4,274
- debt securities in issue	-	-	277,726	-	-	277,726
- other financial liabilities	65,854	2,930	-	-	-	68,784
Provisions	166	475	25,730	53,175	-	79,546
Other liabilities	3,626	7	70	483	-	4,186
Total liabilities	**5,400,219**	**321,707**	**1,241,951**	**440,468**	**108,827**	**7,513,172**
Credit risk related commitments	437,335	165,656	274,160	166,079	31,489	1,074,719
Non-financial guarantees	14,225	32,702	83,194	171,579	43,740	345,440
Total liabilities and credit-related commitments	**5,851,779**	**520,065**	**1,599,305**	**778,126**	**184,056**	**8,933,331**

g) Derivative cash flows

The table below illustrates cash flows from derivatives, broken down into the relevant maturity buckets based on residual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows prepared on the basis of spot rates on the reporting date.

in EUR thousand

	NLB Group					
31.12.2017	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Foreign exchange derivatives						
- Forwards						
- Outflow	(7,112)	(14,222)	(76,426)	-	-	(97,760)
- Inflow	7,120	14,240	76,483	-	-	97,843
- Swaps						
- Outflow	(83,863)	(57,151)	-	-	-	(141,014)
- Inflow	83,904	57,233	-	-	-	141,137
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,156)	(2,160)	(8,995)	(44,240)	(36,237)	(92,788)
- Inflow	330	1,006	4,341	26,782	39,799	72,258
- Caps and floors						
- Outflow	-	-	-	(277)	-	(277)
- Inflow	-	-	-	277	-	277
Total outflow	**(92,131)**	**(73,533)**	**(85,421)**	**(44,517)**	**(36,237)**	**(331,839)**
Total inflow	**91,354**	**72,479**	**80,824**	**27,059**	**39,799**	**311,515**

in EUR thousand

	NLB Group					
31.12.2016	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Foreign exchange derivatives						
- Forwards						
- Outflow	(118,175)	(11,542)	(70,553)	-	-	(200,270)
- Inflow	118,256	11,541	70,625	-	-	200,422
- Swaps						
- Outflow	(52,543)	(3,205)	(1,329)	-	-	(57,077)
- Inflow	52,656	3,202	1,330	-	-	57,188
- Futures						
- Outflow	(2,386)	-	-	-	-	(2,386)
- Inflow	2,400	-	-	-	-	2,400
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(809)	(1,411)	(9,409)	(29,866)	(18,562)	(60,057)
- Inflow	348	957	6,205	13,729	10,018	31,257
Total outflow	**(173,913)**	**(16,158)**	**(81,291)**	**(29,866)**	**(18,562)**	**(319,790)**
Total inflow	**173,660**	**15,700**	**78,160**	**13,729**	**10,018**	**291,267**

in EUR thousand

	NLB					
31.12.2017	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Foreign exchange derivatives						
- Forwards						
- Outflow	(6,718)	(14,115)	(76,345)	-	-	(97,178)
- Inflow	6,727	14,131	76,399	-	-	97,257
- Swaps						
- Outflow	(83,863)	(57,151)	-	-	-	(141,014)
- Inflow	83,904	57,233	-	-	-	141,137
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,156)	(2,160)	(8,995)	(44,240)	(36,237)	(92,788)
- Inflow	330	1,006	4,341	26,782	39,799	72,258
- Caps and floors						
- Outflow	-	-	-	(277)	-	(277)
- Inflow	-	-	-	277	-	277
Total outflow	**(91,737)**	**(73,426)**	**(85,340)**	**(44,517)**	**(36,237)**	**(331,257)**
Total inflow	**90,961**	**72,370**	**80,740**	**27,059**	**39,799**	**310,929**

in EUR thousand

	NLB					
31.12.2016	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Foreign exchange derivatives						
- Forwards						
- Outflow	(116,500)	(11,542)	(70,553)	-	-	(198,595)
- Inflow	116,581	11,541	70,625	-	-	198,747
- Swaps						
- Outflow	(52,543)	(3,205)	(1,329)	-	-	(57,077)
- Inflow	52,656	3,202	1,330	-	-	57,188
- Futures						
- Outflow	(2,386)	-	-	-	-	(2,386)
- Inflow	2,400	-	-	-	-	2,400
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(809)	(1,411)	(9,409)	(29,866)	(18,562)	(60,057)
- Inflow	349	957	6,205	13,729	10,018	31,258
Total outflow	**(172,238)**	**(16,158)**	**(81,291)**	**(29,866)**	**(18,562)**	**(318,115)**
Total inflow	**171,986**	**15,700**	**78,160**	**13,729**	**10,018**	**289,593**

6.4. Management of non-financial risks

a) Operational risk

When assuming operational risks, NLB Group follows the guideline that such risks may not materially impact its operations and, therefore, the risk appetite for operational risks is low to moderate. Currently, the complexity of NLB Group operations is on a moderate level, although it constantly reduces risk through the divestment of non-core activities. The Group has set up a system of collecting loss events, identification, assessment, and management of operational risks, all with the aim of ensuring quality management of operational risks.

All core members of NLB Group monitor the upper limit of tolerance to operational risk, defined as the limit amount of net loss that an individual member still allows in its operations. If the sum of net loss exceeds the tolerance limit, a special treatment of major loss events is required and, if necessary, takes additional measures for the prevention of the same or similar loss events. The critical limit of loss events is also defined, representing the limit above which the member considers a possible increase in the capital requirement for operational risk within ICAAP and other possible risk management measures. The key risk indicators are regularly monitored (at least quarterly) within NLB Group's Risk Profile. In addition, the Bank has developed a special methodology for monitoring key risk indicators which could indicate increasing of operational risk. The indicators are defined at the level of the Bank.

As the highest authority in the area of operational risk management, NLB appointed an Operational Risk Committee. Relevant operational risk committees were also appointed at other NLB Group banks. The management board serves in this role at other subsidiaries. The main task of the aforementioned bodies is to discuss the most significant operational risks and loss events, and to monitor and support the effective management of operational risks within an individual entity. All NLB Group entities included in the consolidation have adopted relevant documents that are in line with NLB standards. In core members, these documents are in line with the development of operational risk management and regularly updated. The whole NLB Group uses uniform software support, which is also regularly upgraded.

In NLB Group, the reported incurred net loss arising from loss events in 2017 was lower than in the previous year, and represents a relatively small part of the capital requirement for operational risk. In general, considerable attention is paid to reporting loss events and defining operational risks in all segments. To treat major loss events appropriately and as soon as possible, the Bank has introduced an escalation scale for reporting loss events to the top levels of decision-making at NLB and the Supervisory Board of NLB. Additional attention is paid to the reporting of potential loss events in order to improve the internal controls, and thus minimise those and similar events.

Through comprehensive identification of operational risks, possible future losses are identified, estimated, and appropriately managed. The major operational risks are actively managed with the measures taken to reduce them. An operational risk profile is prepared once a year on the basis of the operational risk identification. Special emphasis is put on the most topical risks, among which in particular are those with a low probability of occurrence and very high potential financial influence. For this purpose the Bank has developed the methodology of stress testing for operational risk. The methodology is a combination of modelling loss event data and scenario analysis for exceptional, but plausible events. Scenario analysis are made based on experience and knowledge of experts from various critical areas.

The capital requirement for operational risk is calculated using the basic indicator approach at NLB Group level and using the standardised approach at the NLB level.

b) Business Continuity Management (BCM)

In NLB Group, business continuity management is carried out to protect lives, goods, and reputation. Business continuity plans are prepared to be used in the event of natural disasters, IT disasters, and undesired effects of the environment to mitigate their consequences.

The concept of the action plan that is prepared each year is such that the activities contribute to the upgrading or improvement of the system of business continuity management. The basis for modernising the business continuity plans is the regular annual analysis of the impact on operations (BIA). On its basis, the adequacy of the plans for office buildings and IT plans is checked. The best indicator of the adequacy of the business continuity plans is testing. In 2017, 38 tests were carried out at NLB (32 internal ones and six with external business partners). No major deviations were discovered.

In NLB Group, know-how and methodologies are transferred to the members (except small members). The members have adopted appropriate documents which are in line with the standards of NLB and revised in accordance with the development of business continuity management. The activity of the members is monitored throughout the year, and expert assistance is provided if necessary. For more efficient functioning of the business continuity management system in NLB Group, training courses and visits to individual banking members are also provided. In 2017, NLB thus carried out a training course for members of the Crisis Management Team, the Crisis Teams of office buildings and Head Business Continuity Coordinator of NLB Belgrade. Upon IT disasters/failures and "not IT" disasters (floods, very strong wind) the Bank successfully used the IT plans, instructions for manual procedures, and Office Building Plans, and thus also ensured business operations in emergency situations.

c) Management of other types of non-financial risks – capital risk, strategic risks, reputation risk, and profitability risk

Risks not included in the calculation of capital requirements by the regulatory approach but which are also important for NLB Group are adequately discussed in the context of the internal capital adequacy assessment process (ICAAP). NLB has established the relevant methodologies for identifying and assessing specific types of risk (capital, strategic, reputation, and profitability risk); the methodologies are subject to regular review. The calculation of internal capital requirements for non-financial risks is made quarterly at the NLB Group level. If a certain risk is assessed as a key risk, capital requirements are created. Individual capital requirements for non-financial risks are calculated by certain NLB Group banks in accordance with their national regulations. Significant and material changes in the calculation of capital requirements for individual NLB Group entities could discretionarily result in an increase in relevant capital requirements at NLB Group level.

6.5. Fair value hierarchy of financial and non-financial assets and liabilities

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. NLB Group uses various valuation techniques to determine fair value. IFRS 13 specifies a fair value hierarchy with respect to the inputs and assumptions used to measure financial and non-financial assets and liabilities at fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the assumptions of NLB Group. This hierarchy gives the highest priority to observable market data when available, and the lowest priority to unobservable market data. NLB Group considers relevant and observable market prices in its valuations, where possible. The fair value hierarchy comprises the following levels:

- Level 1 – Quoted prices (unadjusted) on active markets. This level includes listed equities, debt instruments, derivatives, units of investment funds, and other unadjusted market prices of assets and liabilities. When an asset or liability may be exchanged in multiple active markets, the principal market for the asset or liability must be determined. In the absence of a principal market, the most advantageous market for the asset or liability must be determined.
- Level 2 – A valuation technique where inputs are observable, either directly (i.e. prices) or indirectly (i.e. derived from prices). Level 2 includes prices quoted for similar assets or liabilities in active markets and prices quoted for identical or similar assets, and liabilities in markets that are not active. The sources of input parameters for financial instruments, such as yield curves, credit spreads, foreign exchange rates, and the volatility of interest rates and foreign exchange rates, are Reuters and Bloomberg.
- Level 3 – A valuation technique where inputs are not based on observable market data. Unobservable inputs are used to the extent that relevant observable inputs are not available. Unobservable inputs must reflect the assumptions that market participants would use when pricing an asset or liability. This level includes non-tradable shares and bonds, and derivatives associated with these investments and other assets and liabilities for which fair value cannot be determined with observable market inputs.

Wherever possible, fair value is determined as an observable market price in an active market for an identical asset or liability. An active market is a market in which transactions for an asset or liability are executed with sufficient frequency and volume to provide pricing information on an ongoing basis. Assets and liabilities measured at fair value in active markets are determined as the market price of a unit (e.g. share) at the measurement date, multiplied by the quantity of units owned by NLB Group. The fair value of assets and liabilities whose market is not active is determined using valuation techniques. These techniques bear a different intensity level of estimates and assumptions, depending on the availability of observable market inputs associated with the asset or liability that is the subject of the valuation. Unobservable inputs shall reflect the estimates and assumptions that other market participants would use when pricing the asset or liability.

For non-financial assets measured at fair value and not classified at Level 1, fair value is determined based on valuation reports provided by certified valuators. Valuations are prepared in accordance with the International Valuation Standards (IVS).

a) Financial and non-financial assets and liabilities measured at fair value in the financial statements

in EUR thousand

	NLB Group				NLB			
31.12.2017	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets								
Financial instruments held for trading	59,164	12,454	571	72,189	59,164	12,445	571	72,180
Debt instruments	59,164	-	-	59,164	59,164	-	-	59,164
Derivatives	-	12,454	571	13,025	-	12,445	571	13,016
Derivatives - hedge accounting	-	1,188	-	1,188	-	1,188	-	1,188
Financial assets designated at fair value through profit or loss	5,003	-	-	5,003	634	-	-	634
Debt instruments	102	-	-	102	-	-	-	-
Equity instruments	4,901	-	-	4,901	634	-	-	634
Financial assets available-for-sale	1,915,634	355,428	5,431	2,276,493	1,586,927	188,982	1,853	1,777,762
Debt instruments	1,914,963	308,346	-	2,223,309	1,586,447	144,467	-	1,730,914
Equity instruments	671	47,082	5,431	53,184	480	44,515	1,853	46,848
Financial liabilities								
Financial instruments held for trading	-	9,502	-	9,502	-	9,398	-	9,398
Derivatives	-	9,502	-	9,502	-	9,398	-	9,398
Derivatives - hedge accounting	-	25,529	-	25,529	-	25,529	-	25,529
Financial liabilities designated at fair value through profit or loss	-	635	-	635	-	635	-	635
Non-financial assets								
Investment properties	-	51,838	-	51,838	-	9,257	-	9,257
Non-current assets and disposal group classified as held for sale	-	11,631	-	11,631	-	2,564	-	2,564
Non-financial assets impaired during the year								
Recoverable amount of property, plant, and equipment	-	6,867	-	6,867	-	436	-	436
Recoverable amount of intangible asset				-				-
Recoverable amount of investments in subsidiaries, associates, and joint ventures	-	-	-	-	-	332	413	745

in EUR thousand

	NLB Group				NLB			
31.12.2016	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets								
Financial instruments held for trading	49,747	37,547	405	87,699	49,747	37,541	405	87,693
Debt instruments	49,747	19,010	-	68,757	49,747	19,010	-	68,757
Derivatives	-	18,537	405	18,942	-	18,531	405	18,936
Derivatives - hedge accounting	-	217	-	217	-	217	-	217
Financial assets designated at fair value through profit or loss	6,694	-	-	6,694	2,011	-	-	2,011
Debt instruments	734	-	-	734	-	-	-	-
Equity instruments	5,960	-	-	5,960	2,011	-	-	2,011
Financial assets available-for-sale	1,648,721	417,527	5,903	2,072,151	1,330,150	262,134	1,810	1,594,094
Debt instruments	1,627,608	370,924	-	1,998,532	1,309,223	217,564	-	1,526,787
Equity instruments	21,113	46,603	5,903	73,619	20,927	44,570	1,810	67,307
Financial liabilities								
Financial instruments held for trading	-	18,791	-	18,791	-	18,787	-	18,787
Derivatives	-	18,791	-	18,791	-	18,787	-	18,787
Derivatives - hedge accounting	-	29,024	-	29,024	-	29,024	-	29,024
Financial liabilities designated at fair value through profit or loss	-	2,011	-	2,011	-	2,011	-	2,011
Non-financial assets								
Investment properties	-	83,662	-	83,662	-	8,151	-	8,151
Non-current assets and disposal group classified as held for sale	-	4,263	-	4,263	-	1,788	-	1,788
Non-financial assets impaired during the year								
Recoverable amount of property, plant, and equipment	-	4,762	-	4,762	-	967	-	967
Recoverable amount of investments in subsidiaries, associates, and joint ventures	-	-	-	-	-	16,663	20,198	36,861

b) Significant transfers of financial instruments between levels of valuation

NLB Group's policy of transfers of financial instruments between levels of valuation is illustrated in the table below.

					Derivatives		
Fair value hierarchy	**Equities**	**Equity stake**	**Funds**	**Fixed income**	**Equities**	**Currency**	**Interest**
1	market value from exchange market		regular valuation by fund management company	market value from exchange market			
2				valuation model	valuation model (underlying in level 1)	valuation model	valuation model
3	valuation model	valuation model	valuation model	valuation model	valuation model (underlying in level 3)		
Transfers	*from level 1 to level 3*		*from level 1 to level 3*	*from level 1 to level 2*	*from level 2 to level 3*		
	equity excluded from exchange market		fund management stops publishing regular valuation	fixed income excluded from exchange market	underlying excluded from exchange market		
	from level 1 to level 3		*from level 3 to level 1*	*from level 1 to level 2*	*from level 3 to level 2*		
	companies in insolvency proceedings		fund management starts publishing regular valuation	fixed income not liquid (no trading for 6 months)	underlying included into exchange market		
	from level 3 to level 1			from level 1 to level 3 and from level 2 to level 3			
	equity included to exchange market			companies in insolvency proceedings			
				from level 2 to level 1 and from level 3 to level 1			
				start trading with fixed income on exchange market			
				from level 3 to level 2			
				until valuation parameters are confirmed on ALCO (at least on quarterly basis)			

For 2017 and 2016, neither NLB Group nor NLB had any significant transfers of financial instruments between levels of valuation.

c) Financial and non-financial assets and liabilities at Level 2 regarding the fair value hierarchy

Financial instruments on Level 2 of the fair value hierarchy at NLB Group and NLB include:

- debt securities: bonds not quoted on active markets and valuated by a valuation model;
- derivatives: derivatives except forward derivatives and options on equity instruments that are not quoted on active markets;
- the National Resolution Fund; and
- structured deposits.

When valuing bonds classified on Level 2, NLB Group primarily uses the income approach based on an estimation of future cash flows discounted to the present value.

The input parameters used in the income approach are the risk-free yield curve and the spread over the yield curve (credit, liquidity, country).

Fair values for derivatives are determined using a discounted cash flow model based on the risk-free yield curve. Fair values for options are determined using valuation models for options (Garman and Kohlhagen model, binomial model, and Black-Scholes model).

At least three valuation methods are used for the valuation of investment property.

The majority of investment property is valued using the income approach where the present value of future expected returns is assessed. When valuing an investment property, average rents at similar locations and capitalisation ratios such as: the risk-free yield, risk premium, liquidity premium, risk premium to account for the management of the investment, and the risk premium to account for capital preservation are used. Rents at similar locations are generated from various sources, like data from lessors and lessees, web databases, and own databases. NLB Group has observable data for all investment property at its disposal. If observable data for similar locations are not available, NLB Group uses data from wider locations and appropriately adjusts such data.

Non-current assets held for sale represent property, plant, and equipment. The disposal group classified as held for sale represents a subsidiary NLB Nov Penziski Fond, Skopje (note 5.8).

d) Financial and non-financial assets and liabilities at Level 3 of the fair value hierarchy

Financial instruments on Level 3 of the fair value hierarchy in NLB Group and NLB include:

- debt securities: structured debt securities from inactive emerging markets;
- equities: mainly Slovenian corporate and financial equities that are not quoted on active markets; and
- derivative financial instruments: forward derivatives and options on equity instruments that are not quoted on an active organised market. Fair values for forward derivatives are determined using the discounted cash flow model. Fair values for equity options are determined using valuation models for options (Garman and Kohlhagen model, binomial model and Black-Scholes model). Unobservable inputs include the fair values of underlying instruments determined using valuation models. The source of observable market inputs is the Reuters information system.

NLB Group uses three valuation methods for the valuation of equity financial assets mentioned in second bullet: the income approach, market approach, and cost approach.

The most commonly used valuation technique is the income approach. The income approach is based on an estimation of future cash flows discounted to the present value. One of the key elements of the valuation is the projection of the cash flows the company is able to generate in the future. Based on that, the projection of the future cash flow is generated. The key variables that affect the amount of cash flows, and thus the estimated fair value of the financial asset also include an assumption regarding the long-term EBITDA margin. A discount rate that is appropriate for the risks associated with the realisation of these benefits is used to discount cash flows. The discount rate is determined as the weighted average cost of capital. A forecast of future cash flows and a calculation of the weighted average cost of capital is prepared for an accurate forecasting period (usually 10 years from the date of the prediction value), and for a period following the period of accurate forecasting. Assumptions of long-term stable growth in the amount of 2% are used for the period following the period of accurate forecasting.

NLB Group can select values of unobservable input data within a reasonable possible range, but uses input data that other market participants would use.

Movements of financial assets and liabilities at Level 3

in EUR thousand

	Financial instruments held for trading		Financial assets available-for-sale	Total financial assets
NLB Group	**Debt instruments**	**Derivatives**	**Equity instruments**	
Balance as at 1.1.2016	**993**	**114**	**9,960**	**11,067**
Exchange differences	(37)	-	29	(8)
Valuation:				
- through profit or loss	-	291	(178)	113
- recognised in other comprehensive income	-	-	1,431	1,431
Increases	-	-	1,066	1,066
Decreases	(956)	-	(6,405)	(7,361)
Balance as at 31.12.2016	**-**	**405**	**5,903**	**6,308**
Exchange differences	-	-	(271)	(271)
Valuation:				
- through profit or loss	-	166	(26)	140
- recognised in other comprehensive income	-	-	235	235
Decreases		-	(410)	(410)
Balance as at 31.12.2017	**-**	**571**	**5,431**	**6,002**

in EUR thousand

	Financial instruments held for trading		Financial assets available-for-sale	Total financial assets
NLB	**Debt instruments**	**Derivatives**	**Equity instruments**	
Balance as at 1.1.2016	**993**	**114**	**6,874**	**7,981**
Exchange differences	(37)	-	-	(37)
Valuation:				
- through profit or loss	-	291	(178)	113
- recognised in other comprehensive income	-	-	453	453
Increases	-	-	1,066	1,066
Decreases	(956)	-	(6,405)	(7,361)
Balance as at 31.12.2016	**-**	**405**	**1,810**	**2,215**
Valuation:				
- through profit or loss	-	166	(26)	140
- recognised in other comprehensive income	-	-	241	241
Decreases		-	(172)	(172)
Balance as at 31.12.2017	**-**	**571**	**1,853**	**2,424**

NLB Group and NLB recognise the effects from the valuation of trading instruments in the income statement item 'Gains Less Losses from Financial Assets and Liabilities not classified at Fair Value through Profit or Loss' and exchange differences recognised in the income statement item 'Foreign Exchange Translation Gains Less Losses.'

Effects from the valuation of available-for-sale financial assets are recognised in the income statement item 'Impairment Charge' and in the accumulated other comprehensive income item 'Available-for-Sale Financial Assets.'

In 2017, NLB Group and NLB recognised the following unrealised gains or losses for financial instruments that were at Level 3 as at 31.12.2017:

in EUR thousand

	NLB Group		NLB	
31.12.2017	Trading assets	Available-for-sale financial assets	Trading assets	Available-for-sale financial assets
Items of Income statement				
Gains/(losses) from financial assets and liabilities held for trading	166	-	166	-
Item of Other comprehensive income				
Available-for-sale financial assets	-	337	-	334

in EUR thousand

	NLB Group		NLB	
31.12.2016	Trading assets	Available-for-sale financial assets	Trading assets	Available-for-sale financial assets
Items of Income statement				
Gains/(losses) from financial assets and liabilities held for trading	291	-	291	-
Impairment charge	-	178	-	178
Item of Other comprehensive income				
Available-for-sale financial assets	-	1,364	-	386

e) Fair value of financial instruments not measured at fair value in financial statements

in EUR thousand

	NLB Group				NLB			
	31.12.2017		31.12.2016		31.12.2017		31.12.2016	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Loans and advances								
- debt securities	82,133	79,974	85,315	78,953	82,133	79,974	85,315	78,953
- loans and advances to banks	510,107	523,943	435,537	434,958	462,322	468,599	408,056	415,771
- loans and advances to customers	6,912,333	6,494,021	6,912,067	6,962,419	4,587,477	4,584,217	4,843,594	4,884,828
- other financial assets	66,077	66,077	61,014	61,014	38,389	38,389	36,151	36,151
Held-to-maturity investments	609,712	658,029	611,449	671,344	609,712	658,029	611,449	671,344
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	40,602	40,608	42,334	42,314	72,072	72,072	74,977	74,977
- borrowings from banks and central banks	279,616	287,165	371,769	377,037	260,747	267,866	338,467	348,331
- due to customers	9,878,378	9,892,052	9,437,147	9,461,925	6,810,967	6,817,618	6,615,390	6,626,851
- borrowings from other customers	74,286	74,677	83,619	83,851	5,726	5,728	4,274	4,258
- debt securities in issue	-	-	277,726	280,278	-	-	277,726	280,278
- subordinated liabilities	27,350	26,923	27,145	28,777	-	-	-	-
- other financial liabilities	111,019	111,019	110,295	110,295	71,534	71,534	68,784	68,784

Loans and advances to banks
The estimated fair value of deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and residual maturities. The fair value of overnight deposits equals their carrying value.

Loans and advances to customers
Loans and advances are the net of the allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates for debts with similar credit risk and residual maturities to determine their fair value.

Deposits and borrowings
The fair value of sight deposits and overnight deposits equals their carrying value. However, their actual value for NLB Group depends on the timing and amounts of cash flows, current market rates, and the credit risk of the depository institution itself. A portion of sight deposits is stable, similar to term deposits. Therefore, their economic value for NLB Group differs from the carrying amount.

The estimated fair value of other deposits and borrowings from customers is based on discounted cash flows using interest rates for new deposits with similar residual maturities.

Held-to-maturity financial assets and issued debt securities
The fair value of held-to-maturity financial assets and issued debt securities is based on their quoted market price, or value calculated by using a discounted cash flow method and prevailing money market interest rates.

Other financial assets and liabilities
The carrying amount of other financial assets and liabilities is a reasonable approximation of their fair value as they mainly relate to short-term receivables and payables.

Fair value hierarchy of financial instruments not measured at fair value in financial statements

in EUR thousand

	NLB Group				NLB			
31.12.2017	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Loans and advances								
- debt securities	-	79,974	-	79,974	-	79,974	-	79,974
- loans and advances to banks	-	523,943	-	523,943	-	468,599	-	468,599
- loans and advances to customers	-	6,494,021	-	6,494,021	-	4,584,217	-	4,584,217
- other financial assets	-	66,077	-	66,077	-	38,389	-	38,389
Held-to-maturity investments	658,029	-	-	658,029	658,029	-	-	658,029
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	40,608	-	40,608	-	72,072	-	72,072
- borrowings from banks and central banks	-	287,165	-	287,165	-	267,866	-	267,866
- due to customers	-	9,892,052	-	9,892,052	-	6,817,618	-	6,817,618
- borrowings from other customers	-	74,677	-	74,677	-	5,728	-	5,728
- subordinated liabilities	-	26,923	-	26,923	-	-	-	-
- other financial liabilities	-	111,019	-	111,019	-	71,534	-	71,534

in EUR thousand

	NLB Group				NLB			
31.12.2016	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Loans and advances								
- debt securities	-	78,953	-	78,953	-	78,953	-	78,953
- loans and advances to banks	-	434,958	-	434,958	-	415,771	-	415,771
- loans and advances to customers	-	6,962,419	-	6,962,419	-	4,884,828	-	4,884,828
- other financial assets	-	61,014	-	61,014	-	36,151	-	36,151
Held-to-maturity investments	671,344	-	-	671,344	671,344	-	-	671,344
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	42,314	-	42,314	-	74,977	-	74,977
- borrowings from banks and central banks	-	377,037	-	377,037	-	348,331	-	348,331
- due to customers	-	9,461,925	-	9,461,925	-	6,626,851	-	6,626,851
- borrowings from other customers	-	83,851	-	83,851	-	4,258	-	4,258
- debt securities in issue	280,278	-	-	280,278	280,278	-	-	280,278
- subordinated liabilities	-	28,777	-	28,777	-	-	-	-
- other financial liabilities	-	110,295	-	110,295	-	68,784	-	68,784

6.6. Offsetting financial assets and financial liabilities

NLB Group has entered into foreign exchange netting arrangements with certain banks and companies. Cash flows from all FX derivatives with counterparties that are due on the same day are settled on a net basis, i.e. a single cash flow for each currency. Assets and liabilities related to these FX netting arrangements are not presented in a net amount in the statement of financial position because netting rules apply to cash flows and not to an instrument as a whole.

In accordance with the European Market Infrastructure Regulation (EMIR), NLB Group also novated certain standardised derivative financial instruments to a central counterparty in 2013. A system of daily margins assures the mitigation and collateralisation of exposures, as well as the daily settlement of cash flows for each currency.

in EUR thousand

31.12.2017	NLB Group and NLB			
	Amounts not set-off on the statement of financial position			
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	13,633	4,301	875	8,457
Derivatives - liabilities	34,253	4,301	29,267	685

in EUR thousand

31.12.2016	NLB Group and NLB			
	Amounts not set-off on the statement of financial position			
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	18,746	5,335	300	13,111
Derivatives - liabilities	39,663	5,335	31,180	3,148

NLB Group and NLB have no financial assets/liabilities set off in the statement of financial position.

7. Analysis by segment for NLB Group

a) Segments

in EUR thousand

2017	NLB Group							
	Corporate banking in Slovenia	Retail banking in Slovenia	Financial markets in Slovenia	Foreign strategic markets	Non-core markets and activities	Other activities	Unallocated	Total
Total net income	73,919	140,719	39,645	191,655	40,904	4,307	-	491,149
Net income from external customers	78,301	141,059	30,880	193,264	40,717	4,416	-	488,638
Intersegment net income	(4,383)	(340)	8,764	(1,609)	187	(109)	-	2,511
Net interest income	42,888	72,768	32,490	144,585	16,785	(201)	-	309,316
Net interest income from external customers	47,271	73,440	23,694	146,596	18,419	(103)	-	309,316
Intersegment net interest income	(4,383)	(672)	8,796	(2,011)	(1,633)	(98)	-	-
Administrative expenses	(39,287)	(90,455)	(11,414)	(87,881)	(20,447)	(9,933)	-	(259,418)
Depreciation and amortisation	(4,295)	(10,310)	(999)	(9,322)	(1,280)	(1,595)	-	(27,802)
Reportable segment profit/(loss) before impairment and provision charge	30,337	39,954	27,232	94,452	19,177	(7,221)	-	203,929
Other net gains/(losses) from equity investments in subsidiaries, associates, and joint ventures	-	4,621	159	-	(928)	-		3,852
Impairment and provisions charge	22,475	(2,923)	(55)	7,552	12,930	(10,449)	-	29,530
Profit/(loss) before income tax	52,811	41,652	27,336	102,004	31,179	(17,670)	-	237,311
Owners of the parent	52,811	41,652	27,336	93,759	31,179	(17,670)	-	229,066
Non-controlling interests	-	-	-	8,245	-	-	-	8,245
Income tax	-	-	-	-	-	-	(3,997)	(3,997)
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**225,069**
Reportable segment assets	2,055,734	2,204,045	3,508,467	3,851,214	391,308	183,212	-	12,193,980
Investments in associates, and joint ventures	-	43,765	-	-	-	-	-	43,765
Reportable segment liabilities	1,122,742	5,542,818	501,609	3,264,781	19,287	98,346	-	10,549,582
Additions to non-current assets	5,357	12,768	778	8,722	1,357	1,627	-	30,609

in EUR thousand

2016	NLB Group							
	Corporate banking in Slovenia	Retail banking in Slovenia	Financial markets in Slovenia	Foreign strategic markets	Non-core markets and activities	Other activities	Unallocated	Total
Total net income	75,043	133,584	47,703	179,370	26,243	17,831	-	479,775
Net income from external customers	83,335	126,269	43,186	179,370	29,433	18,181	-	479,773
Intersegment net income	(8,292)	7,315	4,518	-	(3,190)	(351)	-	-
Net interest income	45,891	71,222	48,536	136,909	15,404	(656)	-	317,305
Net interest income from external customers	54,183	63,907	44,018	136,909	18,594	(306)	-	317,305
Intersegment net interest income	(8,292)	7,315	4,518	-	(3,190)	(351)	-	-
Administrative expenses	(40,159)	(90,794)	(11,118)	(87,477)	(21,884)	(13,758)	-	(265,191)
Depreciation and amortisation	(4,394)	(10,350)	(1,035)	(8,013)	(2,290)	(2,262)	-	(28,345)
Reportable segment profit/(loss) before impairment and provision charge	30,490	32,440	35,550	83,880	2,069	1,812	-	186,239
Other net gains/(losses) from equity investments in subsidiaries, associates, and joint ventures	-	5,159	-	-	(153)	-		5,006
Impairment and provisions charge	(2,680)	(10,245)	53	(16,290)	(20,857)	(10,626)	-	(60,645)
Profit/(loss) before income tax	27,810	27,354	35,602	67,590	(18,941)	(8,815)	-	130,600
Owners of the parent	27,810	27,354	35,602	61,982	(18,941)	(8,815)	-	124,992
Non-controlling interests	-	-	-	5,608	-	-	-	5,608
Income tax	-	-	-	-	-	-	(14,975)	(14,975)
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**110,017**
Reportable segment assets	2,338,698	2,074,736	3,375,667	3,540,474	502,610	163,577	-	11,995,763
Investments in associates, and joint ventures	-	43,248	-	-	-	-	-	43,248
Reportable segment liabilities	1,198,058	5,229,761	907,159	3,038,921	57,935	81,518	-	10,513,351
Additions to non-current assets	2,305	7,286	363	7,882	2,928	463	-	21,227

Segment reporting is presented in accordance with the strategy on the basis of the organisational structure used in management reporting of NLB Group's results.

NLB Group's segments are business units that focus on different customers and markets. They are managed separately because each business unit requires different strategies and service levels.

Other NLB Group members are, based on their business activity, included in only one segment. The business activities of NLB are divided into several segments. Interest income is reallocated between segments on the basis of multiple internal transfer rates (fund transfer pricing – FTP).

Description of NLB Group's segments:

- Retail banking in Slovenia represents banking with individuals in NLB and assets management – NLB Skladi. It also includes the contribution to the financial result of the joint venture NLB Vita and the associates Skupna pokojninska družba and Bankart;
- Corporate banking in Slovenia, which includes: operations with large (key), medium-sized (mid-market), micro and small businesses, and Intensive Care and Non-performing loans;
- Financial markets in Slovenia, which include treasury activities, asset liability management, trading in financial instruments, brokerage, and custody of securities, as well as financial advisory;
- Foreign strategic markets represent all business activities of NLB Group members in strategic markets of NLB Group (Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia and Serbia), except leasing entities;
- Non-strategic markets and activities represent total activities of NLB Group members in non-strategic markets of NLB Group (Croatia, Germany, Switzerland, and Czech Republic) and all leasing entities. It also includes the operating result of non-financial entities (NLB Propria, Prospera Plus) and the performance of the Internal restructuring unit of NLB; and
- Other represents items of NLB income statement not related to reportable segments.

NLB Group is primarily a financial group, and net interest income represents the majority of its net revenues. NLB Group's main indicator of a segment's efficiency is net profit before tax.

There was no income from transactions with a single external customer that amounted to 10% or more of NLB Group's income.

b) Geographical information

Geographical analysis includes a breakdown of items with respect to the country in which individual NLB Group entities are located.

in EUR thousand

	Revenues		Net income		Profit/(loss) before income tax		Income tax	
NLB Group	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Slovenia	328,111	348,961	289,894	297,495	121,015	70,094	5,008	(7,854)
South East Europe	243,213	234,014	195,934	176,148	112,403	60,900	(8,999)	(7,115)
Macedonia	86,397	83,364	66,214	61,824	46,261	28,533	(4,756)	(2,755)
Serbia	25,401	21,585	23,784	18,822	5,180	1,733	(59)	(152)
Montenegro	28,629	30,186	21,900	16,484	4,766	(794)	386	(116)
Croatia	137	181	337	(125)	(1,208)	(3,250)	-	(1)
Bosnia and Herzegovina	67,908	65,882	54,578	51,698	41,796	22,098	(3,103)	(2,802)
Bulgaria	-	-	-	-	-	84	-	-
Kosovo	34,741	32,816	29,121	27,445	15,608	12,496	(1,467)	(1,289)
Western Europe	494	1,127	(159)	2,105	2,018	(137)	(6)	(6)
Germany	8	19	96	474	3,915	(248)	-	-
Switzerland	486	1,108	(255)	1,631	(1,897)	111	(6)	(6)
Czech Republic	2	1	2,969	(4)	1,875	(257)	-	-
Total	**571,820**	**584,103**	**488,638**	**475,744**	**237,311**	**130,600**	**(3,997)**	**(14,975)**

The column 'Revenues' includes interest and similar income, dividend income, and fee and commission income. The column 'Net Income' includes net interest income, dividend income, net fee and commission income, the net effect of financial instruments, foreign exchange translation, effect on derecognition of assets, and net operating income.

in EUR thousand

NLB Group	Non-current assets 31.12.2017	Non-current assets 31.12.2016	Total assets 31.12.2017	Total assets 31.12.2016	Number of employees 31.12.2017	Number of employees 31.12.2016
Slovenia	189,928	225,643	8,293,381	8,393,754	2,922	3,065
South East Europe	128,768	130,949	3,913,015	3,602,358	3,102	3,104
Macedonia	32,320	33,448	1,235,163	1,147,375	901	891
Serbia	24,394	24,822	406,959	316,023	447	424
Montenegro	29,686	29,476	466,155	478,682	319	342
Croatia	1,923	2,568	29,312	27,164	12	16
Bosnia and Herzegovina	26,876	27,222	1,190,435	1,116,169	942	942
Kosovo	13,569	13,413	584,991	516,945	481	489
Western Europe	236	247	31,140	39,742	5	6
Germany	218	222	1,876	2,782	1	1
Switzerland	18	25	29,264	36,960	4	5
Czech Republic	-	891	209	3,157	-	-
Total	**318,932**	**357,730**	**12,237,745**	**12,039,011**	**6,029**	**6,175**

The table below presents data on NLB Group members before intercompany eliminations and consolidation journals.

in EUR thousand

	Revenues 2017	Revenues 2016	Net income 2017	Net income 2016	Profit/(loss) before income tax 2017	Profit/(loss) before income tax 2016	Income tax 2017	Income tax 2016
Slovenia	398,851	390,240	353,327	333,099	191,115	52,829	3,167	(4,554)
South East Europe	243,566	234,257	179,911	179,677	98,698	66,530	(8,005)	(7,083)
Macedonia	86,447	83,422	65,520	61,078	46,079	28,739	(4,756)	(2,755)
Serbia	25,570	21,748	23,523	19,235	5,076	2,304	935	(119)
Montenegro	28,680	30,199	7,633	21,073	(8,693)	4,456	386	(116)
Croatia	192	152	(50)	(695)	(1,205)	(3,378)	-	(1)
Bosnia and Herzegovina	67,936	65,921	54,203	51,228	41,777	22,087	(3,103)	(2,803)
Bulgaria	-	-	-	-	-	(230)	-	-
Kosovo	34,741	32,815	29,082	27,758	15,664	12,552	(1,467)	(1,289)
Western Europe	650	1,197	(569)	1,455	2,151	(4,958)	(6)	(6)
Germany	9	20	87	466	3,916	(247)	-	-
Switzerland	641	1,177	(656)	989	(1,765)	(4,711)	(6)	(6)
Czech Republic	1	107	294	2	189	(257)	-	-
Total	**643,068**	**625,801**	**532,963**	**514,233**	**292,153**	**114,144**	**(4,844)**	**(11,643)**

8. Related-party transactions

A related party is a person or entity that is related to NLB Group in such a manner that it has control or joint control, has a significant influence, or is a member of the key management personnel of the reporting entity. Related parties of NLB Group and NLB include: key management personnel (Management Board, other key management personnel and their family members); the Supervisory Board; companies in which members of the Management Board, key management personnel, or their family members have control, joint control, or a significant influence; the ultimate parent; subsidiaries, associates, and joint ventures.

A number of banking transactions are entered into with related parties in the normal course of business. The volume of related-party transactions and the outstanding balances are as follows:

in EUR thousand

	Management Board and other Key management personnel		Family members of the Management Board and other key management personnel		Companies in which members of the Management Board, key management personnel or their family members have control, joint control or a significant influence		Supervisory Board	
NLB Group and NLB	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Loans issued								
Balance at 1.1.	2,110	1,953	492	468	371	375	-	2
Increase	1,180	1,367	245	445	385	368	500	-
Decrease	(1,269)	(1,210)	(324)	(421)	(514)	(372)	(65)	(2)
Balance at 31.12.	**2,021**	**2,110**	**413**	**492**	**242**	**371**	**435**	**-**
Interest income	36	41	8	9	7	9	10	-
Deposits received								
Balance at 1.1.	2,079	2,158	697	729	480	106	130	223
Increase	2,653	3,038	692	725	504	464	660	146
Decrease	(2,751)	(3,117)	(620)	(757)	(391)	(90)	(550)	(239)
Balance at 31.12.	**1,981**	**2,079**	**769**	**697**	**593**	**480**	**240**	**130**
Interest expense	(9)	(14)	(3)	(4)	-	-	-	(1)
Other financial liabilities	**2,408**	**1,536**	**-**	**-**	**7**	**2**	**-**	**-**
Guarantees issued and credit commitments	**224**	**248**	**76**	**83**	**116**	**147**	**31**	**3**
Fee income	11	13	4	6	10	9	2	-
Other income	-	2	-	-	-	-	-	-
Other expenses	(5)	(2)	-	-	(77)	-	-	-

Ultimate parent company of NLB is the Republic of Slovenia.

in EUR thousand

	NLB Group		NLB	
	Ultimate parent		Ultimate parent	
	2017	2016	2017	2016
Loans issued				
Balance at 1.1.	178,589	227,341	173,160	220,646
Increase	5,531	7,520	5,416	7,355
Decrease	(56,339)	(56,272)	(54,917)	(54,841)
Balance at 31.12.	**127,781**	**178,589**	**123,659**	**173,160**
Interest income	4,137	5,896	4,022	5,732
Deposits received				
Balance at 1.1.	70,005	110,001	70,005	110,001
Increase	5	12,803,693	5	12,803,693
Decrease	(70,010)	(12,843,689)	(70,010)	(12,843,689)
Balance at 31.12.	**-**	**70,005**	**-**	**70,005**
Interest expense	(5)	(5)	(5)	(5)
Investments in securities				
Balance at 1.1.	934,336	891,576	869,941	845,039
Exchange difference on opening balance	1	-	-	-
Increase	768,063	390,860	692,835	366,845
Decrease	(803,950)	(345,457)	(739,302)	(339,544)
Valuation	3,061	(2,643)	2,888	(2,399)
Balance at 31.12.	**901,511**	**934,336**	**826,362**	**869,941**
Interest income	21,130	28,019	20,891	27,224
Other financial assets	**18**	**153**	**18**	**1**
Other financial liabilities	**8**	**6**	**8**	**6**
Guarantees issued and credit commitments	**932**	**849**	**932**	**849**
Fee income	174	129	174	129
Fee expense	(41)	(39)	(41)	(39)
Other income	58	5	58	5
Other expense	(106)	(1)	(106)	(1)

NLB Group and NLB disclose all transactions with the ultimate controlling party. For transactions with other government-related entities, NLB Group discloses individually significant transactions.

in EUR thousand

NLB Group and NLB	Amount of significant transactions concluded during the year		Number of significant transactions concluded during the year	
	2017	2016	2017	2016
Loans	117,924	158,136	1	1
Commitments to extend credit	-	140,000	-	2

	Year-end balance of all significant transactions		Number of significant transactions at year-end	
	2017	2016	2017	2016
Loans	575,024	770,407	5	5
Debt securities classified as loans and advances	82,133	85,315	1	1
Borrowings, deposits, and business accounts	135,006	135,020	2	3
Commitments to extend credit	-	140,000	-	2

	Effects in income statement during the year	
	2017	2016
Interest income from loans	4,933	3,796
Interest income from debt securities classified as loans and receivables	(526)	16,425
Interest expense from borrowings, deposits, and business accounts	(93)	(225)
Interest income from commitments to extend credit	-	894

in EUR thousand

NLB Group	Associates 2017	Associates 2016	Joint ventures 2017	Joint ventures 2016
Loans issued				
Balance at 1.1.	1,418	1,625	19,857	93,823
Increase	134	124	210	109,548
Decrease	(256)	(331)	(15,734)	(183,514)
Balance at 31.12.	**1,296**	**1,418**	**4,333**	**19,857**
Interest income	42	48	59	932
Impairment	22	16	1,767	9,730
Deposits received				
Balance at 1.1.	5,838	1,179	5,198	6,036
Exchange difference on opening balance	-	-	31	(37)
Increase	3,030	6,945	139,077	182,990
Decrease	(3,910)	(2,286)	(137,450)	(183,791)
Balance at 31.12.	**4,958**	**5,838**	**6,856**	**5,198**
Interest expense	-	-	(19)	(25)
Debt securities in issue	**-**	**-**	**-**	**-**
Interest expense	-	(17)	-	-
Other financial assets	**27**	**30**	**347**	**141**
Impairment	-	-	(1)	(1)
Other financial liabilities	**1,109**	**927**	**103**	**92**
Interest expense	-	-	(43)	-
Guarantees issued and credit commitments	**38**	**40**	**29**	**28**
Fee income	140	126	4,155	3,689
Fee expense	(11,547)	(11,502)	(1,894)	(2,055)
Other income	224	233	132	580
Other expense	(1,004)	(1,092)	(13)	(89)

in EUR thousand

	Subsidiaries		Associates		Joint ventures	
NLB	2017	2016	2017	2016	2017	2016
Loans issued						
Balance at 1.1.	320,724	381,746	1,418	1,625	19,822	93,799
Increase	250,537	105,439	134	124	140	109,508
Decrease	(293,197)	(166,461)	(256)	(331)	(15,690)	(183,485)
Balance at 31.12.	**278,064**	**320,724**	**1,296**	**1,418**	**4,272**	**19,822**
Interest income	6,369	7,453	42	48	57	931
Impairment	17,697	(9,272)	22	16	1,767	9,730
Deposits						
Balance at 1.1.	28,431	3,438	-	-	-	-
Increase	451,462	298,795	-	-	-	-
Decrease	(443,423)	(273,802)	-	-	-	-
Balance at 31.12.	**36,470**	**28,431**	**-**	**-**	**-**	**-**
Interest income	30	9	-	-	-	-
Deposits received						
Balance at 1.1.	54,556	59,407	5,838	1,179	4,443	3,438
Increase	12,988,335	11,271,052	3,030	6,945	75,571	77,034
Decrease	(12,986,762)	(11,275,903)	(3,910)	(2,286)	(75,159)	(76,029)
Balance at 31.12.	**56,129**	**54,556**	**4,958**	**5,838**	**4,855**	**4,443**
Interest expense	(88)	(29)	-	-	(3)	-
Debt securities in issue	**-**	**-**	**-**	**-**	**-**	**-**
Interest expense	-	-	-	(17)	-	-
Other financial assets	**730**	**723**	**27**	**30**	**347**	**140**
Impairment	-	11	-	-	(1)	(1)
Other financial liabilities	**61**	**296**	**1,008**	**849**	**25**	**1**
Interest expense	-	-	-	-	(43)	-
Guarantees issued and credit commitments	**25,718**	**26,729**	**38**	**40**	**28**	**27**
Income/(expense) provisons for guaranties and commitments	(322)	442	-	-	-	-
Received loan commitments and financial guarantees	**1,000**	**500**	**-**	**-**	**-**	**-**
Fee income	5,723	4,336	140	126	4,041	3,419
Fee expense	(45)	(75)	(10,178)	(10,182)	(983)	(1,427)
Other income	525	527	224	233	132	540
Other expense	(1,298)	(2,830)	(754)	(845)	(13)	(89)

Key management compensation

The performance of key management is defined by financial and non-financial criteria. They are entitled to the annual variable part of the salary based on their achievement of the financial and non-financial performance criteria, which encompass the goals of NLB Group or NLB, the goals of the organisational unit, and the personal goals of the employee performing special work.

Members of the Management Board are entitled to a contractual gross salary considering the limitations of the Slovenian and European legislation.

Simultaneously, under the contract, members of the Management Board are entitled to a performance bonus based on criteria set by the Supervisory Board. Each year, the Supervisory Board determines the criteria of remuneration upon the adoption of the Bank's annual business plan.
The Supervisory Board determines the performance bonuses with the conclusion of each business year. In accordance with the legislation, the annual performance bonus cannot in any case exceed 30 percent of gross salaries in a business year of members of the Management Board. In addition, members of the Management Board are entitled to performance bonuses only proportionally, depending on their actual employment in the Bank for the period for which the performance bonus relates. The first 50 percent of the performance bonus is due for payment within 15 days of the General Meeting of Shareholders that voted on use of the previous year's profit and the discharge of the Management Board. Payment of the remaining 50 percent of the performance bonus is deferred.

Upon the conclusion of the General Meeting of Shareholders, members of the Supervisory Board receive payment for their performance and attendance, while the previously mentioned amounts are limited to a decision of the General Meeting of Shareholders, and are in full compliance with the applicable recommendations of corporate governance.

in EUR thousand

	Management Board		Other key management personnel		Supervisory Board	
NLB Group and NLB	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Short-term benefits	633	504	4,686	4,866	237	245
Cost refunds	5	4	105	112	50	74
Long-term bonuses:						
- severance pay	-	-	25	-	-	-
- other benefits	6	5	73	76	-	-
- variable part of payments	63	78	673	499	-	-
Total	**707**	**591**	**5,562**	**5,553**	**287**	**319**

Short-term benefits include:

- monetary benefits (gross salaries, supplementary insurance, holiday allowances, other bonuses); and
- non-monetary benefits (company cars, health care, apartments, etc.).

The reimbursement of cost comprises food allowances and travel expenses.

Payments to individual members of the Management Board

in EUR

Member		2017	2016
Blaž Brodnjak 01.12.2012	Short-term benefits:		
	- gross salary and holiday allowance	140,565	137,586
	- benefits and other short-term bonuses	2,349	3,049
	Costs refunds	1,193	1,267
	Long-term bonuses:		
	- other benefits	1,409	1,410
	- variable part of payments	20,447	19,621
	Total	**165,963**	**162,933**
Andreas Burkhardt 18.09.2013	Short-term benefits:		
	- gross salary and holiday allowance	140,565	137,586
	- benefits and other short-term bonuses	20,372	26,148
	Costs refunds	1,077	1,157
	Long-term bonuses:		
	- other benefits	1,409	1,410
	- variable part of payments	20,447	19,621
	Total	**183,870**	**185,922**
Archibald Kremser 31.07.2013	Short-term benefits:		
	- gross salary and holiday allowance	140,565	137,586
	- benefits and other short-term bonuses	18,753	19,150
	Costs refunds	1,132	1,151
	Long-term bonuses:		
	- other benefits	1,409	1,410
	- variable part of payments	20,447	19,621
	Total	**182,306**	**178,918**
Laszló Pelle 26.10.2016	Short-term benefits:		
	- gross salary and holiday allowance	140,565	13,570
	- benefits and other short-term bonuses	29,379	3,278
	Costs refunds	1,224	115
	Long-term bonuses:		
	- other benefits	1,409	470
	- variable part of payments	2,036	-
	Total	**174,613**	**17,433**
Janko Medja 2.10.2012 - 5.2.2016	Short-term benefits:		
	- gross salary and holiday allowance	-	25,033
	- benefits and other short-term bonuses	-	166
	Costs refunds	-	538
	Long-term bonuses:		
	- other benefits	-	235
	- variable part of payments	-	19,621
	Total	**-**	**45,593**

The above table shows earnings paid to individuals in the year when they were members of the Management Board.

Payments to individual members of the Supervisory Board

in EUR

Member		2017	2016
Andreas Klingen 22.06.2015	Session fees	5,335	7,370
	Annual compensation	28,858	25,744
	Costs refunds	10,356	13,833
Primož Karpe 11.02.2016	Session fees	6,270	6,600
	Annual compensation	37,661	28,585
	Costs refunds	5,796	5,591
Laszlo Zoltan Urban 11.02.2016	Session fees	5,610	5,280
	Annual compensation	21,149	16,563
	Costs refunds	6,276	5,341
Alexander Bayr 04.08.2016	Session fees	5,830	1,650
	Annual compensation	21,490	7,440
	Costs refunds	10,206	3,564
David Eric Simon 04.08.2016	Session fees	6,490	1,375
	Annual compensation	27,092	8,750
	Costs refunds	16,916	1,958
Peter Groznik 08.09.2017	Session fees	1,375	-
	Annual compensation	6,483	-
	Costs refunds	90	-
Simona Kozjek 08.09.2017	Session fees	1,155	-
	Annual compensation	6,483	-
	Costs refunds	-	-
Vida Šeme Hočevar 08.09.2017	Session fees	1,595	-
	Annual compensation	8,257	-
	Costs refunds	151	-
David Kastelic 4.8.2016 - 8.9.2017	Session fees	4,015	1,155
	Annual compensation	15,500	8,750
	Costs refunds	-	-
Matjaž Titan 4.8.2016 - 21.4.2017	Session fees	2,805	1,430
	Annual compensation	6,937	8,750
	Costs refunds	44	-
Uroš Ivanc 12.6.2013 - 7.4.2017	Session fees	2,310	6,930
	Annual compensation	7,073	25,096
	Costs refunds	44	404

in EUR

Member		2017	2016
Sergeja Slapničar 12.6.2013 - 20.3.2017	Session fees	1,430	7,370
	Annual compensation	6,117	27,547
	Costs refunds	345	898
Tit A. Erker 12.6.2013 - 3.8.2016	Session fees	-	5,720
	Annual compensation	-	14,826
	Costs refunds	-	38,598
Janko Gedrih 10.2.2016 - 15.4.2016	Session fees	-	1,045
	Annual compensation	-	6,261
	Costs refunds	-	180
Anton Macuh 10.2.2016 - 15.4.2016	Session fees	-	1,485
	Annual compensation	-	3,324
	Costs refunds	-	60
Anton Ribnikar 10.2.2016 - 15.4.2016	Session fees	-	1,705
	Annual compensation	-	4,499
	Costs refunds	-	267
Miha Košak 12.6.2013 - 10.2.2016	Session fees	-	1,210
	Annual compensation	-	3,950
	Costs refunds	-	3,536
Gorazd Podbevšek 12.6.2013 - 10.2.2016	Session fees	-	1,210
	Annual compensation	-	3,362
	Costs refunds	-	-

The above table shows earnings paid to individuals in the year when they were members of the Supervisory Board.

9. Events after the reporting date

In March 2018, NLB received a letter from ECB on ECB's intention to adopt the decision to restrict distributions by NLB to its shareholders and to require a Contingent Capital Plan. More details are disclosed in note 5.23.

In March 2018, NLB Group sold its subsidiary NLB Nov Penziski Fond, Skopje and realised profit in amount of EUR 12 million on NLB Group and EUR 9 million on NLB.

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This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the separate financial statements of Nova Ljubljanska Banka, d.d. ("the Bank") and the consolidated financial statements of NLB Group ("the Group"), which comprise the statement of financial position and consolidated statement of financial position as at December 31 2016, the income statement and consolidated income statement, the statement of other comprehensive income and consolidated statement of other comprehensive income, the statement of changes in equity and consolidated statement of changes in equity, the statement of cash flows and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2016 and 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report. We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate and consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Emphasis of matter

We draw attention to Note 5.17. to the separate and consolidated financial statements, which describe the uncertainty related to the outcome of the lawsuits filed against NLB d.d. by two Croatian banks which have not yet been decided. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

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Contingent liabilities relating to legal matters

The Bank/Group is involved in various legal matters as defendant. We focused on this area because of the potential significance of these commitments and contingencies (in particular as they relate to the asserted claim from the Privredna banka Zagreb (PBZ) and Zagrebačka banka (ZaBa) against the Bank). The assessment as to whether or not a liability should be recognized and whether amounts can be reliably estimated includes, to a certain extent, judgment from management. We determined this to be a significant item for our audit and a key auditing matter. Note 5.17. to the separate and consolidated financial statements, describes the uncertainty related to the outcome of the lawsuits filed against the Bank/Group by two Croatian banks in detail.

Our procedures included, amongst others, an assessment of the legal advice obtained by the Bank/Group as well as periodic meetings with management and review of board minutes to discuss developments in legal proceedings and asserted claims. We also obtained confirmations from the Bank/Group's external legal counsels in order to compare their expert opinions to management's position on measurement and/or disclosures in relation to the legal case.

We assessed the adequacy of the disclosures included in Note 5.17. of the separate and consolidated financial statements and added emphasis of matter in our audit opinion in respect of this matter.

Credit risk and individual impairment of loans and advances to customers

The carrying amount of loans given to customers amounts to 6,9 billion EUR (or 57% of total assets) at the Group and 4,8 billion EUR (or 66% of total assets) at the Bank. Impairment of loans and advances to customers is a highly subjective area due to the level of judgment applied by management in determining credit impairments. Experience from previous years has shown that banks can face serious problems and capital shortfalls in periods of recession and financial crisis, which can have material impact on the separate and consolidated financial statements and pose threat to the going concern assumption. Mainly, the highest risk is related to assessment of individual impairments for loans. For further information, refer to Note 7.1. of the separate and consolidated financial statements.

We understood and evaluated the processes for identifying impairment events within the loan portfolios, as well as the impairment assessment processes for loans within the restructuring unit and run-off portfolio. We assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate impairment. We tested a sample of performing loans with characteristics that might imply an impairment event had occurred (for example a customer experiencing financial difficulty or approaching a refinancing deadline) to assess whether impairment events had been identified by management.

For a sample of individually impaired loans, we understood the latest developments at the borrower and the basis of measuring value of impairment and considered whether key judgments were appropriate given the borrowers' circumstances. We also re-performed management's impairment calculation. In addition, we tested key inputs to the impairment calculation including the expected future cash flows and valuation of collateral held, and discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower and appropriate for the purpose.

We assessed the adequacy of the Bank's/Group's disclosures included in Note 7.1. of the separate and consolidated financial statements.

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Information technology (IT) systems and controls over financial reporting

We identified IT systems, and controls over financial reporting as an area of focus as the Bank/Group's financial accounting and reporting systems are heavily dependent on complex systems and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively. Therefore, we have identified IT systems and controls over the financial reporting as a key audit matter.	We involved EY internal experts in assessing and testing the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to the financial reporting. We examined the framework of governance over the Bank/Group's IT organization and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. Where necessary we also carried out direct tests of certain aspects of the security of the Bank/Group's IT systems including access management and segregation of duties.

Other information

Other information comprises the information included in the separate and consolidated Annual Report other than the separate and consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the separate and consolidated financial statements is, in all material respects, consistent with the separate and consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Bank and the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management, supervisory board and the audit committee for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of the separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and Group or to cease operations, or has no realistic alternative but to do so.

The audit committee and supervisory board are responsible for overseeing the Bank's and the Group's financial reporting process.

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Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

• obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control;

• evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

• conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern;

• evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

• obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee and the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee and the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee and the supervisory board, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ljubljana, 28. March 2017

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

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

Primož Kovačič
Certified auditor

Statement of Management's Responsibility

The Management Board hereby confirms its responsibility for preparing the financial statements of NLB and the consolidated financial statements of NLB Group for the year ending on 31 December 2016, and for the accompanying accounting policies and notes to the financial statements.

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and with the requirements of the Slovenian Companies Act and Banking Act so as to give a true and fair view of the financial position of NLB Group and NLB as at 31 December 2016, and their financial results and cash flows for the year then ended.

The Management Board also confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were prepared according to the principles of prudence and good management. The Management Board further confirms that the financial statements of NLB Group and NLB, together with the accompanying notes, have been prepared on a going-concern basis for NLB Group and NLB, and in line with valid legislation and the International Financial Reporting Standards as adopted by the European Union.

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

The Management Board

László Pelle
Member of the
Management Board

Archibald Kremser
Member of the
Management Board

Andreas Burkhardt
Member of the
Management Board

Blaž Brodnjak
Chief Executive Officer

Income Statement

in EUR thousand

		NLB Group		NLB	
	Notes	2016	2015	2016	2015
Interest and similar income	4.1.	388,494	443,203	215,550	269,000
Interest and similar expense	4.1.	(71,189)	(103,001)	(40,672)	(60,993)
Net interest income		**317,305**	**340,202**	**174,878**	**208,007**
Dividend income	4.2.	1,238	1,346	1,144	1,264
Fee and commission income	4.3.	194,371	195,710	123,014	128,896
Fee and commission expense	4.3.	(48,706)	(48,640)	(27,728)	(30,828)
Net fee and commission income		**145,665**	**147,070**	**95,286**	**98,068**
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	4.4.	14,788	10,659	14,639	10,685
Gains less losses from financial assets and liabilities held for trading	4.5.	6,921	(18,877)	336	(25,304)
Gains less losses from financial assets and liabilities designated at fair value through profit or loss		235	(3)	-	-
Fair value adjustments in hedge accounting	5.5.a)	(3,239)	231	(2,437)	231
Foreign exchange translation gains less losses	4.6.	1,158	11,831	738	23,251
Gains less losses on derecognition of assets		867	(624)	252	(450)
Other operating income	4.7.	24,442	27,329	12,267	13,234
Other operating expenses	4.8.	(33,204)	(35,083)	(13,176)	(15,133)
Administrative expenses	4.9.	(261,160)	(265,984)	(162,083)	(165,813)
Depreciation and amortisation	4.10.	(28,345)	(31,856)	(18,880)	(21,410)
Provisions for other liabilities and charges	4.11.	(4,357)	696	482	5,153
Impairment charge	4.12.	(56,288)	(83,801)	(64,433)	(93,114)
Gains less losses from capital investments in subsidiaries, associates and joint ventures	4.13.	5,006	4,312	28,915	13,747
Net gains or losses from non-current assets held for sale		(432)	(690)	(220)	(567)
Profit before income tax		**130,600**	**106,758**	**67,708**	**51,849**
Income tax	4.14.	(14,975)	(11,380)	(3,925)	(7,968)
Profit for the year		**115,625**	**95,378**	**63,783**	**43,881**
Attributable to owners of the parent		110,017	91,914	63,783	43,881
Attributable to non-controlling interests		5,608	3,464	-	-
Earnings per share/diluted earnings per share (in EUR per share)	4.15.	5.5	4.6	3.2	2.2

The notes are an integral part of these financial statements.

Statement of comprehensive income

in EUR thousand

	Notes	NLB Group 2016	NLB Group 2015	NLB 2016	NLB 2015
Net profit for the year after tax		**115,625**	**95,378**	**63,783**	**43,881**
Other comprehensive income after tax		**6,331**	**(12,859)**	**2,740**	**(6,650)**
Items that will not be reclassified to income statement					
Actuarial gains/(losses) on defined benefit pensions plans		**1,515**	**(1,975)**	**1,466**	**(706)**
Share of other comprehensive income/(losses) of entities accounted for using the equity method		**(6)**	**69**	**-**	**-**
Income tax relating to components of other comprehensive income	**5.19.**	**(191)**	**738**	**(191)**	**740**
Items that may be reclassified subsequently to income statement					
Foreign currency translation		**(1,910)**	**(2,685)**	**-**	**-**
Translation gains/(losses) taken to equity		(1,910)	(2,685)	-	-
Cash flow hedges (effective portion)		**2,703**	**509**	**2,703**	**509**
Net valuation gains/(losses) taken to equity	5.5.d)	(343)	(78)	(343)	(78)
Transferred to profit or loss	5.5.d)	3,046	587	3,046	587
Available-for-sale financial assets		**3,899**	**(8,496)**	**171**	**(8,562)**
Valuation gains/(losses) taken to equity	5.4.c)	18,529	(2,316)	14,652	(314)
Transferred to profit or loss	4.4. and 4.12.	(14,630)	(6,180)	(14,481)	(8,248)
Share of other comprehensive income/(losses) of entities accounted for using the equity method		**2,731**	**(2,804)**	**-**	**-**
Income tax relating to components of other comprehensive income	**5.19.**	**(2,410)**	**1,785**	**(1,409)**	**1,369**
Total comprehensive income for the year after tax		**121,956**	**82,519**	**66,523**	**37,231**
Attributable to owners of the parent		116,383	79,032	66,523	37,231
Attributable to non-controlling interests		5,573	3,487	-	-

The notes are an integral part of these financial statements.

Statement of financial position

in EUR thousand

		NLB Group		NLB	
	Notes	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	1,299,014	1,161,983	617,039	496,806
Trading assets	5.2.	87,699	267,413	87,693	267,880
Financial assets designated at fair value through profit or loss	5.3.	6,694	7,595	2,011	4,913
Available-for-sale financial assets	5.4.a)	2,072,153	1,737,191	1,594,094	1,248,359
Derivatives - hedge accounting	5.5.	217	1,083	217	1,083
Loans and advances					
- debt securities	5.6.a)	85,315	394,579	85,315	394,579
- loans and advances to banks	5.6.b)	435,537	431,775	408,056	345,207
- loans and advances to customers	5.6.c)	6,912,067	6,693,621	4,843,594	4,826,139
- other financial assets	5.6.d)	61,014	69,521	36,151	48,944
Held-to-maturity financial assets	5.7.	611,449	565,535	611,449	565,535
Fair value changes of the hedged items in portfolio hedge of interest rate risk		678	741	678	741
Non-current assets classified as held for sale	5.8.	4,263	4,629	1,788	1,776
Property and equipment	5.9.	196,849	207,730	90,496	94,570
Investment property	5.10.	83,663	93,513	8,151	8,613
Intangible assets	5.11.	33,970	39,327	23,345	29,627
Investments in subsidiaries	5.12.a)	-	-	339,693	346,001
Investments in associates and joint ventures	5.12.b)	43,248	39,696	7,031	7,094
Current income tax assets		2,888	929	2,124	-
Deferred income tax assets	5.18.	7,735	9,400	10,622	9,139
Other assets	5.13.	94,558	95,354	8,419	9,779
Total assets		**12,039,011**	**11,821,615**	**8,777,966**	**8,706,785**
Trading liabilities	5.15.	18,791	29,920	18,787	29,909
Financial liabilities designated at fair value through profit or loss	5.3.	2,011	4,912	2,011	4,912
Derivatives - hedge accounting	5.5.	29,024	33,842	29,024	33,842
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	5.16.a)	42,334	57,982	74,977	96,736
- borrowings from banks and central banks	5.16.b)	371,769	571,029	338,467	519,926
- due to customers	5.16.a)	9,437,147	9,020,666	6,615,390	6,293,339
- borrowings from other customers	5.16.b)	83,619	100,267	4,274	16,168
- debt securities in issue	5.16.c)	277,726	304,962	277,726	304,962
- subordinated liabilities	5.16.d)	27,145	27,340	-	-
- other financial liabilities	5.16.e)	110,295	75,307	68,784	47,346
Provisions	5.17.	100,914	122,639	79,546	105,137
Current income tax liabilities		3,146	7,514	-	6,681
Deferred income tax liabilities	5.18.	727	313	-	-
Other liabilities	5.20.	8,703	14,539	4,186	5,676
Total liabilities		**10,513,351**	**10,371,232**	**7,513,172**	**7,464,634**
Equity and reserves attributable to owners of the parent					
Share capital	5.21.	200,000	200,000	200,000	200,000
Share premium	5.22.	871,378	871,378	871,378	871,378
Accumulated other comprehensive income	5.22.	29,969	23,603	34,581	31,841
Profit reserves	5.22.	13,522	13,522	13,522	13,522
Retained earnings	5.22.	380,444	314,307	145,313	125,410
		1,495,313	1,422,810	1,264,794	1,242,151
Non-controlling interests		30,347	27,573	-	-
Total equity		**1,525,660**	**1,450,383**	**1,264,794**	**1,242,151**
Total liabilities and equity		**12,039,011**	**11,821,615**	**8,777,966**	**8,706,785**

The notes are an integral part of these financial statements.

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

László Pelle Member of the Management Board	**Archibald Kremser** Member of the Management Board	**Andreas Burkhardt** Member of the Management Board	**Blaž Brodnjak** Chief Executive Officer

Ljubljana, 28 March 2017

Statement of changes in equity

in EUR thousand

NLB Group	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance as at 1 January 2015	200,000	871,378	36,485	13,522	221,676	1,343,061	26,234	1,369,295
- Net profit for the year	-	-	-	-	91,914	91,914	3,464	95,378
- Other comprehensive income	-	-	(12,882)	-	-	(12,882)	23	(12,859)
Total comprehensive income after tax	-	-	(12,882)	-	91,914	79,032	3,487	82,519
Dividends paid	-	-	-	-	-	-	(1,048)	(1,048)
Transactions with non-controlling interests	-	-	-	-	717	717	(1,100)	(383)
Balance as at 31 December 2015	**200,000**	**871,378**	**23,603**	**13,522**	**314,307**	**1,422,810**	**27,573**	**1,450,383**
- Net profit for the year	-	-	-	-	110,017	110,017	5,608	115,625
- Other comprehensive income	-	-	6,366	-	-	6,366	(35)	6,331
Total comprehensive income after tax	-	-	6,366	-	110,017	116,383	5,573	121,956
Dividends paid	-	-	-	-	(43,880)	(43,880)	(2,799)	(46,679)
Balance as at 31 December 2016	**200,000**	**871,378**	**29,969**	**13,522**	**380,444**	**1,495,313**	**30,347**	**1,525,660**

in EUR thousand

NLB	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Total equity
Balance as at 1 January 2015	200,000	871,378	38,491	13,522	81,529	1,204,920
- Net profit for the year	-	-	-	-	43,881	43,881
- Other comprehensive income	-	-	(6,650)	-	-	(6,650)
Total comprehensive income after tax	-	-	(6,650)	-	43,881	37,231
Balance as at 31 December 2015	**200,000**	**871,378**	**31,841**	**13,522**	**125,410**	**1,242,151**
- Net profit for the year	-	-	-	-	63,783	63,783
- Other comprehensive income	-	-	2,740	-	-	2,740
Total comprehensive income after tax	-	-	2,740	-	63,783	66,523
Dividends paid	-	-	-	-	(43,880)	(43,880)
Balance as at 31 December 2016	**200,000**	**871,378**	**34,581**	**13,522**	**145,313**	**1,264,794**

The notes are an integral part of these financial statements.

Statement of cash flows

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Cash flows from operating activities				
Interest received	413,337	467,091	240,789	294,113
Interest paid	(78,401)	(121,143)	(44,510)	(72,613)
Dividends received	1,233	1,346	1,139	1,264
Fee and commission receipts	192,295	194,133	119,296	126,371
Fee and commission payments	(51,996)	(48,713)	(27,056)	(30,993)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	13,296	10,964	13,147	10,886
Realised losses from financial assets and financial liabilities not at fair value through profit or loss	(40)	(234)	(40)	(234)
Net gains/(losses) from financial assets and liabilities held for trading	3,246	(23,110)	(2,785)	(28,335)
Payments to employees and suppliers	(262,202)	(271,456)	(165,579)	(174,051)
Other income	26,352	31,129	13,256	14,136
Other expenses	(26,132)	(28,935)	(14,857)	(16,487)
Income tax paid	(19,991)	(4,980)	(14,489)	(678)
Cash flows from operating activities before changes in operating assets and liabilities	**210,997**	**206,092**	**118,311**	**123,379**
(Increases)/decreases in operating assets	**(139,839)**	**(143,429)**	**30,540**	**(34,116)**
Net (increase)/decrease in trading assets	163,609	(135,235)	164,609	(135,235)
Net (increase)/decrease in financial assets designated at fair value through profit or loss	1,026	(880)	2,795	-
Net (increase)/decrease in available-for-sale financial assets	(344,588)	(45,544)	(353,677)	(88,304)
Net (increase)/decrease in loans and advances	37,715	33,155	214,615	189,680
Net (increase)/decrease in other assets	2,399	5,075	2,198	(257)
Increases/(decreases) in operating liabilities	**197,351**	**(200,359)**	**101,342**	**(208,931)**
Net increase/(decrease) in financial liabilities designated at fair value through profit or loss	(2,801)	-	(2,801)	-
Net increase/(decrease) in deposits and borrowings measured at amortised cost	227,842	(146,993)	130,815	(155,700)
Net increase/(decrease) in securities measured at amortised cost	(26,913)	(53,469)	(26,913)	(53,469)
Net increase/(decrease) in other liabilities	(777)	103	241	238
Net cash used in operating activities	**268,509**	**(137,696)**	**250,193**	**(119,668)**
Cash flows from investing activities				
Receipts from investing activities	**77,903**	**178,923**	**98,095**	**188,913**
Proceeds from sale of property and equipment and investment property	5,536	3,718	400	68
Proceeds from dividends from subsidiaries and associates	3,587	35	28,915	13,747
Proceeds from non-current assets held for sale	128	170	128	98
Proceeds from disposals of held-to-maturity financial assets	68,652	175,000	68,652	175,000
Payments from investing activities	**(153,178)**	**(51,377)**	**(161,064)**	**(70,863)**
Purchase of property and equipment and investment property	(17,896)	(11,404)	(10,990)	(5,672)
Purchase of intangible assets	(6,981)	(7,685)	(4,466)	(5,577)
Purchase of subsidiaries and increase in subsidiaries' equity	-	(404)	(17,307)	(27,730)
Increase in associates and joint ventures' equity	(12,250)	-	(12,250)	-
Purchase of held-to-maturity financial assets	(116,051)	(31,884)	(116,051)	(31,884)
Net cash flows used in investing activities	**(75,275)**	**127,546**	**(62,969)**	**118,050**
Cash flows from financing activities				
Proceeds from financing activities	**-**	**9,900**	**-**	**-**
Issue of subordinated debt	-	9,900	-	-
Payments from financing activities	**(46,655)**	**(977)**	**(43,880)**	**-**
Dividends paid	(46,655)	(977)	(43,880)	-
Net cash from financing activities	**(46,655)**	**8,923**	**(43,880)**	**-**
Effects of exchange rate changes on cash and cash equivalents	693	10,246	1,507	8,226
Net increase/(decrease) in cash and cash equivalents	**146,579**	**(1,227)**	**143,344**	**(1,618)**
Cash and cash equivalents at beginning of year	**1,302,003**	**1,292,984**	**525,831**	**519,223**
Cash and cash equivalents at end of year	**1,449,275**	**1,302,003**	**670,682**	**525,831**

The notes are an integral part of these financial statements.

Statement of cash flows

in EUR thousand

		NLB Group		NLB	
	Notes	2016	2015	2016	2015
Cash and cash equivalents comprise:					
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	1,299,014	1,161,983	617,039	496,806
Loans and advances to banks with original maturity up to 3 months	5.6.	85,103	64,137	53,643	24,450
Trading assets with original maturity up to 3 months	5.2.	-	4,575	-	4,575
Available for sale financial assets with original maturity up to 3 months	5.4.	65,158	71,308	-	-
Total		**1,449,275**	**1,302,003**	**670,682**	**525,831**

Notes to the Financial Statements

1. General information

Nova Ljubljanska banka d.d. Ljubljana (hereinafter: NLB) is a joint-stock entity providing universal banking services. NLB Group consists of NLB and its subsidiaries located in 10 countries.

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

The ultimate controlling party of NLB is the Republic of Slovenia, which was the sole shareholder as at 31 December 2016 and 31 December 2015.

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

2. Summary of significant accounting policies

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

2.1. Statement of compliance

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

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

2.2. Basis for presenting the financial statements

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

The preparation of financial statements in accordance with the IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and activities, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised. Critical accounting estimates and judgements in applying accounting policies are disclosed in note 2.33.

2.3. Comparative amounts

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed in comparative amounts. Where IAS 8 applies, comparative figures have been adjusted to conform to changes in presentation in the current year. In 2016 the presentation of deposit guarantees changed, and the data for 2015 were adjusted. Before the change, deposit guarantees were included in the item 'Fee and Commission Expenses', in the amount of EUR 8,259 thousand (note 4.3.) while after the change it is included in the item 'Other Operating Expenses' (note 4.8.). The change only affects the presentation of the financial statements.

2.4. Consolidation

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

NLB controls an entity when all three elements of control are met:

- it has power over the entity;
- it is exposed or has rights to variable returns from its involvement with the entity; and
- it has the ability to use its power over the entity to affect the amount of the entity's returns.

NLB reassesses whether it controls an entity if facts and circumstances indicate there are changes to one or more of the three elements of control. If the loss of control of a subsidiary occurs, the subsidiary is no longer consolidated from the date that control ceases.

Where necessary, the accounting policies of subsidiaries have been amended to ensure consistency with the policies adopted by NLB. The financial statements of consolidated subsidiaries are prepared as at the parent entity's reporting date. Non-controlling interests are disclosed in the consolidated statement of changes in equity. Non-controlling interest is that part of the net results, and of the equity of a subsidiary attributable to interests which

NLB does not own, directly or indirectly. NLB Group measures non-controlling interest on a transaction-by-transaction basis, either at fair value, or the non-controlling interest's proportionate share of net assets of the acquiree.

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

NLB Group treats transactions with non-controlling interests as transactions with equity owners of NLB Group. For purchases of subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from the equity. Gains or losses on sales to non-controlling interests are recorded in the equity. For sales to non-controlling interests, the differences between any proceeds received and the relevant share of non-controlling interests are also recorded in the equity. All effects are presented in the item 'Equity Attributable to Non-controlling Interest'.

2.5. Investments in subsidiaries, associates, and joint ventures

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

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

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

NLB Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When NLB Group's share of losses in an associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other unsecured receivables, NLB Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate and joint venture. NLB Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised (note 5.12.b).

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

2.6. Goodwill and bargain purchases

Goodwill is measured as the excess of the aggregate of the consideration measured at fair value and transferred to the acquiree, the amount of any non-controlling interest in the acquire, and the fair value of an interest in the acquiree held immediately before the acquisition date over the net amounts of the identifiable assets acquired and the liabilities assumed. Any negative amount, a gain on a bargain purchase, is recognised in profit or loss after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews the appropriateness of their measurement.

The consideration transferred is measured at the fair value of the assets transferred, equity interest issued, and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements. However, this excludes acquisition-related costs such as advisory, legal, valuation, and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from the equity and all other transaction costs associated with the acquisition are expensed.

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

2.7. A combination of entities or businesses under common control

A merger of entities within NLB Group is a business combination involving entities under common control. For such mergers, members of NLB Group apply merger accounting principles and use the carrying amounts of merged entities as reported in the consolidated financial statements. No goodwill is recognised on mergers of NLB Group entities.

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

2.8. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

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

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

NLB Group entities

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate on the reporting date;
- income and expenses for each income statement are translated at average exchange rates; and
- components of equity are translated at the historical rate.

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

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

2.9. Interest income and expenses

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

2.10. Fee and commission income

Fees and commissions are generally recognised when the service has been provided. Fees and commissions mainly consist of fees received from credit cards and ATMs, customer transaction accounts, payment services, investment funds, and commissions from guarantees. Fees and commissions that are integral to the effective interest rate of financial assets and liabilities are presented within interest income or expenses.

2.11. Dividend income

Dividends are recognised in the income statement when NLB Group's right to receive payment is established and an inflow of economic benefits is probable. Dividend income from subsidiaries, associates, and joint ventures is included in the item 'Gains Less Losses from Capital Investments in Subsidiaries, Associates, and Joint Ventures', while other dividend income is included in the item 'Dividend Income'. In the consolidated financial statement, dividends received from associates and joint ventures reduce the carrying value of the investment.

2.12. Financial instruments

a) Classification

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

Financial instruments at fair value through profit or loss

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

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

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise

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

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

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

Held-to-maturity financial assets
Held-to-maturity financial assets are non-derivative financial instruments that are traded on an active market with fixed or determinable payments and a fixed maturity that NLB Group has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity financial asset if NLB Group has the right to require the issuer to repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity.

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

b) Measurement and recognition
Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

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

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

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Gains and losses from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative amount previously included in other comprehensive income is recycled in the income statement. Interest calculated using the effective interest rate method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement.

Loans and held-to-maturity financial assets are carried at an amortised cost.

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

If the transaction price on a non-active market is different than the fair value from other observable current market transactions in the same instrument, or is based on a valuation technique whose variables only include data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement ("day one gains or losses").

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

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

e) Derecognition

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

f) Fair value measurement principles

The fair value of financial instruments traded on active markets is based on the price that would be received to sell the assets or transfer liability (exit price) being measured at the reporting date, excluding transaction costs. If there is no active market, the fair value of the instruments is estimated using discounted cash flow techniques or pricing models.

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

g) Derivative financial instruments and hedge accounting

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

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

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

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

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

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in the fair value of hedging instruments and related hedged items are reflected in "fair value adjustments in hedge accounting" in the income statement. Any ineffectiveness from derivatives is recorded in "Gains Less Losses on Financial Assets and Liabilities held for Trading."

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

Cash flow hedge

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

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

When a hedging instrument expires or is sold, or when a hedge no longer meets hedge accounting criteria, any cumulative gain or loss existing in other comprehensive income and previously accumulated in equity at that time remains in other comprehensive income and in equity, and is recognised in profit or loss only when the forecasted transaction is ultimately recognised in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement in line with fair value adjustments in hedge accounting.

Hedge of a net investment in a foreign operation

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement in "Gains Less Losses on Financial Assets and Liabilities Held for Trading." Gains and losses accumulated in other comprehensive income are included in the consolidated income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

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

2.13. Impairment of financial assets

a) Assets carried at amortised cost

NLB Group assesses impairments of financial assets separately for all individually significant assets where there is objective evidence of impairment. All other financial assets are impaired collectively. According to the Regulation on credit risk loss assessment of the Bank of Slovenia, a financial asset or off-balance sheet liability is individually significant if total exposure to a customer exceeds 0.5% of a bank's equity. In 2016, all exposures to banks, all exposures to other legal entities exceeding EUR 100 thousand and all exposures to individuals exceeding EUR 100 thousand were deemed individually significant assets requiring individual assessment. If NLB Group determines that no objective evidence exists for an individually assessed financial asset, the asset is included in a group of related financial assets with similar credit risk characteristics and collectively assessed for impairment.

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

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

- delays in the payment of contractual interest or principal;
- a breach of other contractual covenants or conditions;
- difficulties in the financial condition of the borrower;
- restructuring of a borrower's financial liabilities, whereby a material loss is recognised;
- initiation of bankruptcy or insolvency proceedings; and
- other arrangements having an adverse effect on the bank's or company's position.

If there is objective evidence that an impairment loss on loans and advances or held-to-maturity financial assets has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through an allowance account and the loss is recognised in the income statement. With regard to impairments for customers in default, where the payment of existing liabilities is only possible through the redemption of collateral, the expected payment from the collateral is taken into account. This value is calculated from the appraised market value of the collateral and the discount used as defined in the Collateral Manual. Off-balance sheet liabilities are also assessed individually and, where necessary, related provisions are recognised as liabilities.

For the purpose of the collective assessment of impairment, NLB Group uses transition matrices which illustrate the expected transition of customers between internal rating categories. The probability of transition is assessed on the basis of past years' experience, i.e. the annual transition matrices for different types or segments of customers. This data may be adopted for projected future trends as historical experience does not necessarily reflect actual economic movements. Exposures to individuals are further analysed with regard to the type of product. Based on the expected transition of customers to D and E credit-rating categories, and an assessment of the average repayment rate for D- and E-rated customers (treated as customers in default), NLB Group recognises collective impairments.

If the amount of impairment decreases subsequently due to an event occurring after the impairment was recognised (e.g. repayment in the collection process exceeds the assessed expected payment from collateral), the reversal of the loss is recognised as a reduction in the allowance for loan impairment.

NLB Group writes off financial assets measured at amortised cost if during the collection process it assesses that the assets in question will not be repaid and that the conditions for derecognition have been met.

b) Assets classified as available for sale

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

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

The following factors are considered in determining impairment losses on debt instruments:
- default or delinquency in interest or principal payments;
- liquidity difficulties of the issuer;
- a breach of contract covenants or conditions;
- bankruptcy of the issuer;
- deterioration of economic and market conditions; and
- deterioration in the credit rating of the issuer below an acceptable level.

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

2.14. Forborne loans

A forborne loan (or restructured financial asset) arises as a result of a debtor's inability to repay a debt under the originally agreed terms, either by modifying the terms of the original contract (via an annex) or by signing a new contract (refinancing) under which the contracting parties agree the partial or total repayment of the original debt. If receivables due from the client have the status of restructuring, the debtor must be classified in the rating group C, D, or E.

The definitions of forborne loans closely follow definitions that were developed by the European Banking Authority (EBA). These definitions aim to achieve comprehensive coverage of exposures to which forbearance measures have been extended.

Accounting treatment of forborne loans depends on the type of restructuring. When NLB Group is embarking on a forborne loan via modified terms of repayment proceeding from extending the deadline for the repayment of the principal and/or interest and/or a forbearance of the repayment of the principal and/or interest or a reduction in the interest rate and/or other expenses, it adjusts the carrying amount of the forborne loan on the basis of the discounted value of the estimated future cash flows under the modified terms, and recognises the resulting effect in profit or loss as an impairment. In the event of the reduction of a claim against the debtor via the reduction in the amount of the claims as a result of a contractually agreed debt waiver and ownership restructuring or debt to equity swap, NLB Group derecognises the claim in the part relating to the write-down or the contractually agreed debt waiver. The new estimate of the future cash flows for the residual claim, not yet written down, is based on an updated estimate of the probability of loss. NLB Group takes into account the debtor's modified position, the economic expectations and the collateral of the forborne loan. When NLB Group is embarking on the forborne loan by taking possession of other assets (property, plant and equipment, securities, and other financial assets), including investments in the equity of debtors obtained via debt-to-equity swaps, it recognises the acquired assets in the statement of financial position at fair value, recognising the difference between the disclosed fair value of the asset and the carrying amount of the eliminated claim in profit or loss.

Forborne exposures may be identified in both the performing and non-performing parts of the portfolio. Where the forborne loan is classified in the non-performing part of the portfolio, it can be reclassified to the performing part if forbearance does not lead to a recognition of impairment or non-performance, if one year has passed since the forbearance has been introduced and after the introduction of forbearance there have been no overdue amounts or doubts concerning the repayment of the entire exposure, under the terms and conditions after the forbearance. The absence of doubt is confirmed by analysis of the financial situation of the debtor.

The forborne status is withdrawn when:
- an analysis of the debtor's financial position shows that the conditions to deem the exposure a non-performing exposure are no longer met;
- at least a 2-year probation period has passed since the forborne exposure was deemed performing;
- regular payments of the principal or interest were made, in a substantial total amount, during at least half the probation period; and
- no exposure to the debtor is more than 30 days in default at the end of the probation period.

2.15. Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are initially recognised in the financial statements at their fair value and classified in the appropriate category according to their purpose and are sold as soon as practical in order to reduce exposure (note 7.1.n). After initial recognition, repossessed assets are measured and accounted for in accordance with the policies applicable to the relevant asset categories. Repossessed assets mainly represent items of real estate that NLB Group classifies within investment properties measured in accordance with IAS 40 Investment property (note 2.20), and other assets, measured in accordance with IAS 2 Inventories.

Real estate obtained from the foreclosure of loans and receivables within other assets are initially recognised at fair value less costs to sell (realisable value) wherein only the direct costs of sales can be taken into account. At subsequent measurement the realisable value is verified at least annually. Valuations of the fair value of real estate are performed by certified real-estate appraisers. The real estate is impaired when the carrying value exceeds the realisable value. The effect of impairment is presented as the impairment of other assets and the reversal of impairment as income from the reversal of the impairment of other assets.

2.16. Offsetting

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

2.17. Sale and repurchase agreements

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

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

2.18. Property and equipment

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

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

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

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

NLB Group and NLB	in %
Buildings	2 - 5
Leasehold improvements	5 - 25
Computers	14.3 - 50
Furniture and equipment	10 - 33.3
Motor vehicles	12.5 - 25

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, on each reporting date. Gains and losses on the disposal of items of property and equipment are determined as the difference between the sale proceeds and their carrying amount, and are recognised in the income statement.

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

2.19. Intangible assets

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

Amortisation is calculated on a straight-line basis at rates designed to write down the cost of an intangible asset over its estimated useful life. The core banking system is amortised over a period of 10 years, and other software over a period of three to five years.

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

2.20. Investment properties

Investment properties include buildings held for leasing and not occupied by NLB Group or to increase the value of a long-term investment. Investment properties are stated at fair value determined by a certified appraiser. Fair value is based on current market prices. Any gain or loss arising from a change in fair value is recognised in the income statement.

2.21. Non-current assets and disposal groups classified as held for sale

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

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

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

2.22. Accounting for leases

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

NLB Group as a lessee

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

Finance leases are recognised as an asset and liability 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 NLB Group's policy over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that NLB Group will obtain ownership by the end of the lease term. Lease payments are apportioned between interest expenses and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability.

NLB Group as a lessor

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

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

Sale-and-leaseback transactions

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

2.23. Cash and cash equivalents

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

2.24. Borrowings with characteristics of debt

Loans and deposits received and issued debt securities are initially recognised at fair value, which is typically equal to historical cost less transaction costs. Borrowings are subsequently measured at the amortised cost. The difference between the value at initial recognition and the final value is recognised in the income statement as interest expense, applying the effective interest rate.

Repurchased own debt is disclosed as a reduction in liabilities in the statement of financial position. The difference between the book value and the price at which own debt was repurchased is disclosed in the income statement.

2.25. Other issued financial instruments with characteristics of equity

Upon initial recognition, other issued financial instruments are classified in part or in full as equity instruments if the contractual characteristics of the instruments are such that NLB Group must classify them as equity instruments in accordance with IAS 32 Financial Instruments: Disclosure and Presentation. An issued financial instrument is only considered an equity instrument if that instrument does not represent a contractual obligation for payment.

Issued financial instruments with characteristics of equity are recognised in equity in the statement of financial position. Transaction costs incurred for issuing such instruments are deducted from equity reserves. The corresponding interest is recognised directly in profit reserves.

The carrying value of an issued financial instrument with characteristics of equity is presented in the statement of changes in equity in the item 'Other Equity Instruments.'

2.26. Provisions

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

2.27. Contingent liabilities and commitments

Financial and non-financial guarantees

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

The issued guarantees covering non-financial obligations of the clients represent the obligation of the Bank (guarantor) to pay if the client fails to perform certain works in accordance with the terms of the commercial contract. Financial and non-financial guarantees are initially recognised at fair value, which is normally evidenced by the fees received. The fees are amortised to the income statement over the contract term using the straight-line method. NLB Group's liabilities under guarantees are subsequently measured at the greater of:

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

Documentary letters of credit

Documentary (and standby) letters of credit constitute a written and irrevocable commitment of the issuing (opening) bank on behalf of the issuer (importer) to pay the beneficiary (exporter) the value set out in the documents by a defined deadline:

- if the letter of credit is payable on sight; and
- if the letter of credit is payable for deferred payment, the bank will pay according to the contractual agreement when and if the beneficiary (exporter) presents the bank with documents that are in line with the conditions and deadlines set out in the letter of credit.

A commitment may also take the form of a letter of credit confirmation, which is usually done at the request or authorisation of the issuing (opening) bank and constitutes a firm commitment by the confirming bank, in addition to that of the issuing bank, which independently assumes a commitment to the beneficiary under certain conditions.

Other contingent liabilities and commitments

Other contingent liabilities and commitments represent commitments to extend credit, uncovered letters of credit, and other commitments.

2.28. Taxes

Income tax expense comprises current and deferred income tax.

Current corporate income tax in NLB Group is calculated on taxable profits at the applicable tax rate in the respective jurisdiction. The corporate income tax rate for 2016 in Slovenia was 17% (2015: 17%). In accordance with the change of tax legislation, the corporate income tax rate from 2017 onwards will be 19%.

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

Deferred tax assets are recognised if it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

Deferred tax related to the fair value re-measurement of available-for-sale investments, cash flow hedges, and actuarial gains and losses on defined benefit pension plans is charged or credited directly to other comprehensive income.

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

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

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

A tax on financial services, which imposes a tax on fees paid for prescribed financial services rendered, is paid in Slovenia. The tax rate is 8.5% (2015: 8.5%) and the tax is paid monthly. Given that the tax on financial services is classified as a sales tax, it reduces accrued revenues in the financial statements.

2.29. Fiduciary activities

NLB Group provides asset management services to its clients. Assets held in a fiduciary capacity are not reported in NLB Group's financial statements as they do not represent assets of NLB Group. Fee and commission income charged for this type of service is broken down by items in note 4.3.b. Further details on transactions managed on behalf of third parties are disclosed in note 5.25.

Based on the requirements of Slovenian legislation, NLB Group has additionally disclosed in note 5.25. assets and liabilities on accounts used to manage financial assets from fiduciary activities, i.e. information related to the receipt, processing, and execution of orders and related custody activities.

2.30. Employee benefits

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

According to legislation, employees retire after 35-40 years of service when, if they fulfil certain conditions, they are entitled to a lump-sum severance payment. Employees are also entitled to a long-service bonus for every 10 years of service in NLB

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

Service costs are included in the income statement in the item administrative expenses as defined benefit costs, while interest expenses on the defined benefit liability are recognised in the item interest and similar expenses. These interest expenses represent the change during the period in the defined benefit liability that arises from the passage of time. Actuarial gains and losses from the effect of changes in actuarial assumptions and experience adjustments (differences between the realised and expected payments) are recognised in other comprehensive income under the item 'Actuarial Gains/(Losses) on Defined Benefit pensions plans' and will not be recycled to the income statement.

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

	NLB Group		NLB	
	2016	2015	2016	2015
Actuarial assumptions				
Discount factor	0.8% - 6.0%	1.7% - 7.0%	0.8%	1.7%
Wage growth based on inflation, promotions and wage growth based on past years of service	1.6% - 4.0%	2.0% - 3.0%	2.5%	3.0%
Other assumptions				
Number of employees eligible for benefits	5,584	5,658	2,876	2,915

Sensitivity analysis of significant actuarial assumptions

	NLB Group				NLB			
31.12.2016	Discount rate		Future salary increases		Discount rate		Future salary increases	
	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.
Impact on employee benefits provisions - post-employment benefits (in %)	(5.6)	6.1	6.1	(5.6)	(5.8)	6.3	6.2	(5.7)

2.31. Share capital

Dividends on ordinary shares

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

Treasury shares

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

Share issue costs

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

2.32. Segment reporting

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

All transactions between business segments are conducted as part of the normal course of business. Interest income is reallocated between sub-segments of the Bank (NLB) on the basis of multiple transfer prices (fund transfer prices hereinafter: FTP). The amount of net interest income arising from transactions between segments is disclosed in the item intersegment net interest income. Net income from external customers corresponds to the consolidated net income of NLB Group. Income taxes are not allocated to segments (note 8.a).

In accordance with IFRS 8, NLB Group has the following reportable segments: Corporate Banking in Slovenia, Retail Banking in Slovenia, Financial Markets in Slovenia, Foreign Strategic markets, Non-strategic Markets and Activities, and Other Activities.

2.33. Critical accounting estimates and judgments in applying accounting policies

NLB Group's financial statements are influenced by accounting policies, assumptions, estimates and management's judgment. NLB Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with the IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuing basis, and are based on past experience and other factors, including expectations with regard to future events.

a) Impairment losses on loans and advances

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

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

Stress testing for credit risk predicting the impact of unfavourable macroeconomic conditions on default and loss rates

Stress testing is structured to take into account a probable scenario and a stress scenario in the testing of each stress situation. It is assumed that the risk in the probable scenario is covered by regulatory capital, while the stress scenario assumes a deteriorating stress exceeding expectations. The stress scenario predicts a slowdown of economic conditions, which results in an increase of the default rate (DR), as well as the loss rate (LR). Based on the historic experience the connection between the macroeconomic factors and the risk factors is assessed and benchmarks are applied to the existing exposures to assess the additional impairments and provisions required to cover the risk. For the purpose of ICAAP the scenario predicts two levels of severity consequently, we have results for the Baseline and Adverse scenario.

The difference between the two scenarios is the amount of additionally required impairments that must be created by the Bank in the event of their realisation. The assumption in these scenarios is that exposure does not change over one year.

The results of the stress scenario for NLB Group shows an increase of impairments of EUR 84.2 million (2015: EUR 90.4 million) and an increase in the coverage of the credit portfolio by impairments by 1.01 percentage points (2015: 1.03 percentage points).

The methodology for this stress scenario is referring to the ICAAP methodological approach, which was renewed in 2016 accordingly NLB Group adjusted the comparative amounts for 2015.

b) Fair value of financial instruments

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

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

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

The fair value hierarchy of financial instruments is disclosed in note 7.6.

c) Available-for-sale equity instruments

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

If all the declines in fair value below cost had been considered significant or prolonged, NLB Group would have incurred additional impairment losses of EUR 257 thousand (2015: EUR 221 thousand) from the reclassification of the negative valuation from the statement of comprehensive income to the income statement for the current year, while NLB would not have additional impairment losses in 2016 (2015: EUR 15 thousand).

d) Held-to-maturity financial assets

NLB Group classifies non-derivative financial assets with fixed or determinable payments and a fixed maturity as held-to-maturity financial assets. Before making this classification, NLB Group assesses its intention and ability to hold such investments to maturity. If NLB Group is unable to hold these investments until maturity, it must reclassify the entire group as available-for-sale financial assets. The investments would therefore be measured at fair value, resulting in an increase in the value of investments of EUR 59,895 thousand (31 December 2015: an increase by EUR 59,442 thousand) and corresponding other comprehensive income.

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

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

- Future cash flows from individual investments present the estimated cash flow for periods for which adopted plans are available. For core members, estimated cash flows are based on a five-year business plan. For non-core members, estimated cash flows are based on a period in line with the strategy of divestment. The business plans of individual entities are based on an assessment of future economic conditions that will impact an individual member's business and the quality of the credit portfolio.
- The growth rate in cash flows for the period following the adopted business plan is between 1 and 1.5%.
- A target capital adequacy ratio of an individual bank is between 13 and 17%.
- The discount rate derived from the capital asset pricing model and that is used to discount future cash flows is based on the cost of equity allocated to an individual investment. The discount rate reflects the impact of a range of financial and economic variables, including the risk-free rate and risk premium. The value of variables used is subject to fluctuations outside management's control. A pre-tax discount rate is between 9.52 and 18.78% (31 December 2015: between 10.31 and 18.94%).

For strategic NLB Group members in 2016 and 2015 there were no indications of impairment for equity investments.

In 2016, NLB impaired equity investments in non-core members which are in the process of divestment in the amount of EUR 37.65 million – of which EUR 26.13 million refers to the immediate impairment of recapitalisation to cover the operating losses and EUR 11.52 million refers to impairments on the basis of the net present value of the future cash flows. If the discount rate in the discounted cash flows model differs by +/- 1 percentage point, the net present value in use of the equity investments would be lower in the case of the increased discount rate by a maximum of EUR 0.6 million. In the case of a decreased discount rate the net present value in use of equity investments would be higher by a maximum of EUR 0.6 million. If the forecasted cash flows in the discounted cash flows model differ by +/- 10%, the estimated value in use of the equity investments would be higher in the case of increased forecasted cash flows by a maximum of EUR 2.4 million. In the case of decreased forecasted cash flows, the value in use of equity investments would be lower by a maximum of EUR 2.4 million.

f) Goodwill

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

NLB Group performed a test for the impairment of goodwill at the end of the year for all subsidiaries. The review of the impairment of goodwill is based on the same facts and assumptions as the review of impairment of investments in subsidiaries, associates, and joint ventures (note 2.33.e).

g) Taxes

NLB Group operates in countries governed by different laws. The deferred tax assets recognised as at 31 December 2016 are based on profit forecasts and take the expected manner of recovery of the assets into account, i.e. whether the value will be recovered through use, sale, or liquidation. Changes in assumptions regarding the likely manner of recovering assets could lead to the recognition of currently unrecognised deferred tax assets or derecognition of previously created deferred tax assets. NLB Group will adjust deferred tax assets accordingly in the event of changes to assumptions regarding future operations (notes 4.14. and 5.18.).

h) Classification of issued financial instruments as debt or equity

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

2.34. Implementation of the new and revised International Financial Reporting Standards

During the current year, NLB Group adopted all new and revised standards and interpretations issued by the International Accounting Standards Board (hereinafter: the IASB) and the International Financial Reporting Interpretations Committee (hereinafter: the IFRIC), and that are endorsed by the EU that are effective for annual accounting periods beginning on 1 January 2016.

Accounting standards and amendments to existing standards effective for annual periods beginning on 1 January 2016 that were endorsed by the EU and adopted by NLB Group

- IAS 19 (amendment) – Employee Benefits (effective for annual periods beginning on or after 1 February 2015). The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service. The amendment does not have an impact on NLB Group's consolidated financial statements.

- Annual Improvements to IFRSs 2010–2012 Cycle. The improvements are comprised of a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 February 2015. The amendment to IFRS 2 – Share-based Payment includes the definitions of vesting conditions and market conditions, and adds definitions for performance conditions and service conditions. The amendment to IFRS 3 – Business Combinations clarifies that a contingent consideration classified as an asset or liability shall be measured at fair value through profit and loss, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 and IFRS 9 or not. The amendment to IFRS 8 – Operating Segments requires the disclosure of judgments made by management in applying aggregation criteria to operating segments, and also a reconciliation of the total of the reportable segments' assets if the segment assets are reported regularly to the chief operating decision-maker. The amendment to IAS 16 – Property, Plant, and Equipment, and IAS 38 – Intangible Assets clarifies that when an item of property, plant, and equipment or an intangible asset is revaluated, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount. The amendment to IAS 24 – Related Party Disclosures clarifies that an entity providing key management personnel services to the reporting entity is a related party of the reporting entity. The amendments do not have a significant impact on NLB Group's consolidated financial statements.

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

- IAS 27 (amendment) - Equity Method in Separate Financial Statements is effective from annual periods beginning on or after 1 January 2016. The amendments include the option for an entity to account for its investments in subsidiaries, joint ventures, and associates using the equity method in its separate financial statements. The amendment does not have an impact on NLB Group's consolidated financial statements.

- IAS 16 and IAS 38 (amendment) – Clarification of Acceptable Methods of Depreciation and Amortisation is effective from annual periods beginning on or after 1 January 2016. The amendment clarifies that a revenue-based method should not generally be used as a basis for the depreciation of property, plant, and equipment, and may only be used in very limited circumstances to amortise intangible assets. The amendment does not have an impact on NLB Group's consolidated financial statements.

- IFRS 11 (amendment) – Accounting for Acquisition of Interests in Joint Operations is effective from annual periods beginning on or after 1 January 2016. The amendment requires that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured upon the acquisition of an additional interest in the same joint operation while joint control is retained. The amendment does not have an impact on NLB Group's consolidated financial statements.

- IAS 1 (amendment) - Disclosure Initiative is effective from annual periods beginning on or after 1 January 2016. The amendments further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The narrow-focus amendments to IAS clarify, rather than significantly change, the existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies, and presentation of items of other comprehensive income arising from equity accounted Investments. The amendments do not have significant impact on the presentation of NLB Group's consolidated financial statements.

- IFRS 10, IFRS 12, and IAS 28 (amendment) - Investment Entities: Applying the Consolidation Exception is effective from annual periods beginning on or after 1 January 2016. The amendments address issues arising in practice in the application of the investment entities consolidation exception. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments also clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments do not have an impact on NLB Group's consolidated financial statements.

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

- IFRS 9 Financial Instruments
  In July 2014, the IASB issued IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a new approach to financial instruments classification and measurement, a new more forward-looking expected loss model, and amends the requirements for hedge accounting. IFRS 9 is mandatorily effective for annual periods beginning on or after 1 January 2018 with early application permitted. NLB and NLB Group will apply the new standard on 1 January 2018.

Classification and measurement of financial instruments

From a classification and measurement perspective, the new standard will require all debt financial assets to be assessed based on a combination of the Group's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by:
- fair value through profit or loss (FVPL),
- fair value through other comprehensive income (FVOCI),
- amortised cost, and
- financial instruments designated as FVPL

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL.

Having completed the initial assessment of business model and cash flow characteristics test, NLB and NLB Group assess the following:
- the majority of loans and advances to banks and customers that are classified as loans and receivables under IAS 39 are expected to be measured at the amortised cost under IFRS 9,
- financial assets held for trading and financial assets designated as FVPL are expected to continue to be measured at FVPL,
- debt securities classified as available for sale under IAS 39 are expected to be measured at the amortised cost or FVOCI and
- debt securities classified as held to maturity are expected to continue to be measured at the amortised cost.

Hedge accounting

IFRS 9 allows entities to continue with the hedge accounting under IAS 39 even when other elements of IFRS 9 become mandatory on 1 January 2018. Based on performed analysis, NLB Group has decided to continue to apply hedge accounting under IAS 39.

Impairment of financial instruments

IFRS 9 requires the movement from an incurred loss in model to an expected loss model, requiring NLB Group to recognise not only credit losses that have already occurred, but also losses that are expected to occur in the future. An allowance for expected credit losses (ECL) is required for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts.

The allowance is based on the expected credit losses associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset (LECL). When determining whether the risk of default increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical data, experience, and expert credit assessment and incorporation of forward-looking information.

Classification into stages

NLB Group prepared a methodology for ECL defining the criteria for classification into stages, transition criteria between stages, risk indicators calculation, and validation of models. The Group will classify financial instruments into stage 1, stage 2, and stage 3, based on the applied impairment methodology as described below:
- stage 1 – performing portfolio: no significant increase of credit risk since initial recognition, Group recognises an allowance based on 12-month ECL,
- stage 2 – underperforming portfolio: significant increase in credit risk since initial recognition, Group records an allowance for LECL, and
- stage 3 – impaired portfolio: Group recognises LECL for these financial instruments.

A significant increase in credit risk is assumed:
- when a credit rating decreases at the reporting date, in comparison to the credit rating at initial recognition,
- when a financial asset has material delays over 30 days (days-past due are also included in credit rating assessment),
- if NLB and NLB Group expects to grant the borrower forbearance or
- if the facility is placed on the watch list.

ECL for stage 1 financial instruments is calculated on the basis of 12-month PDs or shorter period PDs, if the maturity of the financial asset is shorter than 1 year. The 12-month PD already includes macroeconomic impact effect. Impairment losses in stage 1 are designed to reflect impairment losses that had been incurred in the performing portfolio, but have not been identified.

LECL for stage 2 financial instruments is calculated on the basis of lifetime PDs (LPD) because their credit risk has increased significantly since their initial recognition. This calculation is also based on forward-looking assessment that takes into account number of economic scenarios in order to recognise the probability or losses associated with the predicted macro-economic forecasts.

For financial instruments in stage 3 the same treatment as those considered to be credit impaired in accordance with IAS 39 is expected. Financial instruments will be transferred out of stage 3 if they no longer meet the criteria of credit-impaired after a probation period. Special treatment applies for purchased or originated credit-impaired financial instruments (POCI), where only the cumulative changes in the lifetime expected losses since initial recognition will be recognised a loss allowance.

Interest income recognition

Interest income on financial assets in stage 1 and stage 2 are recognised on a gross basis (amortised costs before allowance), whereas interest income for financial assets in stage 3 are recognised on amortised costs net of allowances.

Forward looking information

The Group will incorporate forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECL. The Group considers forward-looking information such as macroeconomic factors (e.g., unemployment rate, GDP growth, interest rates, and housing prices) and economic forecasts. The baseline scenario represents the more likely outcome resulting from the Group's normal financial planning and budgeting process, while the better and worse case scenarios represent more optimistic or pessimistic outcomes (similar as by ICAAP).

Recalculation of all parameters is performed annually or more frequently, if the macro environment changes more than it was incorporated in previous forecasts, in such a case all the parameters are recalculated according to new forecasts.

Implementation strategy and progress update

Taking into account the dimensions of the IFRS 9 requirements and its impact on the overall banking system, implementation of the standard is organised as a project on the level of NLB Group. The project is divided into sub-projects with clear work streams for classification and measurement of financial instruments, impairment of financial instruments, and disclosures. Sub-projects for classification and measurement are run by Financial Accounting, while the impairment is run by Global Risk. Other relevant departments are involved in a supporting role. The Project is sponsored by the Chief Financial and Risk officers. A project Steering Committee has been nominated for internal monitoring of progress in the implementation and adoption of relevant decisions, meeting on at least a quarterly basis.

Gap analysis in current methodologies, processes, accounting and business policies, IT systems, and identified disclosure requirements are completed. Currently, NLB Group is in the implementation phase. In second half of the year 2017 NLB Group will finish the implementation phase, testing and parallel run. This includes accounting and business policies for classification and measurement of financial instruments, recognition of expected credit losses, disclosures, and reporting.

- IFRS 15 (new standard) – Revenue from Contracts with Customers is effective from annual periods beginning on or after 1 January 2018. IFRS 15 replaces all existing revenue requirements in the IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. The standard specifies the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. NLB Group does not expect a material impact on its consolidated financial statements.

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

- IFRS 14 (new standard) - Regulatory Deferral Accounts is an optional standard, effective for annual periods beginning on or after 1 January 2016. The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard. The standard allows an entity whose activities are subject to rate-regulation to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Existing IFRS preparers are prohibited from adopting this standard. The amendment does not have an impact on NLB Group's consolidated financial statements.

- IFRS 16 (new standard) – Leases is effective from annual periods beginning on or after 1 January 2019. IFRS 16 replaces the old lease accounting Standard IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments, and an asset representing the right to use the underlying asset during the lease. The term 'Lessor Accounting' under IFRS 16 is substantially unchanged from today's accounting under IAS 17. NLB Group is evaluating the impact of the standard on NLB Group's consolidated financial statements.

- IFRS 10 and IAS 28 (amendment) – The IASB has deferred the effective dates of Sale or Contribution of Assets between an Investor and its Associate or Joint Venture amendments indefinitely. The amendments address a conflict between the requirements of IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. NLB Group does not expect an impact on its consolidated financial statements.

- IAS 12 (amendment) – Recognition of Deferred Tax Assets for Unrealised Losses is effective from annual periods beginning on or after 1 January 2017. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. NLB Group does not expect an impact on its consolidated financial statements.

- IAS 7 (amendment) – Disclosure Initiative - the amendment to IAS 7 Statement of Cash Flows is effective from annual periods beginning on or after 1 January 2017. The amendments require companies to provide information about changes in their financing activities, including changes from cash flows and non-cash changes (such us foreign exchange gains or losses). The amendments will impact the presentation of NLB Group's consolidated financial statements.

- IFRS 15 (amendment) – Clarifications to Revenue from Contracts with Customers are effective from annual periods beginning on or after 1 January 2018. The amendments to the Revenue Standard do not change the underlying principles of the Standard, but clarify how those principles should be applied. They also clarify how to identify a performance obligation in a contract, determine whether a company is a principal, and determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. NLB Group does not expect a material impact on its consolidated financial statements.

- IFRS 2 (amendment) – Classification and Measurement of Share-based Payment Transactions is effective from annual periods beginning on or after 1 January 2018. The amendments clarify how to account for certain types of share-based payment transactions. They provide requirements that address three main areas: the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, the classification of share-based payment transactions with a net settlement feature for withholding tax obligations, and accounting where a modification to the terms and conditions of a share-based payment transactions changes its classification from cash-settled to equity-settled. NLB Group does not have share-based payments transactions.

- IFRS 4 (amendment) – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts is effective from annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new replacement Standard IFRS 4. The amendments introduce two approaches: an overlay approach and a temporary exemption from applying IFRS 9. NLB Group does not expect an impact on its consolidated financial statements.

- Annual Improvements to IFRSs 2014–2016 Cycle. The improvements are minor amendments that clarify, correct, or remove redundant wording in a Standards. The amendments refer to three Standards: IFRS 12 Disclosure of Interests in Other Entities effective from annual periods beginning on or after 1 January 2017, and IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures effective from annual periods beginning on or after 1 January 2018.

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration is effective from annual periods beginning on or after 1 January 2018. The interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. It covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense, or income. It does not apply when an entity measures the related asset, expense, or income on initial recognition at fair value. NLB Group is evaluating the impact of the amendments on NLB Group's consolidated financial statements.

- IAS 40 (amendment) – Transfers of Investment Property is effective from annual periods beginning on or after 1 January 2018. The amendments clarify the requirements on transfers to, or from, investment property. An entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of 'investment property.' A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. NLB Group is evaluating the impact of the amendments on NLB Group's consolidated financial statements.

3. Changes in subsidiary holdings

Changes in 2016

Capital changes:

- An increase in share capital in the form of cash contributions in the amount of EUR 2,503 thousand in SR-RE d.o.o., Beograd; REAM d.o.o., Podgorica; and REAM d.o.o., Beograd due to an increase of business operations.
- An increase in share capital in the form of cash contributions in the amount of EUR 13,050 thousand in NLB Leasing Podgorica, Podgorica; NLB Lizing, Skopje; and Prvi Faktor, Ljubljana to ensure capital adequacy until the end of liquidation.
- An increase in share capital in the form of a loan conversion in the amount of EUR 1,719 thousand in NLB Leasing, Beograd to ensure capital adequacy until the end of liquidation.
- An increase in share capital in the form of cash contributions in the amount of EUR 7,004 thousand in NLB Leasing, Ljubljana to cover the loss from selling the portfolio of non-performing loans ("Project Pine"), and in the amount of EUR 7,000 thousand to ensure capital adequacy until the end of liquidation in Optima Leasing, Zagreb.

Other changes:

- FIN-DO d.o.o., Domžale and PRO-Avenija d.o.o., Ljubljana are merged with PRO-REM d.o.o., Ljubljana. The merger was formally registered on 1 July 2016, with the accounting date of merger as at 31 December 2015.
- BH-RE d.o.o., Sarajevo was established and will manage certain real estate in NLB Group. PRO-REM d.o.o., Ljubljana's ownership is 100%.
- Kreditni biro SISBON d.o.o., Ljubljana; Optima Leasing, Zagreb; NLB Leasing, Beograd; NLB Lizing, Skopje; PRO-REM, Ljubljana; OL Nekretnine, Zagreb; NLB Leasing Podgorica, Podgorica; and NLB Interfinanz Zürich are formally in liquidation; and also NLB Propria, Ljubljana from 1 January 2017.
- Prvi faktor, Skopje and NLB Leasing Sofia were liquidated. In accordance with a court order, the companies were removed from the court register.

Changes in 2015

Capital changes:

- An increase in share capital in the form of cash contributions in the amount of EUR 7,669 thousand in NLB Banka, Sarajevo due to stricter regulatory requirements for capital adequacy. Ownership interest increased from 96.30% to 97.34%.
- On the basis of an option contract, NLB acquired shares of NLB Banka, Podgorica and thereby increased its ownership from 98.00% to 99.36%. The increase in the capital investment was recognised in the amount of EUR 364 thousand. NLB has no voting rights regarding the newly acquired shares.
- NLB Leasing, Ljubljana increased its ownership interest in Optima Leasing, Zagreb from 99.97% to 100%. Consideration was paid in the amount of EUR 40 thousand.

Other changes:

- REAM d.o.o., Zagreb; REAM d.o.o., Beograd; REAM d.o.o., Podgorica; PRO-Avenija d.o.o., Ljubljana; and SR-RE d.o.o., Beograd were established and will manage certain real estate in NLB Group. NLB's ownership is 100%.
- LHB Trade d.o.o., Zagreb was liquidated in accordance with a court order, and the company was removed from the court register.
- NLB Group became a 100% owner of Tara Hotel d.o.o., Budva upon realisation of the collateral.
- NLB Banka, Beograd sold its 100% ownership in Convest d.o.o., Novi Sad.

4. Notes to the income statement

4.1. Interest income and expenses

Analysis by type of assets and liabilities

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Interest and similar income				
Loans and advances to customers	327,055	372,604	166,718	211,250
Available-for-sale financial assets	31,426	33,232	17,881	19,692
Held-to-maturity financial assets	17,997	21,656	17,997	21,656
Financial assets held for trading	9,180	11,663	9,273	11,792
Loans and advances to banks and central banks	1,249	1,302	2,407	2,437
Derivatives - hedge accounting	831	1,487	831	1,487
Deposits with banks and central banks	755	1,215	442	642
Other assets	1	44	1	44
Total	**388,494**	**443,203**	**215,550**	**269,000**
Interest and similar expenses				
Due to customers	40,797	65,425	15,281	29,426
Debt securities in issue	9,376	10,454	9,376	10,454
Financial liabilities held for trading	5,923	8,420	5,923	8,420
Derivatives - hedge accounting	5,688	5,952	5,688	5,952
Borrowings from banks and central banks	3,699	7,501	2,713	5,546
Borrowings from other customers	1,857	2,271	10	109
Subordinated liabilities	1,840	1,548	-	-
Negative interest from deposits with banks and central banks	1,429	381	1,307	361
Provisions for defined employee benefits (note 2.30. and 5.17.c)	357	751	205	550
Deposits from banks and central banks	75	105	70	39
Other financial liabilities	148	193	99	136
Total	**71,189**	**103,001**	**40,672**	**60,993**
Net interest	**317,305**	**340,202**	**174,878**	**208,007**

In 2016, interest income on individually impaired loans amounted to EUR 31,059 thousand (2015: EUR 47,853 thousand) for NLB Group, and to EUR 15,940 thousand for NLB (2015: EUR 28,783 thousand).

4.2. Dividend income

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Available-for-sale financial assets	1,238	1,346	1,144	1,264
Total	**1,238**	**1,346**	**1,144**	**1,264**

4.3. Fee and commission income and expenses

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

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Fee and commission income				
Fee and commission income relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	55,798	59,427	37,568	44,139
Customer transaction accounts	39,878	39,668	31,015	31,638
Other fee and commission income				
Payments	54,987	54,274	28,149	28,278
Investment funds	13,831	13,534	3,615	4,235
Guarantees	12,225	13,322	8,250	8,687
Agency of insurance products	3,321	2,873	3,302	2,873
Other services	6,008	5,501	4,399	3,187
Total	**186,048**	**188,599**	**116,298**	**123,037**
Fee and commission expenses				
Fee and commission expenses relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	34,539	35,415	21,430	24,457
Other fee and commission expenses				
Payments	5,363	4,970	775	788
Insurance for holders of personal accounts and golden cards	2,108	1,757	1,427	1,449
Investment banking	1,018	941	279	263
Guarantees	354	592	290	541
Other services	3,038	2,545	1,361	1,020
Total	**46,420**	**46,220**	**25,562**	**28,518**
Net activity fee and commission income	**139,628**	**142,379**	**90,736**	**94,519**

Income from other services includes income from servicing of non-performing loans sold in Project Pine in the amount of EUR 1,543 thousand, income from deposit valuables, administrative services and safe custody, and other agency services.

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

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Fee and commission income related to fiduciary activities				
Receipt, processing, and execution of orders	1,250	781	1,231	859
Management of financial instruments portfolio	1,502	1,527	-	-
Initial or subsequent underwriting and/or placing of financial instruments without a firm commitment basis	184	444	184	444
Custody and similar services	4,190	3,791	4,104	4,003
Management of clients' account of non-materialised securities	549	553	549	553
Safe-keeping of clients' financial instruments	-	5	-	-
Advice to companies on capital structure, business strategy, and related matters, advice, and services relating to mergers and acquisitions of companies	648	10	648	-
Total	**8,323**	**7,111**	**6,716**	**5,859**
Fee and commission expenses related to fiduciary activities				
Fee and commission related to Central Securities Clearing Corporation and similar organisations	2,241	2,368	2,121	2,267
Fee and commission related to stock exchange and similar organisations	45	52	45	43
Total	**2,286**	**2,420**	**2,166**	**2,310**
Net fee income related to fiduciary activities	**6,037**	**4,691**	**4,550**	**3,549**
Total fee and commission income	**194,371**	**195,710**	**123,014**	**128,896**
Total fee and commission expenses	**48,706**	**48,640**	**27,728**	**30,828**
Total a) and b)	**145,665**	**147,070**	**95,286**	**98,068**

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

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Available-for-sale financial assets				
- gains	14,861	10,964	14,712	10,886
- losses	(33)	(125)	(33)	(21)
Financial liabilities measured at amortised cost				
- gains	-	54	-	54
- losses	(40)	(234)	(40)	(234)
Total	**14,788**	**10,659**	**14,639**	**10,685**

In April 2016, NLB Group successfully disinvested a non-strategic equity investment and realised a gain in the amount of EUR 4,803 thousand.

In June 2016 Visa Inc. completed its acquisition of Visa Europe to create a single global payments business under the Visa brand. In this transaction, NLB Group realised a gain in the amount of EUR 7,753 thousand as a result of the disposal of its investment in Visa Europe shares. This represents the difference between the cost of the Visa Europe shares derecognised and the fair value of the consideration received. The latter comprises the received cash consideration, the present value of the deferred cash consideration receivable in year 2019, and fair value of the received 2,246 preferred Visa Inc. Class C shares. At a future date and under certain conditions these shares are convertible into Class A shares.

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

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Equity instruments				
- gains	26	-	26	-
- losses	(26)	(12)	(26)	(12)
Foreign exchange trading				
- gains	23,023	34,009	15,767	25,935
- losses	(13,244)	(23,355)	(12,415)	(21,850)
Debt instruments				
- gains	4,474	2,008	4,474	2,005
- losses	(6,862)	(3,223)	(6,862)	(3,223)
Derivatives				
- currency	506	(7,083)	288	(6,844)
- interest rate	(1,238)	(4,334)	(1,178)	(4,428)
- cross currency interest rate	(29)	(16,794)	(29)	(16,794)
- securities	291	(93)	291	(93)
Total	**6,921**	**(18,877)**	**336**	**(25,304)**

4.6. Foreign exchange translation gains less losses

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Financial assets and liabilities not classified as at fair value through profit or loss	1,449	11,153	1,014	22,579
Financial assets designated at fair value through profit or loss	(246)	752	(246)	753
Other	(45)	(74)	(30)	(81)
Total	**1,158**	**11,831**	**738**	**23,251**

4.7. Other operating income

in EUR thousand

	NLB Group		NLB	
	2016	**2015**	**2016**	**2015**
Income from non-banking services	14,552	15,657	9,911	11,061
- IT services	5,208	6,013	5,208	6,013
- cash transportation	3,608	3,823	3,608	3,823
- operating leases of movable property	3,132	3,477	484	508
- other	2,604	2,344	611	717
Rental income from investment property	5,942	6,399	260	86
Revaluation of investment property to fair value (note 5.10.)	155	1,342	22	171
Other operating income	3,793	3,931	2,074	1,916
Total	**24,442**	**27,329**	**12,267**	**13,234**

4.8. Other operating expenses

in EUR thousand

	NLB Group		NLB	
	2016	**2015**	**2016**	**2015**
Deposit guarantee	13,134	8,259	4,567	-
Revaluation of investment property to fair value (note 5.10.)	8,067	8,262	484	52
Single Resolution Fund	3,894	4,340	3,894	4,340
Other taxes and compulsory public levies	3,055	2,327	1,026	1,001
Expenses related to issued service guarantees	1,728	6,376	1,728	6,376
Membership fees and similar fees	889	1,397	317	740
Other operating expenses	2,437	4,122	1,160	2,624
Total	**33,204**	**35,083**	**13,176**	**15,133**

In April 2016, the Law on the deposit guarantee scheme entered into force in Slovenia, according to which the Bank of Slovenia sets up and operates the deposit guarantee scheme in Slovenia. The target fund level is 0.8% of the sum of all guaranteed deposits in the Republic of Slovenia as at 31 December of the previous year, and until the Fund reaches this level, banks are obliged to pay regular annual contributions. In other banking members of the NLB Group, which operate outside the EU, similar schemes had already been in place in previous years. Item "Deposits Guarantee" also includes the amount of EUR 359 thousand which relates to NLB's payment of guaranteed investors' claims at a brokerage company against which bankruptcy proceedings started.

4.9. Administrative expenses

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Employee costs				
- gross salaries, compensations and other short-term benefits	140,961	138,283	88,277	86,800
- defined contribution scheme	11,460	11,124	6,639	6,570
- social security contributions	9,028	9,093	5,441	5,592
- defined benefit expenses (note 5.17.c)	3,930	4,683	2,843	2,813
- post-employment benefits	379	319	473	312
- other employee benefits	3,551	4,364	2,370	2,501
Total	**165,379**	**163,183**	**103,200**	**101,775**
Other general and administrative expenses				
- other services	36,978	38,961	25,127	27,144
- maintenance	15,557	16,124	11,547	12,271
- intellectual services	14,116	16,635	9,429	9,689
- materials	9,501	11,031	4,359	5,729
- rents	7,934	7,790	2,636	2,876
- property	5,347	5,398	940	1,193
- software	2,104	1,773	1,396	1,403
- movable property	483	619	300	280
- advertising	4,999	5,288	2,386	2,700
- insurance	3,112	3,321	1,510	1,578
- education, scholarships and tuition fees	1,384	1,420	999	1,124
- travel costs	1,384	1,449	619	637
- other costs	816	782	271	290
Total	**95,781**	**102,801**	**58,883**	**64,038**
Total administrative expenses	**261,160**	**265,984**	**162,083**	**165,813**
Number of employees	6,175	6,372	2,885	3,028

Costs of other services include asset protection costs, asset management costs, archiving services, postal services, and communication costs.

In 2016, NLB Group paid EUR 566 thousand (2015: EUR 716 thousand) and NLB EUR 200 thousand (2015: EUR 208 thousand) to a statutory auditor for auditing the annual report. In addition, NLB Group and NLB paid the following expenses to the statutory auditor:

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Other audit services	236	29	236	7
Tax and other consulting	-	88	-	-
Other non-audit services	-	24	-	-
Total	**236**	**141**	**236**	**7**

4.10. Depreciation and amortisation

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Amortisation of intangible assets (note 5.11.)	11,694	14,334	9,657	12,400
Depreciation of property and equipment (note 5.9.)	16,651	17,522	9,223	9,010
Total	**28,345**	**31,856**	**18,880**	**21,410**

4.11. Provisions for other liabilities and charges

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Guarantees and commitments (note 5.17.b)	(10,432)	(10,847)	(9,897)	(11,219)
Restructuring provisions (note 5.17.d)	10,644	4	9,377	(15)
Provisions for legal issues (note 5.17.e)	4,252	7,475	145	3,409
Other provisions (note 5.17.f)	(107)	2,672	(107)	2,672
Total	**4,357**	**(696)**	**(482)**	**(5,153)**

4.12. Impairment charge

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Impairment of financial assets				
Available-for-sale financial assets (note 5.4.b)	198	4,659	198	2,617
Held-to-maturity financial assets (note 5.7.b)	83	-	83	-
Loans and advances to banks (note 5.14.b)	74	2,557	(196)	67
Loans to government (note 5.14.b)	(2,604)	1,285	(163)	1,359
Loans to financial organisations (note 5.14.b)	(14,842)	7,780	(5,005)	15,446
Loans to individuals (note 5.14.a)	12,800	14,766	10,245	10,583
Granted overdrafts	2,587	4,889	2,303	4,675
Loans for houses and flats	4,436	3,241	5,495	2,440
Consumer loans	3,261	3,016	1,930	2,305
Other loans	2,516	3,620	517	1,163
Loans to other customers (note 5.14.b)	40,526	29,120	19,909	10,114
Loans to large corporate customers	(16,052)	(6,598)	5,065	(29,283)
Loans to small and medium size enterprises	56,578	35,718	14,844	39,397
Other financial assets (note 5.14.c)	625	6,220	356	1,721
Total	**36,860**	**66,387**	**25,427**	**41,907**
Impairment of investments in subsidiaries, associates and JV				
Investments in subsidiaries	-	-	25,334	50,271
Investments in associates and joint ventures	12,250	-	12,313	33
Total	**12,250**	**-**	**37,647**	**50,304**
Impairment of other assets				
Property and equipment (note 5.9.)	3,307	1,122	1,127	344
Other assets	3,871	16,292	232	559
Total	**7,178**	**17,414**	**1,359**	**903**
Total impairment	**56,288**	**83,801**	**64,433**	**93,114**

In 2016, NLB impaired equity investments in non-core subsidiaries and joint ventures in a total amount of EUR 37,647 thousand. Of that, EUR 7,004 thousand relates to the recapitalisation of subsidiary participating in a sale of a package of non-performing loans ('Project Pine'). The funds from the capital increases were used to repay the loan obligations to NLB. Due to a release of the loan loss impairments, the net effect of impairments on profit or loss was EUR 14,127 thousand lower. Impairments of investments in subsidiaries and joint ventures are included in the segment Non-core markets and activities.

NLB Group and NLB recorded additional impairments of principal due to a sale of non-performing loans ('Project Pine') in the amount of EUR 25.817 thousand and EUR 4,102 thousand impairment of interest (note 4.1.). The total negative effect from a sale of non-performing loans amounted to EUR 29,919 thousand.

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

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Dividends from investments in subsidiaries, associates, and joint ventures	-	-	28,915	13,747
Gains less losses on derecognition of subsidiaries	(153)	(173)	-	-
Share of net gains less losses of associates and joint ventures accounted for using the equity method (note 5.12.c)	5,159	4,485	-	-
Total	**5,006**	**4,312**	**28,915**	**13,747**

4.14. Income tax

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Current income tax	14,758	12,767	7,008	8,260
Deferred tax (note 5.18.)	217	(1,387)	(3,083)	(292)
Total	**14,975**	**11,380**	**3,925**	**7,968**

Income tax differs from the amount of tax determined by applying the Slovenian statutory tax rate as follows:

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Profit before tax	130,600	106,758	67,708	51,849
Tax calculated at prescribed rate of 17%	22,202	18,149	11,510	8,814
Effect of change in tax rate in the reconciliation	(1,666)	-	(2,006)	-
Income not assessable for tax purposes	(2,900)	(2,781)	(5,796)	(2,929)
Expenses not deductible for tax purposes	2,930	3,885	816	734
Effect of unrecognised deferred tax assets on impairment of subsidiaries and associates	(2,083)	(25,276)	3,375	4,557
Tax allowances	(1,391)	(1,456)	(1,032)	(1,040)
Effect of unrecognised deferred tax assets on tax losses	3,906	6,477	-	-
Effects of different tax rates in other countries	(4,543)	(2,965)	-	-
Changes in recognition and measurement of deferred taxes	(6,870)	32,827	(7,077)	73
Withholding tax suffered in other countries for which no tax credit was available in Slovenia	974	771	974	771
Adjustment to tax in respect of prior periods	842	(210)	842	(210)
Other	2	201	2	201
Adjustment of deferred tax assets	3,572	(18,242)	2,317	(3,003)
Total	**14,975**	**11,380**	**3,925**	**7,968**

Income tax rates within NLB Group range from 9-30%. A tax rate of 17% was applied in Slovenia in 2015 and 2016. In accordance with the change of tax legislation, the corporate income tax rate from 2017 onwards will be 19%.

The majority of non-taxable income relates to dividends and income deemed to be dividends. NLB excluded EUR 29,592 thousand in dividend income and income deemed to be dividends from its tax base in 2016 (2015: EUR 16,968 thousand).

NLB recognised deferred tax assets accrued on the basis of temporary differences in an amount that, given future profit estimates, is expected to be reversed in the foreseeable future (i.e. within five years). Due to some uncertainties regarding external factors (regulatory environment, market situation, etc.), as well as not yet defined tax treatment of transition to IFRS 9, a lower range of expected outcomes was considered for purposes of deferred tax assets calculation. Other NLB Group members did not recognise deferred tax assets for tax losses where there is uncertainty about whether the tax losses can be utilised, because it is not probable that future taxable profits will be available against which the deferred tax assets can be utilised and where the utilisation of unused tax losses is limited to five years.

Deferred tax assets were not recognised on temporary differences arising from the impairment of investments in subsidiaries, where it is not probable that the temporary difference will reverse in the foreseeable future amounting in NLB to EUR 530,302 thousand as at 31 December 2016 (31 December 2015: EUR 542,989 thousand).

In November 2016 the tax inspection of corporate income tax for the period from 2009 till 2014 in NLB was finished. In this respect EUR 841 thousand in expenses for income tax were recorded, and EUR 39,434 thousand deferred tax assets for tax losses were reduced. A reduction of deferred tax assets has no impact on statement of financial position, as the bank recognised deferred tax assets based on future profit estimates only on temporary differences that were envisaged to be utilised in the foreseeable future.

4.15. Earnings per share

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

Diluted earnings per share are the same as basic earnings per share for NLB Group and NLB, since subordinated loans and issued debt securities have no future conversion options, and consequently there are no dilutive potential ordinary shares.

	NLB Group		NLB	
	2016	2015	2016	2015
Net profit attributable to the owners of the parent (in EUR thousand)	110,017	91,914	63,783	43,881
Weighted average number of ordinary shares (in thousand)	20,000	20,000	20,000	20,000
Basic earnings per share (in EUR per share)	5.5	4.6	3.2	2.2
Diluted earnings per share (in EUR per share)	5.5	4.6	3.2	2.2

5. Notes to the statement of financial position

5.1. Cash, cash balances at central banks, and other demand deposits at banks

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Cash	260,612	228,156	128,519	128,682
Balances and obligatory reserves with central banks	776,648	527,156	375,561	155,160
Demand deposits at banks	261,754	406,671	112,959	212,964
Total	**1,299,014**	**1,161,983**	**617,039**	**496,806**

Slovenian banks are required to maintain a compulsory reserve with the Bank of Slovenia relative to the volume and structure of their customer deposits. Other banks in NLB Group maintain a compulsory reserve in accordance with local legislation. NLB and other banks in NLB Group fulfil their compulsory reserve deposit requirements.

5.2. Trading assets

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Derivatives, excluding hedging instruments				
Swap contracts	15,185	26,855	15,179	27,322
- currency swaps	397	191	391	191
- interest rate swaps	14,551	26,421	14,551	26,888
- currency interest rate swaps	237	243	237	243
Options	405	151	405	151
- currency options	-	37	-	37
- securities options	405	114	405	114
Forward contracts	3,352	3,035	3,352	3,035
- currency forward	3,352	3,035	3,352	3,035
Total derivatives	**18,942**	**30,041**	**18,936**	**30,508**
Securities				
Bonds	19,735	43,555	19,735	43,555
- Republic of Slovenia	19,735	39,460	19,735	39,460
- other issuers	-	4,095	-	4,095
Shares	-	10	-	10
Treasury bills - Republic of Slovenia	30,012	42,636	30,012	42,636
Commercial papers - foreign banks	19,010	151,171	19,010	151,171
Total securities	**68,757**	**237,372**	**68,757**	**237,372**
Total	**87,699**	**267,413**	**87,693**	**267,880**
- quoted securities	49,747	85,208	49,747	85,208
of these equity instruments	-	10	-	10
of these debt instruments	49,747	85,198	49,747	85,198
- unquoted securities	19,010	152,164	19,010	152,164
of these debt instruments	19,010	152,164	19,010	152,164

The notional amounts of derivative financial instruments are disclosed in note 5.24.b.

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

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

in EUR thousand

NLB Group and NLB	Carrying amount	Fair value
the date of reclassification		69,766
as at 31 December 2009	72,030	65,278
as at 31 December 2010	75,928	67,000
as at 31 December 2011	84,429	55,922
as at 31 December 2012	86,501	53,958
as at 31 December 2013	80,218	55,260
as at 31 December 2014	87,667	72,986
as at 31 December 2015	85,009	76,258
as at 31 December 2016	85,315	78,953

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

in EUR thousand

NLB Group and NLB	Interest income in period							
	2016	2015	2014	2013	2012	2011	2010	2009
Financial assets held for trading reclassified to loans and receivables	2,079	2,053	2,103	2,153	2,449	3,446	4,471	2,836

in EUR thousand

NLB Group and NLB	Gains/(losses) that would have been recognised if the assets had not been reclassified							
	2016	2015	2014	2013	2012	2011	2010	2009
Financial assets held for trading reclassified to loans and receivables	2,695	3,272	17,726	1,302	(52)	(11,078)	1,722	(4,647)

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

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

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Private equity fund	2,011	4,913	2,011	4,913
Other investments	4,683	2,682	-	-
Total	**6,694**	**7,595**	**2,011**	**4,913**

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

in EUR thousand

	NLB Group and NLB	
	31.12.2016	31.12.2015
Structured deposit	2,011	4,912
Total	**2,011**	**4,912**

In NLB, financial assets in the amount of EUR 2,011 thousand (31 December 2015: EUR 4,913 thousand) are designated at fair value through profit or loss to reduce the accounting mismatch that would otherwise arise. Financial liability, designated at fair value through profit or loss in the amount of EUR 2,011 thousand (31 December 2015: EUR 4,912 thousand) is the structured deposit from customers from which the returns depend on the returns from private equity funds, classified as financial assets, that are measured at fair value through profit or loss.

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

5.4. Available-for-sale financial assets

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

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Bonds	1,619,228	1,350,942	1,262,363	999,781
- governments	1,146,150	1,050,770	789,285	699,609
- Republic of Slovenia	442,802	401,405	380,411	354,406
- other EU members	405,655	343,295	405,655	340,628
- non-EU members	297,693	306,070	3,219	4,575
- banks	453,179	284,141	453,179	284,141
- other issuers	19,899	16,031	19,899	16,031
Cash certificates	199	77,939	-	-
Shares	29,050	30,943	22,737	25,893
National Resolution Fund	44,570	44,519	44,570	44,519
Treasury bills	104,617	81,680	55,093	26,998
- Republic of Slovenia	57,096	24,997	55,093	24,997
- other EU members	-	2,001	-	2,001
- non-EU members	47,521	54,682	-	-
Commercial bills	274,489	151,168	209,331	151,168
Total	**2,072,153**	**1,737,191**	**1,594,094**	**1,248,359**
- quoted securities	1,533,697	1,263,070	1,334,925	1,045,797
of these equity instruments	24,312	21,334	20,927	19,018
of these debt instruments	1,509,385	1,241,736	1,313,998	1,026,779
- unquoted securities	538,456	474,121	259,169	202,562
of these equity instruments	49,308	54,128	46,380	51,394
of these debt instruments	489,148	419,993	212,789	151,168

b) Movements of available-for-sale financial assets

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	1,737,191	1,672,952	1,248,359	1,182,748
Effects of translation of foreign operations to presentation currency	(2,048)	(54)	-	-
Additions	1,766,455	1,661,860	666,304	437,390
Disposals and maturity	(1,463,553)	(1,612,917)	(336,736)	(375,407)
Interest income (note 4.1.)	31,426	33,232	17,881	19,692
Exchange differences on monetary assets	1,260	1,867	594	1,554
Changes in fair values	1,620	(15,004)	(2,110)	(15,001)
Impairment (note 4.12.)	(198)	(4,659)	(198)	(2,617)
- impairment of equity securities	(198)	(4,788)	(198)	(2,746)
- impairment of debt securities	-	129	-	129
Disposal of subsidiary	-	(86)	-	-
Balance as at 31 December	**2,072,153**	**1,737,191**	**1,594,094**	**1,248,359**

As at 31 December 2016, the value of equity instruments obtained by NLB Group taking possession of collateral held as security and recognised in the statement of financial position is EUR 24,162 thousand (31 December 2015: EUR 21,277 thousand), and by NLB it amounted to EUR 20,832 thousand (31 December 2015: EUR 18,977 thousand) (note 7.1.n).

By selling equity securities available for sale, NLB Group realised a net gain in the amount of EUR 13,478 thousand (2015: EUR 731 thousand), and NLB a net gain in the amount of EUR 13,472 thousand (2015: EUR 748 thousand). This gain is included in 'Gains Less Losses from Financial Assets and Liabilities not Classified at Fair Value through Profit or Loss (note 4.4.).'

c) Accumulated other comprehensive income related to available-for-sale financial assets

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	48,321	57,750	37,996	45,103
Effects of translation of foreign operations to presentation currency	(3)	(19)	-	-
Net gains/(losses) from changes in fair value	18,532	(2,297)	14,652	(314)
Gains/losses transferred to net profit on disposal or impairment	(14,630)	(6,180)	(14,481)	(8,248)
Deferred income tax (note 5.18.)	(1,207)	1,413	(949)	1,455
Share of other comprehensive income of associates and joint ventures	1,988	(2,346)	-	-
Balance as at 31 December	**53,001**	**48,321**	**37,218**	**37,996**
- debt securities	41,989	36,984	28,574	27,950
- equity securities	11,012	11,337	8,644	10,046

5.5. Derivatives for hedging purposes

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

NLB Group entities use various derivatives such as interest rate swaps (IRS) and currency interest rate swaps (CIRS) to close open positions in an individual maturity bucket. Micro and macro fair value hedges are used for that purpose, i.e. the swapping of a fixed interest rate on a hedged item for a variable interest rate. Micro cash flow hedges are also used, i.e. the swapping of a variable interest rate on a hedged item for a fixed interest rate. All cash flow hedges were made on liability items, while fair value hedges were used on both liability and asset items.

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

Hedge accounting rules were not applied in economic hedges using CIRS. Thus, the effects of valuation are disclosed in the income statement in the line 'Gains Less Losses from Financial Assets and Liabilities Held for Trading.'

a) Fair value adjustment in hedge accounting recognised in profit or loss

in EUR thousand

	NLB Group		NLB	
	2016	**2015**	**2016**	**2015**
Fair value hedge	**(770)**	**231**	**32**	**231**
Net effects from hedging instruments	715	7,698	715	7,698
Net effects from hedged items	(1,485)	(7,467)	(683)	(7,467)
Cash flow hedge	**(2,469)**	**-**	**(2,469)**	**-**
Transfer from other comprehensive income	(2,469)	-	(2,469)	-
Total	**(3,239)**	**231**	**(2,437)**	**231**

In 2016 NLB Group terminated a fair value hedge of fix interest rate loan due to expected early repayment. The net effects from hedged items include a reversal of the previously accumulated positive effect in the amount of EUR 802 thousand.

In 2016 NLB terminated a cash flow hedge of borrowing with a variable interest rate due to expected prepayment in the amount of EUR 37,234 thousand. Negative valuation effects, previously accumulated in other comprehensive income were transferred in the income statement. Prepayment of funding was realised in January 2017.

As of December 2016 NLB Group and NLB have no relationships designated for cash flow hedge accounting.

b) Notional amounts of interest rate swaps

in EUR thousand

NLB Group and NLB	Notional amount	Fair value	
		Asset	Liability
Fair value hedge			
31.12.2016	108,554	217	29,024
31.12.2015	159,259	1,083	31,065
Cash flow hedge			
31.12.2015	12,964	-	2,777
Total			
31.12.2016	**108,554**	**217**	**29,024**
31.12.2015	**172,223**	**1,083**	**33,842**

c) Future cash flows of interest rate swaps for cash flow hedge

in EUR thousand

NLB Group and NLB	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
31.12.2015					
- Outflow	-	(166)	(407)	(1,772)	(889)
- Inflow	-	-	1	81	263

d) Accumulated other comprehensive income related to cash flow hedging

in EUR thousand

	NLB Group and NLB	
	2016	2015
Balance as at 1 January	(2,243)	(2,666)
Net losses on hedging instruments	(343)	(78)
Transfer to income statement	3,046	587
Deferred income tax (note 5.18.)	(460)	(86)
Balance as at 31 December	**-**	**(2,243)**

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

5.6. Loans and advances

Analysis by type of loans and advances

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Debt securities	85,315	394,579	85,315	394,579
Loans to banks	435,537	431,775	408,056	345,207
Loans and advances to customers	6,912,067	6,693,621	4,843,594	4,826,139
Other financial assets	61,014	69,521	36,151	48,944
Total	**7,493,933**	**7,589,496**	**5,373,116**	**5,614,869**

a) Debt securities

Analysis of debt securities by sector

in EUR thousand

	NLB Group and NLB	
	31.12.2016	31.12.2015
Government	-	309,570
Companies	85,315	85,009
Total	**85,315**	**394,579**

b) Loans and advances to banks

Analysis by type of loans and advances

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loans	945	3,825	19,399	29,391
Time deposits	433,883	427,195	387,599	315,016
Purchased receivables	1,058	997	1,058	997
	435,886	432,017	408,056	345,404
Allowance for impairment (note 5.14.b)	(349)	(242)	-	(197)
Total	**435,537**	**431,775**	**408,056**	**345,207**

c) Loans and advances to customers

Analysis by type of loans and advances

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loans	7,198,486	7,254,266	5,098,336	5,266,143
Finance lease receivables	192,923	253,205	-	-
Overdrafts	298,351	320,514	178,899	183,406
Credit card business	112,106	111,673	60,338	59,820
Called guarantees	13,577	16,773	10,744	11,463
Reverse sale and repurchase agreements	25	25	25	25
	7,815,468	7,956,456	5,348,342	5,520,857
Allowance for impairment (note 5.14.)	(903,401)	(1,262,835)	(504,748)	(694,718)
Total	**6,912,067**	**6,693,621**	**4,843,594**	**4,826,139**

Analysis of loans and advances by sector

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Government	775,986	688,474	668,300	578,184
Financial organisations	74,344	139,852	273,310	391,911
Companies	2,970,229	2,957,304	1,950,869	1,966,361
Individuals	3,091,508	2,907,991	1,951,115	1,889,683
Total	**6,912,067**	**6,693,621**	**4,843,594**	**4,826,139**

Finance leases

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

in EUR thousand

NLB Group	31.12.2016	31.12.2015
The gross investment in finance leases by maturity		
- not later than 1 year	71,291	121,065
- later than 1 year and not later than 5 years	127,319	137,575
- later than 5 years	12,808	19,011
	211,418	**277,651**
Unearned future finance income on finance leases	(18,495)	(24,446)
Net investment in finance leases	**192,923**	**253,205**
- present value of minimum lease payments	192,923	253,205
The net investment in finance leases by maturity		
- not later than 1 year	64,337	111,965
- later than 1 year and not later than 5 years	116,944	124,104
- later than 5 years	11,642	17,136
Total	**192,923**	**253,205**

Finance and operating lease transactions are carried out by NLB Group through specialised subsidiaries that offer car leasing, leasing of commercial and production equipment, and others.

The majority of the lease agreements entered into by NLB Group as lessor contracts are finance lease agreements (operating leases account for less than 10% of all lease agreements). The majority of agreements are concluded for a non-cancellable period of between 48 and 60 months, with an unguaranteed residual value representing a purchase option typically between 1 and 2% of the gross investment.

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

As at 31 December 2016 the allowance for unrecoverable finance lease receivables included in the allowance for loan impairment amounted to EUR 42,511 thousand (31 December 2015: EUR 75,386 thousand).

d) Other financial assets

Analysis by type of other financial assets

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Credit card receivables	21,961	11,739	17,375	8,346
Receivables in the course of collection	13,235	15,416	11,481	13,033
Debtors	11,934	20,415	929	1,213
Fees and commissions	7,311	7,548	5,699	5,384
Prepayments	2,217	4,289	-	-
Receivables from purchase agreements for equity securities	164	16,920	164	16,920
Other financial assets	19,645	20,272	4,274	9,171
	76,467	96,599	39,922	54,067
Allowance for impairment (note 5.14.c)	(15,453)	(27,078)	(3,771)	(5,123)
Total	**61,014**	**69,521**	**36,151**	**48,944**

Receivables in the course of collection are temporary balances which will be transferred to the appropriate item in the days following their occurrence.

Other financial assets include receivables to pension funds for prior pension payments, receivables from insurance companies, deposit facilities, claims and enforcement procedures, paid duties, and legal costs.

Analysis of other financial assets by sector

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Banks	14,058	9,170	8,377	3,565
Government	13,708	12,181	1,753	1,748
Financial organisations	10,969	1,923	8,364	5,470
Companies	6,632	30,242	3,168	23,424
Individuals	15,647	16,005	14,489	14,737
Total	**61,014**	**69,521**	**36,151**	**48,944**

e) Movement of called non-financial guarantees

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	5,678	8,494	4,838	5,648
Effects of translation of foreign operations to presentation currency	(13)	1	-	-
Called guarantees	2,520	8,663	1,595	7,881
Paid guarantees	(1,525)	(9,999)	(493)	(7,210)
Write-offs	(2,431)	(1,481)	(2,431)	(1,481)
Balance as at 31 December	**4,229**	**5,678**	**3,509**	**4,838**

5.7. Held-to-maturity financial assets

a) Analysis by type of held-to-maturity financial assets

in EUR thousand

	NLB Group and NLB	
	31.12.2016	31.12.2015
Bonds	611,532	545,561
- governments	591,468	532,235
- Republic of Slovenia	411,914	363,566
- other EU members	179,554	168,669
- banks	16,729	13,326
- other issuers	3,335	-
Treasury bills of Republic of Slovenia	-	19,974
	611,532	565,535
Allowance for impairment	(83)	-
Total	**611,449**	**565,535**
- quoted	611,449	565,535

b) Movements of held-to-maturity financial assets

in EUR thousand

	NLB Group and NLB	
	2016	2015
Balance as at 1 January	565,535	711,648
Additions	116,897	32,224
Decreases	(88,897)	(199,926)
Interest income (note 4.1.)	17,997	21,656
Change of interest income due to reclassification of available-for-sale to held-to-maturity financial assets	-	(67)
Impairment (note 4.12.)	(83)	-
Balance as at 31 December	**611,449**	**565,535**

5.8. Non-current assets classified as held for sale

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	4,629	5,643	1,776	2,580
Effects of translation of foreign operations to presentation currency	(53)	(14)	-	-
Transfer from property and equipment (note 5.9.)	481	-	418	-
Transfers into other assets	-	(140)	-	(140)
Disposals	(217)	(167)	(128)	(98)
Valuation	(577)	(693)	(278)	(566)
Balance as at 31 December	**4,263**	**4,629**	**1,788**	**1,776**

In 2016 and 2015, NLB Group did not recognise any repossessed assets as non-current assets classified as held for sale.

5.9. Property and equipment

in EUR thousand

	NLB Group				NLB			
2016	Land & Buildings	Computers	Other equipment	Total	Land & Buildings	Computers	Other equipment	Total
Cost								
Balance as at 1 January 2016	329,096	73,285	123,775	526,156	202,303	51,279	65,307	318,889
Effects of translation of foreign operations to presentation currency	(674)	(91)	(207)	(972)	-	-	-	-
Additions	1,845	7,260	3,528	12,633	1,548	4,168	1,245	6,961
Disposals	(949)	(6,929)	(19,028)	(26,906)	(823)	(4,788)	(7,276)	(12,887)
Impairment (note 4.12.)	(754)	-	-	(754)	(150)	-	-	(150)
Transfer to/from non-current assets held for sale (note 5.8.)	(1,324)	-	-	(1,324)	(1,260)	-	-	(1,260)
Balance as at 31 December 2016	**327,240**	**73,525**	**108,068**	**508,833**	**201,618**	**50,659**	**59,276**	**311,553**
Depreciation and impairment								
Balance as at 1 January 2016	153,877	63,148	101,401	318,426	122,884	45,059	56,376	224,319
Effects of translation of foreign operations to presentation currency	(205)	(71)	(172)	(448)	-	-	-	-
Disposals	(606)	(10,733)	(13,016)	(24,355)	(572)	(8,601)	(3,447)	(12,620)
Depreciation (note 4.10.)	7,679	4,662	4,310	16,651	5,263	3,122	838	9,223
Impairment (note 4.12.)	2,553	-	-	2,553	977	-	-	977
Transfer to/from non-current assets held for sale (note 5.8.)	(843)	-	-	(843)	(842)	-	-	(842)
Balance as at 31 December 2016	**162,455**	**57,006**	**92,523**	**311,984**	**127,710**	**39,580**	**53,767**	**221,057**
Net carrying value								
Balance as at 31 December 2016	**164,785**	**16,519**	**15,545**	**196,849**	**73,908**	**11,079**	**5,509**	**90,496**
Balance as at 1 January 2016	**175,219**	**10,137**	**22,374**	**207,730**	**79,419**	**6,220**	**8,931**	**94,570**

in EUR thousand

	NLB Group				NLB			
2015	Land & Buildings	Computers	Other equipment	Total	Land & Buildings	Computers	Other equipment	Total
Cost								
Balance as at 1 January 2015	334,570	74,658	125,725	534,953	205,866	53,270	65,269	324,405
Effects of translation of foreign operations to presentation currency	(88)	13	82	7	-	-	-	-
Additions	2,810	4,618	14,098	21,526	2,272	2,882	4,789	9,943
Disposals	(1,186)	(5,983)	(16,130)	(23,299)	(65)	(4,873)	(4,751)	(9,689)
Transfer to/from investment property (note 5.10.)	(6,788)	-	-	(6,788)	(5,770)	-	-	(5,770)
Disposal of subsidiary (note 3.)	(222)	(21)	-	(243)	-	-	-	-
Balance as at 31 December 2015	**329,096**	**73,285**	**123,775**	**526,156**	**202,303**	**51,279**	**65,307**	**318,889**
Depreciation and impairment								
Balance as at 1 January 2015	148,823	64,679	106,276	319,778	119,872	47,217	59,986	227,075
Effects of translation of foreign operations to presentation currency	(42)	12	70	40	-	-	-	-
Disposals	(977)	(5,923)	(10,332)	(17,232)	(49)	(4,849)	(4,635)	(9,533)
Depreciation (note 4.10.)	7,739	4,396	5,387	17,522	5,294	2,691	1,025	9,010
Impairment (note 4.12.)	1,122	-	-	1,122	344	-	-	344
Transfer to/from investment property (note 5.10.)	(2,758)	-	-	(2,758)	(2,577)	-	-	(2,577)
Disposal of subsidiary (note 3.)	(30)	(16)	-	(46)	-	-	-	-
Balance as at 31 December 2015	**153,877**	**63,148**	**101,401**	**318,426**	**122,884**	**45,059**	**56,376**	**224,319**
Net carrying amount								
Balance as at 31 December 2015	**175,219**	**10,137**	**22,374**	**207,730**	**79,419**	**6,220**	**8,931**	**94,570**
Balance as at 1 January 2015	**185,747**	**9,979**	**19,449**	**215,175**	**85,994**	**6,053**	**5,283**	**97,330**

Assets leased under finance leases in NLB Group as at 31 December 2016 amounted to EUR 6 thousand for motor vehicles (31 December 2015: EUR 21 thousand). NLB had no assets held under finance leases as at 31 December 2016 and 31 December 2015.

The value of assets received by taking possession of collateral and included in property and equipment by NLB Group amounted to EUR 1,523 thousand (31 December 2015: EUR 1,839 thousand) and in NLB amounted to EUR 7 thousand (31 December 2015: EUR 7 thousand) (note 7.1.n).

The net carrying value of assets leased out by NLB Group under operating leases was EUR 2,842 thousand as at 31 December 2016 (31 December 2015: EUR 5,250 thousand). A total of 61.9% of assets leased out relates to motor vehicles (31 December 2015: 62.8%).

5.10. Investment property

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	93,513	41,472	8,613	1,458
Effects of translation of foreign operations to presentation currency	-	8	-	-
Acquisition of subsidiaries	-	22,290	-	-
Additions	2,632	6,295	-	3,843
Disposals	(4,661)	(478)	-	-
Transfer (to)/from property and equipment (note 5.9.)	-	4,030	-	3,193
Transfer from/(to) other assets	91	26,816	-	-
Net valuation to fair value (note 4.7. and 4.8.)	(7,912)	(6,920)	(462)	119
Balance as at 31 December	**83,663**	**93,513**	**8,151**	**8,613**

The value of assets received by taking possession of collateral and included in investment property by NLB Group amounted to EUR 48,658 thousand (31 December 2015: EUR 57,599 thousand). The value of assets received by taking possession of collateral and included in investment property by NLB amounted to EUR 3,750 thousand (31 December 2015: EUR 3,750 thousand) (notes 5.13. and 7.1.n).

NLB Group has no interests in properties held under operating leases that were classified and accounted for as investment property. NLB Group incurred operating expenses arising from investment properties leased to others in the amount of EUR 15 thousand (2015: EUR 58 thousand), and operating expenses arising from investment properties not leased to others in the amount of EUR 0 (2015: EUR 23 thousand).

NLB Group earned rental income arising from investment properties in the amount of EUR 5,942 thousand (2015: EUR 6,399 thousand) and NLB in the amount of EUR 260 thousand (2015: EUR 86 thousand).

5.11. Intangible assets

in EUR thousand

	NLB Group			NLB
2016	Software licenses	Goodwill	Total	Software licenses
Cost				
Balance as at 1 January 2016	216,723	32,336	249,059	193,080
Effects of translation of foreign operations to presentation currency	(124)	-	(124)	-
Additions	6,418	-	6,418	3,375
Write-offs	(412)	-	(412)	-
Balance as at 31 December 2016	**222,605**	**32,336**	**254,941**	**196,455**
Amortisation and impairment				
Balance as at 1 January 2016	180,925	28,807	209,732	163,453
Effects of translation of foreign operations to presentation currency	(90)	-	(90)	-
Amortisation (note 4.10.)	11,694	-	11,694	9,657
Write-offs	(365)	-	(365)	-
Balance as at 31 December 2016	**192,164**	**28,807**	**220,971**	**173,110**
Net carrying value				
Balance as at 31 December 2016	**30,441**	**3,529**	**33,970**	**23,345**
Balance as at 1 January 2016	**35,798**	**3,529**	**39,327**	**29,627**

in EUR thousand

	NLB Group			NLB
2015	Software licenses	Goodwill	Total	Software licenses
Cost				
Balance as at 1 January 2015	210,137	32,336	242,473	188,851
Effects of translation of foreign operations to presentation currency	(9)	-	(9)	-
Additions	12,809	-	12,809	10,149
Disposals	(1,293)	-	(1,293)	(1,293)
Write-offs	(4,921)	-	(4,921)	(4,627)
Balance as at 31 December 2015	**216,723**	**32,336**	**249,059**	**193,080**
Amortisation and impairment				
Balance as at 1 January 2015	170,915	28,807	199,722	155,108
Effects of translation of foreign operations to presentation currency	(7)	-	(7)	-
Amortisation (note 4.10.)	14,334	-	14,334	12,400
Write-offs	(4,317)	-	(4,317)	(4,055)
Balance as at 31 December 2015	**180,925**	**28,807**	**209,732**	**163,453**
Net carrying value				
Balance as at 31 December 2015	**35,798**	**3,529**	**39,327**	**29,627**
Balance as at 1 January 2015	**39,222**	**3,529**	**42,751**	**33,743**

In 2016 and 2015 NLB Group did not record an impairment of goodwill.

Information regarding the impairment testing of goodwill is disclosed in note 2.33.f.

5.12. Investments in subsidiaries, associates and joint ventures

a) Analysis by type of investment in subsidiaries

in EUR thousand

NLB	31.12.2016	31.12.2015
Banks	267,071	267,071
Other financial organisations	19,900	26,595
Enterprises	52,722	52,335
Total	**339,693**	**346,001**

In 2016 the subsidiary NLB Leasing Sofia, Sofia was liquidated. A loss in the amount of EUR 153 thousand was recognised, and is included in the item 'Gains Less Losses from Capital Investments in Subsidiaries, Associates, and Joint Ventures' (2015: a loss in the amount of EUR 183 thousand due to lost control in the subsidiary LHB Trade, Zagreb and sell of the subsidiary Convest, Novi Sad).

Data on subsidiaries as included in the consolidated financial statements of NLB Group as at 31 December 2016:

in EUR thousand

	Nature of Business	Country of Incorporation	Equity as at 31 December 2016	Profit/(loss) for 2016	NLB's shareholding %	NLB's voting rights%	NLB Group's shareholding %	NLB Group's voting rights%
Core members								
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	129,083	24,997	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	75,787	5,318	99.36	98.00	99.36	98.00
NLB Banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	74,607	14,117	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Republic of Kosovo	62,845	11,263	81.21	81.21	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	60,780	5,357	97.34	97.35	97.34	97.35
NLB Banka a.d., Beograd	Banking	Republic of Serbia	45,526	2,152	99.997	99.997	99.997	99.997
NLB Srbija d.o.o., Beograd	Real estate	Republic of Serbia	27,906	555	100	100	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	7,948	2,951	100	100	100	100
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	6,155	979	51	51	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	1,238	305	100	100	100	100
Non-core members								
NLB Leasing d.o.o., Ljubljana	Finance	Republic of Slovenia	10,112	(18,316)	100	100	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Republic of Croatia	4,716	(3,115)	-	-	100	100
NLB Leasing Podgorica d.o.o., Podgorica - "u likvidaciji"	Finance	Republic of Montenegro	853	(754)	100	100	100	100
NLB Leasing d.o.o., Beograd - u likvidaciji	Finance	Republic of Serbia	4,495	(215)	100	100	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	(724)	(150)	100	100	100	100
NLB Lizing d.o.o.e.l., Skopje - vo likvidacija	Finance	Republic of Macedonia	873	8	100	100	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	16,899	(5,946)	12.71	12.71	100	100
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	19,812	(216)	100	100	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Republic of Croatia	653	(173)	-	-	100	100
BH-RE d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	3	(9)	-	-	100	100
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	37	(90)	100	100	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	443	(83)	100	100	100	100
REAM d.o.o., Beograd	Real estate	Republic of Serbia	105	(104)	100	100	100	100
SR-RE d.o.o., Beograd	Real estate	Republic of Serbia	1,837	(163)	100	100	100	100
NLB Propria d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	880	67	100	100	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	12	(40)	100	100	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	8,976	(4,716)	100	100	100	100
NLB InterFinanz Praha s.r.o., Prague	Finance	Czech Republic	(94)	23	-	-	100	100
NLB InterFinanz d.o.o., Beograd	Finance	Republic of Serbia	1	(40)	-	-	100	100
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	373	6	100	100	100	100
LHB AG, Frankfurt	Finance	Republic of Germany	2,316	(428)	100	100	100	100
NLB Factoring a.s. - "v likvidaci," Brno	Finance	Czech Republic	93	(280)	100	100	100	100

Data on subsidiaries as included in the consolidated financial statements of NLB Group as at 31 December 2015:

in EUR thousand

	Nature of Business	Country of Incorporation	Equity as at 31 December 2015	Profit/(loss) for 2015	NLB's shareholding %	NLB's voting rights%	NLB Group's shareholding %	NLB Group's voting rights%
Core members								
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	113,977	13,129	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	68,624	6,240	99.36	98.00	99.36	98.00
NLB Banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	68,058	9,863	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Republic of Kosovo	59,725	8,242	81.21	81.21	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	55,313	4,182	97.34	97.35	97.34	97.35
NLB Banka a.d., Beograd	Banking	Republic of Serbia	44,121	1,181	99.997	99.997	99.997	99.997
NLB Srbija d.o.o., Beograd	Real estate	Republic of Serbia	27,891	822	100	100	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	7,112	2,455	100	100	100	100
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	6,015	789	51	51	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	933	416	100	100	100	100
Non-core members								
NLB Leasing d.o.o., Ljubljana	Finance	Republic of Slovenia	14,402	(3,672)	100	100	100	100
NLB Leasing Sofija E.o.o.d., Sofia	Finance	Republic of Bulgaria	(85)	(77)	-	-	100	100
Optima Leasing d.o.o., Zagreb	Finance	Republic of Croatia	856	(3,806)	-	-	100	100
NLB Leasing Podgorica d.o.o., Podgorica	Finance	Republic of Montenegro	1,106	(825)	100	100	100	100
NLB Leasing d.o.o., Beograd	Finance	Republic of Serbia	3,063	(2,599)	100	100	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	(575)	(3,271)	100	100	100	100
NLB Lizing d.o.o.e.l., Skopje	Finance	Republic of Macedonia	567	(1,470)	100	100	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	22,845	555	12.71	12.71	100	100
PRO-REM d.o.o., Ljubljana	Real estate	Republic of Slovenia	11,273	(14,583)	100	100	100	100
OL Nekretnine d.o.o., Zagreb	Real estate	Republic of Croatia	817	(126)	-	-	100	100
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	126	(66)	100	100	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	126	(71)	100	100	100	100
REAM d.o.o., Beograd	Real estate	Republic of Serbia	112	(130)	100	100	100	100
SR-RE d.o.o., Beograd	Real estate	Republic of Serbia	3	(4)	100	100	100	100
PRO-Avenija d.o.o., Ljubljana	Real estate	Republic of Slovenia	8,609	(1,385)	100	100	100	100
NLB Propria d.o.o., Ljubljana	Real estate	Republic of Slovenia	741	(120)	100	100	100	100
FIN-DO d.o.o., Domžale	Real estate	Republic of Slovenia	126	(814)	100	100	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	49	(2,062)	100	100	100	100
NLB InterFinanz AG, Zürich	Finance	Switzerland	12,734	(5,030)	100	100	100	100
NLB InterFinanz Praha s.r.o., Prague	Finance	Czech Republic	(119)	(65)	-	-	100	100
NLB InterFinanz d.o.o., Beograd	Finance	Republic of Serbia	41	4	-	-	100	100
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	506	24	100	100	100	100
LHB AG, Frankfurt	Finance	Republic of Germany	2,841	243	100	100	100	100
NLB Factoring a.s. - "v likvidaci", Brno	Finance	Czech Republic	374	(1,649)	100	100	100	100

Changes in ownership interest in subsidiaries of NLB Group in 2016 and 2015 are presented in note 3. Significant effects of changes in ownership interests are presented in the statement of changes in equity in the item Equity attributable to non-controlling interest.

Data on subsidiaries with significant non-controlling interests, before intercompany eliminations

in EUR thousand

	NLB Banka, Skopje		NLB Banka, Prishtina	
	2016	2015	2016	2015
Non-controlling interest in equity in %	13.03	13.03	18.79	18.79
Non-controlling interest's voting rights in %	13.03	13.03	18.79	18.79
Income statement and statement of comprehensive income				
Revenues	80,036	76,394	32,815	32,117
Profit/(loss) for the year	**24,997**	**13,129**	**11,263**	**8,242**
Atributable to non-controlling interest	3,257	1,711	2,116	1,549
Other comprehensive income	(427)	118	88	28
Total comprehensive income	**24,570**	**13,247**	**11,351**	**8,270**
Atributable to non-controlling interest	3,201	1,726	2,133	1,554
Statement of financial position				
Current assets	574,520	574,807	297,485	276,495
Non-current assets	578,569	544,871	218,630	188,197
Current liabilities	810,619	787,045	363,590	333,350
Non-current liabilities	213,387	218,656	89,680	71,617
Equity	**129,083**	**113,977**	**62,845**	**59,725**
Atributable to non-controlling interest	16,820	14,851	11,809	11,222

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

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Other financial organisations	43,008	39,402	6,600	6,600
Enterprises	240	294	431	494
Total	**43,248**	**39,696**	**7,031**	**7,094**

NLB Group's associates

in EUR thousand

			2016		2015	
	Nature of Business	Country of Incorporation	Shareholding %	Voting rights %	Shareholding %	Voting rights %
Bankart d.o.o., Ljubljana	Card processing	Republic of Slovenia	39.44	39.44	39.44	39.44
Skupna pokojninska družba d.d., Ljubljana	Insurance	Republic of Slovenia	28.13	28.13	28.13	28.13
Kreditni biro SISBON, d.o.o., Ljubljana - v likvidaciji	Credit bureau	Republic of Slovenia	29.68	29.68	29.68	29.68
ARG - Nepremičnine d.o.o., Horjul	Real estate	Republic of Slovenia	75.00	75.00	75.00	75.00

By contractual agreement between the shareholders, NLB does not control ARG-Nepremičnine, Horjul, but does have a significant influence. Therefore, the entity is accounted as an associate.

Carrying amount of interests in associates included in the consolidated financial statements of NLB Group:

in EUR thousand

NLB Group	2016	2015
Carrying amount of the NLB Group's interest	**13,009**	**11,825**
NLB Group's share of:		
- Profit for the year	1,462	935
- Other comprehensive income	(234)	(54)
- Total comprehensive income	**1,228**	**881**

In 2016 NLB Group did not recognise a share of profit of an associate in the amount of EUR 48 thousand (31 December 2015: unrecognised profit EUR 56 thousand), as it still has the cumulative unrecognised share of losses of an associate that as at 31 December 2016 amounted to EUR 2,402 thousand (31 December 2015: EUR 2,450 thousand).

NLB Group's joint ventures

			2016	2015
	Nature of Business	Country of Incorporation	Voting rights%	Voting rights%
NLB Vita d.d., Ljubljana	Insurance	Republic of Slovenia	50	50
Prvi Faktor Group, Ljubljana	Finance	Republic of Slovenia	50	50

Data on material joint venture NLB Vita, Ljubljana as included in the consolidated financial statements of NLB Group:

in EUR thousand

NLB Vita d.d., Ljubljana	2016	2015
Revenues	74,342	72,903
Interest income	7,038	6,800
Interest expense	(1)	(2)
Depreciation and amortisation	(241)	(253)
Income tax	(1,422)	(1,365)
Profit for the year	**7,394**	**7,089**
Other comprehensive income	4,434	(4,450)
Total comprehensive income	**11,828**	**2,639**
NLB Group's share of:		
- Profit for the year	3,697	3,545
- Other comprehensive income	2,216	(2,225)
	31.12.2016	**31.12.2015**
Total assets	409,513	370,586
Cash and cash equivalents	2,541	915
Total liabilities	349,035	314,847
Financial liabilities	1,606	2,921
Equity	**60,478**	**55,739**
NLB Group's ownership interest in joint venture	30,239	27,870
Carrying amount of the NLB Group's interest in joint venture	**30,239**	**27,870**

c) Movements of investments in associates and joint ventures

in EUR thousand

NLB Group	2016	2015
Balance as at 1 January	39,696	37,525
Share of results before tax	6,097	5,299
Share of tax	(938)	(814)
Net gains/(losses) not recognised in the income statement	1,982	(2,279)
Dividends received	(3,587)	(35)
Other	(2)	-
Balance as at 31 December	**43,248**	**39,696**

5.13. Other assets

in EUR thousand

	NLB Group		NLB	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
Assets, received as collateral (note 7.1.n)	79,059	75,652	4,263	3,371
Inventories	8,913	10,497	460	390
Deferred expenses	4,597	5,133	3,096	3,392
Claim for taxes and other dues	1,305	2,453	389	1,385
Prepayments	684	1,619	211	1,241
Total	**94,558**	**95,354**	**8,419**	**9,779**

Assets received as collateral and inventories on NLB Group in the amount of EUR 76,416 thousand (31 December 2015: EUR 72,433 thousand) and on NLB in the amount of EUR 4,263 thousand (31 December 2015: EUR 3,371 thousand) consists of real estate, and the rest are other assets received as collateral.

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

a) Impairment of loans and advances to individuals

in EUR thousand

NLB Group	Granted overdrafts	Loans for houses and flats	Consumer loans	Other loans	Total
Balance as at 1 January 2015	19,468	47,191	59,151	28,849	154,659
Effects of translation of foreign operations to presentation currency	(2)	3	(2)	915	914
Impairment (note 4.12.)	4,889	3,241	3,016	3,620	14,766
Write-offs	(5,799)	(1,421)	(8,896)	(12,112)	(28,228)
Repayments of written-off receivables	-	-	139	487	626
Exchange differences	-	337	3	(216)	124
Other	-	-	(10)	(32)	(42)
Balance as at 31 December 2015	**18,556**	**49,351**	**53,401**	**21,511**	**142,819**
Effects of translation of foreign operations to presentation currency	(32)	(49)	(123)	3	(201)
Impairment (note 4.12.)	2,587	4,436	3,261	2,516	12,800
Write-offs	(4,973)	(21,900)	(20,369)	(10,241)	(57,483)
Repayments of written-off receivables	-	-	199	1,143	1,342
Exchange differences	-	29	2	(87)	(56)
Other	-	-	(5)	-	(5)
Balance as at 31 December 2016	**16,138**	**31,867**	**36,366**	**14,845**	**99,216**

in EUR thousand

NLB	Granted overdrafts	Loans for houses and flats	Consumer loans	Other loans	Total
Balance as at 1 January 2015	16,063	31,541	22,589	4,613	74,806
Impairment (note 4.12.)	4,675	2,440	2,305	1,163	10,583
Write-offs	(5,778)	(790)	(7,087)	(4,126)	(17,781)
Exchange differences	-	241	1	326	568
Balance as at 31 December 2015	**14,960**	**33,432**	**17,808**	**1,976**	**68,176**
Impairment (note 4.12.)	2,303	5,495	1,930	517	10,245
Write-offs	(4,509)	(20,513)	(13,527)	(811)	(39,360)
Exchange differences	-	8	-	-	8
Balance as at 31 December 2016	**12,754**	**18,422**	**6,211**	**1,682**	**39,069**

b) Impairment of loans and advances to legal entities

in EUR thousand

NLB Group	Loans and advances to government	Loans and advances to banks	Loans and advances to financial organisations	Loans and advances to large corporate customers	Loans and advances to small- and medium-sized enterprises	Total
Balance as at 1 January 2015	18,916	24,722	38,481	484,374	941,874	1,508,367
Effects of translation of foreign operations to presentation currency	14	2,932	1	8,712	10,943	22,602
Impairment (note 4.12.)	1,285	2,557	7,780	(6,598)	35,718	40,742
Write-offs	(371)	(28,957)	(754)	(151,230)	(264,221)	(445,533)
Repayments of written-off receivables	32	130	-	774	4,795	5,731
Exchange differences	1	(1,142)	1	(6,808)	(3,546)	(11,494)
Other	(5)	-	(126)	-	(26)	(157)
Balance as at 31 December 2015	**19,872**	**242**	**45,383**	**329,224**	**725,537**	**1,120,258**
Effects of translation of foreign operations to presentation currency	(7)	(1)	-	(318)	(703)	(1,029)
Impairment (note 4.12.)	(2,604)	74	(14,842)	(16,052)	56,578	23,154
Write-offs	(690)	(1)	(710)	(72,990)	(273,891)	(348,282)
Repayments of written-off receivables	110	35	-	3,354	7,581	11,080
Exchange differences	-	-	4	(719)	241	(474)
Other	(5)	-	(2)	-	(166)	(173)
Balance as at 31 December 2016	**16,676**	**349**	**29,833**	**242,499**	**515,177**	**804,534**

in EUR thousand

NLB	Loans and advances to government	Loans and advances to banks	Loans and advances to financial organisations	Loans and advances to large corporate customers	Loans and advances to small- and medium-sized enterprises	Total
Balance as at 1 January 2015	5,779	682	164,213	308,658	444,926	924,258
Impairment (note 4.12.)	1,359	67	15,446	(29,283)	39,397	26,986
Write-offs	(371)	(737)	(126,379)	(80,757)	(123,313)	(331,557)
Repayments of written-off receivables	32	130	-	774	1,402	2,338
Exchange differences	-	55	2,951	608	1,100	4,714
Balance as at 31 December 2015	**6,799**	**197**	**56,231**	**200,000**	**363,512**	**626,739**
Impairment (note 4.12.)	(163)	(196)	(5,005)	5,065	14,844	14,545
Write-offs	(689)	(1)	(446)	(39,415)	(138,831)	(179,382)
Repayments of written-off receivables	110	-	-	1,486	2,149	3,745
Exchange differences	-	-	17	6	9	32
Balance as at 31 December 2016	**6,057**	**-**	**50,797**	**167,142**	**241,683**	**465,679**

c) Impairment of other financial assets

in EUR thousand

	NLB Group	NLB
Balance as at 1 January 2015	42,680	17,521
Effects of translation of foreign operations to presentation currency	31	-
Impairment (note 4.12.)	6,220	1,721
Write-offs	(22,158)	(14,271)
Exchange differences	137	-
Repayments of written-off receivables	168	152
Balance as at 31 December 2015	**27,078**	**5,123**
Effects of translation of foreign operations to presentation currency	43	-
Impairment (note 4.12.)	625	356
Write-offs	(12,417)	(1,726)
Exchange differences	(39)	(1)
Repayments of written-off receivables	165	19
Other	(2)	-
Balance as at 31 December 2016	**15,453**	**3,771**

5.15. Trading liabilities

in EUR thousand

	NLB Group		NLB	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
Derivatives, excluding hedges				
Swap contracts	15,555	26,929	15,552	26,929
- currency swaps	328	169	325	169
- interest rate swaps	15,227	24,460	15,227	24,460
- currency interest rate swaps	-	2,300	-	2,300
Options	-	47	-	47
- currency options	-	37	-	37
- interest rate options	-	10	-	10
Forward contracts	3,236	2,944	3,235	2,933
- currency forward	3,236	2,944	3,235	2,933
Total	**18,791**	**29,920**	**18,787**	**29,909**

The notional amounts of derivative financial instruments are disclosed in note 5.24.b.

5.16. Financial liabilities, measured at amortised cost

Analysis by type of financial liabilities, measured at amortised cost

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Deposits from banks and central banks	42,334	57,982	74,977	96,736
Borrowings from banks and central banks	371,769	571,029	338,467	519,926
Due to customers	9,437,147	9,020,666	6,615,390	6,293,339
Borrowings from other customers	83,619	100,267	4,274	16,168
Debt securities in issue	277,726	304,962	277,726	304,962
Subordinated liabilities	27,145	27,340	-	-
Other financial liabilities	110,295	75,307	68,784	47,346
Total	**10,350,035**	**10,157,553**	**7,379,618**	**7,278,477**

a) Deposits from banks and amounts due to customers

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Deposits on demand				
- banks and central banks	34,828	55,599	74,434	95,962
- other customers	6,415,927	5,544,323	4,781,616	4,092,767
- governments	200,629	180,746	83,745	79,848
- financial organisations	124,918	72,282	101,536	45,127
- companies	1,584,892	1,542,725	1,015,371	993,058
- individuals	4,505,488	3,748,570	3,580,964	2,974,734
Other deposits				
- banks and central banks	7,506	2,383	543	774
- other customers	3,021,220	3,476,343	1,833,774	2,200,572
- governments	150,835	182,804	147,914	172,290
- financial organisations	122,401	109,122	78,767	74,616
- companies	350,431	444,365	246,584	303,226
- individuals	2,397,553	2,740,052	1,360,509	1,650,440
Total	**9,479,481**	**9,078,648**	**6,690,367**	**6,390,075**

b) Borrowings from banks and other customers

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loans				
- banks and central banks	371,769	571,029	338,467	519,926
- other customers	83,619	100,267	4,274	16,168
- governments	20,063	29,982	-	10,009
- financial organisations	56,728	61,335	-	-
- companies	6,828	8,950	4,274	6,159
Total	**455,388**	**671,296**	**342,741**	**536,094**

As at 31 December 2016, NLB Group and NLB had EUR 347,434 thousand in undrawn borrowings (31 December 2015: EUR 345,762 thousand).

c) Debt securities in issue

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Carrying amount of issued securities				
- traded on active markets	277,726	304,962	277,726	304,962
Bonds (in %)				
- fixed rated	100.00	100.00	100.00	100.00
	100.00	**100.00**	**100.00**	**100.00**

d) Subordinated liabilities

in EUR thousand

NLB Group				31.12.2016		31.12.2015	
	Currency	Due date	Interest rate	Carrying amount	Nominal value	Carrying amount	Nominal value
Subordinated loans							
	EUR	30/6/2018	6 months EURIBOR + 6.3% p.a. to 22.09.2016, thereafter 6 months EURIBOR +5% p.a.	12,103	12,000	12,219	12,000
	EUR	30/6/2020	6 months EURIBOR + 7.7% p.a.	5,151	5,000	5,176	5,000
	EUR	26/6/2025	6 months EURIBOR + 7.5% p.a. to 15.12.2016, thereafter 6 months EURIBOR + 6.25% p.a.	9,891	10,000	9,945	10,000
Total				**27,145**	**27,000**	**27,340**	**27,000**

e) Other financial liabilities

in EUR thousand

	NLB Group		NLB	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
Debit or credit card payables	32,704	15,502	29,350	14,231
Items in the course of payment	28,671	13,835	8,499	4,580
Accrued expenses	13,382	12,695	5,593	4,615
Suppliers	11,781	14,515	8,393	11,371
Accrued salaries	8,537	8,274	6,583	6,913
Fees and commissions due	1,440	1,341	1,398	1,305
Other financial liabilities	13,780	9,145	8,968	4,331
Total	**110,295**	**75,307**	**68,784**	**47,346**

Other financial liabilities mainly include liabilities to insurance companies, liabilities to employees, received warranties and temporary accounts.

5.17. Provisions

a) Analysis by type of provisions

in EUR thousand

	NLB Group		NLB	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
Provisions for financial guarantees (note 5.24.a)	25,327	47,737	23,131	44,583
Provisions for non-financial guarantees (note 5.24.a)	22,745	31,034	21,777	29,863
Provisions for other credit commitments (note 5.24.a)	5,609	3,228	4,957	3,197
Employee benefit provisions	19,758	21,265	15,384	16,559
Restructuring provisions	10,014	3,477	8,750	3,429
Provisions for legal issues	15,194	13,465	3,282	5,075
Other provisions	2,267	2,433	2,265	2,431
Total	**100,914**	**122,639**	**79,546**	**105,137**

Provisions for legal issues are recognised based on expectations regarding the probable outcome of legal disputes.

As at 31 December 2016, NLB Group was involved in 43 (31 December 2015: 45) legal disputes with material claims against group members in the total amount of EUR 646,639 thousand, excluding accrued interest (31 December 2015: EUR 627,917 thousand). As at 31 December 2016, NLB was involved in 19 (31 December 2015: 21) legal disputes with material monetary claims against NLB. The total amount of these claims, excluding accrued interest, was EUR 417,041 thousand (31 December 2015: EUR 419,277 thousand).

The biggest amount within material monetary claims relates to civil claims filed by Privredna banka Zagreb (the PBZ) and Zagrebačka banka (the ZaBa) against NLB, referring to the old savings of LB Branch Zagreb savers, which were transferred to these two banks in the principal amount of EUR 172,212 thousand. Due to the fact the proceedings have been pending for such a long time, the penalty interest already exceeds the principal amount. As NLB is not liable for the old foreign currency savings, based on numerous process and content-related reasons, NLB has all along objected to these claims. Two key reasons NLB is no longer liable for the old foreign currency savings are that it was only founded on the basis of the Constitutional Act on 27 July 1994 (at the time the savings were deposited with LB Branch Zagreb, NLB did not exist yet), and NLB did not assume any of its obligations. Moreover, this is a former Yugoslavia succession matter as the governments of the Republic of Slovenia and the Republic of Croatia agreed in a Memorandum of Understanding signed in 2013 to find a solution to the transferred foreign currency savings of Ljubljanska banka in Croatia (LB) on the basis of the Agreement on Succession Issues and that the Republic of Croatia would stay all the proceedings commenced by the PBZ and the ZaBa in relation to the transferred foreign currency savings until the issue is finally resolved.

Despite the agreement in the Memorandum of Understanding (Memorandum) to stay all the proceedings commenced, in May 2015 the Court of Appeal, the County Court of Zagreb, ruled in one claim to reject the complaints raised by the LB and NLB. NLB then filed a constitutional appeal against the aforementioned final judgement. In this case the ruled claim was enforced in the enforcement proceeding from the account of NLB with the Croatian bank. In the other cases, with respect to the court procedures described above, are still pending, and final judgments have not yet been issued.

Conversely, in another case, a claim filed by the PBZ became final in favour of NLB.

In the last case on 29 March 2016, the court of second instance allowed the appeal and returned the case to the Court of first instance, which initially decided in favour of the ZaBa. The appeal court explained in its decree that the Court of first instance will have to assess what the position of the Memorandum is in the hierarchy of legal acts of the Republic of Croatia, and if it notices that the Memorandum in the specific case takes precedence, it will have to determine what was the intention of the parties in concluding the Memorandum.

Provisions for these claims are not formed since NLB believes there are no legal grounds for them.

b) Movements in provisions for guarantees and commitments

Financial guarantees

in EUR thousand

	NLB Group		NLB	
	2016	**2015**	**2016**	**2015**
Balance as at 1 January	47,737	48,733	44,583	46,023
Effects of translation of foreign operations to presentation currency	(16)	(3)	-	-
Additional provisions/provisions released (note 4.11.)	(4,521)	(1,000)	(3,565)	(1,445)
Utilised during year	(17,894)	-	(17,894)	-
Exchange differences	21	7	7	5
Balance as at 31 December	**25,327**	**47,737**	**23,131**	**44,583**

Non-financial guarantees

in EUR thousand

	NLB Group		NLB	
	2016	**2015**	**2016**	**2015**
Balance as at 1 January	31,034	32,876	29,863	31,568
Effects of translation of foreign operations to presentation currency	(2)	(1)	-	-
Additional provisions/provisions released (note 4.11.)	(8,295)	(1,865)	(8,093)	(1,727)
Exchange differences	8	24	7	22
Balance as at 31 December	**22,745**	**31,034**	**21,777**	**29,863**

Other credit commitments

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	3,228	11,190	3,197	11,212
Effects of translation of foreign operations to presentation currency	(1)	(1)	-	-
Additional provisions/provisions released (note 4.11.)	2,384	(7,982)	1,761	(8,047)
Exchange differences	(2)	21	(1)	32
Balance as at 31 December	**5,609**	**3,228**	**4,957**	**3,197**

c) Movements in employee benefit provisions

Post-employment benefits

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	14,205	12,275	11,786	10,925
Effects of translation of foreign operations to presentation currency	(2)	(2)	-	-
Additional provisions (note 4.9.)	594	543	473	334
Provisions released (note 4.9.)	(215)	(224)	-	(22)
Interest expenses (note 4.1.)	274	576	171	431
Utilised during year (payments)	(210)	(938)	(78)	(588)
Actuarial gains and losses	(1,516)	1,975	(1,466)	706
Balance as at 31 December	**13,130**	**14,205**	**10,886**	**11,786**

Other employee benefits

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	7,060	6,720	4,773	4,816
Effects of translation of foreign operations to presentation currency	(2)	(1)	-	-
Additional provisions (note 4.9.)	4,065	4,379	2,628	2,509
Provisions released (note 4.9.)	(514)	(15)	(258)	(8)
Interest expenses (note 4.1.)	83	175	34	119
Utilised during year	(4,064)	(4,198)	(2,679)	(2,663)
Balance as at 31 December	**6,628**	**7,060**	**4,498**	**4,773**

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

d) Movements in restructuring provisions

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	3,477	5,871	3,429	5,824
Effects of translation of foreign operations to presentation currency	(3)	-	-	-
Additional provisions (note 4.11.)	10,644	19	9,377	-
Provisions released (note 4.11.)	-	(15)	-	(15)
Utilised during year	(4,104)	(2,398)	(4,056)	(2,380)
Balance as at 31 December	**10,014**	**3,477**	**8,750**	**3,429**

NLB Group has adopted a new business strategy and initiated key strategic initiatives, aiming among others towards a leaner organisation, optimisation of processes, implementation of a new IT strategy with focus on digitalisation and simplification, and adjustment of the organisational structure. These initiatives will result in a decreased number of employees in the coming years, therefore the Group formed restructuring provisions in the amount of EUR 10,644 thousand (NLB EUR 9,377 thousand) , which are expected to be used for redundancy payments in the next two years.

e) Movements in provisions for legal issues

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	13,465	6,774	5,075	1,666
Effects of translation of foreign operations to presentation currency	(74)	(21)	-	-
Additional provisions (note 4.11.)	5,291	8,176	401	3,409
Provisions released (note 4.11.)	(1,039)	(701)	(256)	-
Utilised during year	(2,462)	(765)	(1,949)	(2)
Exchange differences	13	2	11	2
Balance as at 31 December	**15,194**	**13,465**	**3,282**	**5,075**

f) Movements in other provisions

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	2,433	2,535	2,431	2,531
Additional provisions (note 4.11.)	-	2,928	-	2,928
Provisions released (note 4.11.)	(107)	(256)	(107)	(256)
Utilised during year	(59)	(2,774)	(59)	(2,772)
Balance as at 31 December	**2,267**	**2,433**	**2,265**	**2,431**

5.18. Deferred income tax

a) Analysis by type of deferred income taxes

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Deferred income tax assets				
Valuation of financial instruments and capital investments	75,917	59,683	75,895	59,534
Impairment provisions	3,956	4,219	3,571	3,673
Employee benefit provisions	3,208	2,385	2,736	2,246
Depreciation and valuation of non-financial assets	1,113	1,130	175	182
Tax losses	206,866	229,229	208,678	232,371
Reduction of deferred tax assets	(267,051)	(275,098)	(268,718)	(278,020)
Total deferred income tax assets	**24,009**	**21,548**	**22,337**	**19,986**
Deferred income tax liabilities				
Valuation of financial instruments	12,233	11,249	11,463	10,608
Depreciation and valuation of non-financial assets	1,278	1,056	252	239
Impairment provisions	3,471	129	-	-
Other	19	27	-	-
Total deferred income tax liabilities	**17,001**	**12,461**	**11,715**	**10,847**
Net deferred income tax assets	**7,735**	**9,400**	**10,622**	**9,139**
Net deferred income tax liabilities	**(727)**	**(313)**	**-**	**-**

	NLB Group		NLB	
	2016	2015	2016	2015
Included in the income statement for the current year	**(217)**	**1,387**	**3,083**	**292**
- valuation of financial instruments and capital investments	16,915	6,742	16,915	6,741
- impairment provisions	(3,601)	(28,299)	(102)	(201)
- employee benefit provisions	1,016	(261)	681	(212)
- depreciation and valuation of non-financial assets	(239)	(181)	(20)	(107)
- tax losses	17,071	5,167	15,741	(8,925)
- adjustment of deferred tax assets	(31,387)	18,242	(30,132)	3,003
- other	8	(23)	-	(7)
Included in other comprehensive income for the current year	**(1,858)**	**2,067**	**(1,600)**	**2,109**
- valuation of available-for-sale financial assets	(1,207)	1,413	(949)	1,455
- cash flow hedges	(460)	(86)	(460)	(86)
- actuarial assumptions and experience	(191)	740	(191)	740

Slovenian law does not set limits or deadlines by which uncovered tax losses must be utilised.

As at 31 December 2016, NLB recognised EUR 22,337 thousand deferred tax assets (31 December 2015: EUR 19,986 thousand). Unrecognised deferred tax assets amounts to EUR 268,718 thousand (31 December 2015: EUR 278,020 thousand) of which the majority relates to unrecognised deferred tax assets from tax losses in the amount of EUR 208,678 thousand (31 December 2015: EUR 232,371 thousand) and to unrecognised deferred tax assets from impairments of capital investments.

b) Movements in deferred income taxes

Deferred income tax assets

in EUR thousand

NLB Group	Employee benefit provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment provisions	Tax losses	Reduction of deferred tax assets	Other	Total
Balance as at 1 January 2015	1,906	53,865	1,364	32,452	224,062	(293,340)	35	20,344
Effects of translation of foreign operations to presentation currency	-	-	-	1	-	-	-	1
(Charged)/credited to profit and loss	(261)	6,660	(234)	(28,234)	5,167	18,242	(35)	1,305
(Charged)/credited to other comprehensive income	740	(842)	-	-	-	-	-	(102)
Balance as at 31 December 2015	**2,385**	**59,683**	**1,130**	**4,219**	**229,229**	**(275,098)**	**-**	**21,548**
Effects of translation of foreign operations to presentation currency	(2)	(1)	(1)	(4)	-	-	-	(8)
Write-offs	-	-	-	-	(39,434)	39,434	-	-
(Charged)/credited to profit and loss	1,016	16,900	(16)	(259)	17,071	(31,387)	-	3,325
(Charged)/credited to other comprehensive income	(191)	(665)	-	-	-	-	-	(856)
Balance as at 31 December 2016	**3,208**	**75,917**	**1,113**	**3,956**	**206,866**	**(267,051)**	**-**	**24,009**

in EUR thousand

NLB	Employee benefit provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment provisions	Tax losses	Reduction of deferred tax assets	Other	Total
Balance as at 1 January 2015	1,718	53,819	295	3,874	241,296	(281,023)	7	19,986
(Charged)/credited to profit and loss	(212)	6,657	(113)	(201)	(8,925)	3,003	(7)	202
(Charged)/credited to other comprehensive income	740	(942)	-	-	-	-	-	(202)
Balance as at 31 December 2015	**2,246**	**59,534**	**182**	**3,673**	**232,371**	**(278,020)**	**-**	**19,986**
Write-offs	-	-	-	-	(39,434)	39,434	-	-
(Charged)/credited to profit or loss	681	16,900	(7)	(102)	15,741	(30,132)	-	3,081
(Charged)/credited to other comprehensive income	(191)	(539)	-	-	-	-	-	(730)
Balance as at 31 December 2016	**2,736**	**75,895**	**175**	**3,571**	**208,678**	**(268,718)**	**-**	**22,337**

Deferred income tax liabilities

in EUR thousand

NLB Group	Impairment provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Other	Total
Balance as at 1 January 2015	64	13,500	1,109	39	14,712
Charged/(credited) to profit and loss	65	(82)	(53)	(12)	(82)
Charged/(credited) to other comprehensive income	-	(2,169)	-	-	(2,169)
Balance as at 31 December 2015	**129**	**11,249**	**1,056**	**27**	**12,461**
Effects of translation of foreign operations to presentation currency	-	(3)	(1)	-	(4)
Charged/(credited) to profit and loss	3,342	(15)	223	(8)	3,542
Charged/(credited)to other comprehensive income	-	1,002	-	-	1,002
Balance as at 31 December 2016	**3,471**	**12,233**	**1,278**	**19**	**17,001**

in EUR thousand

NLB	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Total
Balance as at 1 January 2015	13,003	245	13,248
Charged/(credited) to profit and loss	(84)	(6)	(90)
Charged/(credited) to other comprehensive income	(2,311)	-	(2,311)
Balance as at 31 December 2015	**10,608**	**239**	**10,847**
Charged/(credited) to profit and loss	(15)	13	(2)
Charged/(credited) to other comprehensive income	870	-	870
Balance as at 31 December 2016	**11,463**	**252**	**11,715**

5.19. Income tax relating to components of other comprehensive income

in EUR thousand

	NLB Group			NLB		
2016	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Actuarial gains and lossess	1,515	(191)	1,324	1,466	(191)	1,275
Available-for-sale financial assets	3,899	(1,207)	2,692	171	(949)	(778)
Cash flow hedge	2,703	(460)	2,243	2,703	(460)	2,243
Share of associates and joint ventures	2,725	(743)	1,982	-	-	-
Total	**10,842**	**(2,601)**	**8,241**	**4,340**	**(1,600)**	**2,740**

in EUR thousand

	NLB Group			NLB		
2015	**Before tax amount**	**Tax expense**	**Net of tax amount**	**Before tax amount**	**Tax expense**	**Net of tax amount**
Actuarial gains and lossess	(1,975)	740	(1,235)	(706)	740	34
Available-for-sale financial assets	(8,496)	1,413	(7,083)	(8,562)	1,455	(7,107)
Cash flow hedge	509	(86)	423	509	(86)	423
Share of associates and joint ventures	(2,735)	456	(2,279)	-	-	-
Total	**(12,697)**	**2,523**	**(10,174)**	**(8,759)**	**2,109**	**(6,650)**

5.20. Other liabilities

in EUR thousand

	NLB Group		NLB	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
Taxes payable	3,699	4,982	3,049	3,817
Deferred income	2,964	7,579	661	1,693
Payments received in advance	2,040	1,978	476	166
Total	**8,703**	**14,539**	**4,186**	**5,676**

5.21. Share capital

The share capital of NLB amounts to EUR 200,000 thousand and did not change during 2016. It comprises of 20,000,000 no-par-value ordinary registered shares, with the corresponding value of EUR 10.0 for one share. All issued shares are fully paid and there are no un-issued authorised shares. As at 31 December 2016 and 31 December 2015, the Republic of Slovenia was the only shareholder of NLB. NLB Group does not own treasury shares.

The book value of a NLB share on a consolidated level as at 31 December 2016 was EUR 74.8 (31 December 2015: EUR 71.1) and on solo level was EUR 63.2 (31 December 2015: EUR 62.1). It is calculated as the ratio of net assets' book value without other equity instruments issued and the number of shares.

Distributable profit as at 31 December 2016 amounts to EUR 145,313 thousand (31 December 2015: EUR 125,410 thousand) and consists of a net profit for 2016 in the amount of EUR 63,783 thousand and retained earnings from previous years in the amount of EUR 81,530 thousand. Its allocation will be subject to a decision by the Bank's Annual General Meeting.

In 2016 NLB paid dividends for previous year in the amount of EUR 2,194 per share (2015: 0 EUR) which decreased retained earnings for EUR 43,880 thousand.

5.22. Accumulated other comprehensive income and reserves

a) Reserves

The share premium account as at 31 December 2016 and 31 December 2015 comprises paid-up premiums in the amount of EUR 822,173 thousand and the revaluation of share capital from previous years in the amount of EUR 49,205 thousand.

As at 31 December 2016 and 31 December 2015 profit reserves in the amount of EUR 13,522 thousand relate entirely to legal reserves in accordance with the Companies Act.

b) Accumulated other comprehensive income

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Available-for-sale financial assets - debt securities	41,954	36,982	28,574	27,950
Available-for-sale financial assets - equity securities	11,017	11,342	8,644	10,046
Actuarial defined benefit pension plans	(3,617)	(4,935)	(2,637)	(3,912)
Foreign currency translation	(20,139)	(18,297)	-	-
Hedge of a net investment in a foreign operation	754	754	-	-
Cash flow hedging	-	(2,243)	-	(2,243)
Total	**29,969**	**23,603**	**34,581**	**31,841**

5.23. Capital adequacy ratios

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Paid up capital instruments	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Retained earnings - from previous years	246,656	207,004	81,530	81,529
Profit or loss eligible - from current year	49,890	39,599	-	-
Accumulated other comprehensive income	(6,053)	(4,090)	5,205	2,815
Other reserves	13,522	13,522	13,522	13,522
Minority interest	-	-	-	-
Prudential filters: Cash flow hedge reserve	-	897	-	897
Prudential filters: Value adjustments due to the requirements for prudent valuation	(2,213)	(3,134)	(1,734)	(2,649)
(-) Goodwill	(3,529)	(3,529)	-	-
(-) Other intangible assets	(30,397)	(35,745)	(23,345)	(29,627)
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	(3,013)	(2,755)	(4,626)	(2,886)
(-) Investments in CET1 instruments of financial sector - significant share	-	-	-	-
Common Equity Tier 1 Capital (CET1)	**1,336,241**	**1,283,147**	**1,141,930**	**1,134,979**
Additional Tier 1 capital	-	-	-	-
Tier 1 capital	**1,336,241**	**1,283,147**	**1,141,930**	**1,134,979**
Tier 2 capital	-	-	-	-
Total capital (own funds)	**1,336,241**	**1,283,147**	**1,141,930**	**1,134,979**
RWA for credit risk	6,864,737	6,849,633	4,292,262	4,353,619
RWA for market risks	104,175	137,351	27,975	68,988
RWA for credit valuation adjustment risk	463	9,313	463	9,313
RWA for operational risk	892,753	930,688	561,091	596,127
Total risk exposure amount (RWA)	**7,862,128**	**7,926,985**	**4,881,791**	**5,028,047**
Common Equity Tier 1 Ratio	17.0%	16.2%	23.4%	22.6%
Tier 1 Ratio	17.0%	16.2%	23.4%	22.6%
Total Capital Ratio	17.0%	16.2%	23.4%	22.6%

European capital legislation, comprising the CRR regulation and CRD IV directive is based on the Basel III guidelines. Legislation defines three capital ratios reflecting a different quality of capital:
- Common Equity Tier 1 ratio (ratio between common or CET1 capital and weighted risk exposure amount or RWA), which must be at least 4.5%;
- Tier 1 capital ratio (Tier 1 capital to RWA), which must be at least 6%; and
- Total capital ratio (total capital to RWA), which must be at least 8%.

In addition to the aforementioned ratios, the Bank must meet other requirements and recommendations that are being imposed by the supervisory institutions or by the legislation:
- Pillar 2 Requirement (SREP requirement): bank specific, obligatory requirement;
- Capital buffers: system of buffers to be added on top of capital adequacy requirement – not obligatory, however breaching of the buffers triggers limitations in payment of dividends and other distributions from capital. Some of the buffers are prescribed by law for all banks and some of them are bank specific
- Pillar 2 Guidance: bank specific, not obligatory, and not affecting dividends or other distributions from capital.

The capital adequacy of the NLB Group and NLB remains at a level which covers all current and announced regulatory capital requirements, including capital buffers and other currently known requirements.

In 2016, the capital of the Bank and the Group consists merely of the components of top quality CET1 capital (no subordinated instruments that would rank in lower capital categories) which is why all three capital ratios are the same.

In the scope of regulatory risks, which include credit risk, operational risk, and market risk, NLB Group uses the standardised approach for credit and market risks, while the calculation of capital requirement for operational risks is made according to the basic indicator approach. The same approaches are used for calculating the capital requirements for NLB on a standalone basis, except for the calculation of the capital requirement for operational risks where the standardised approach is used.

In preparation of the internal capital adequacy assessment, bank members of NLB Group and NLB identify risks not included in the calculation under the regulatory approach (Pilar 1) which have a significant impact on their operation. The scope of additional credit risks also includes the concentration risk – to individual clients and groups of related parties, at the level of activity – and collateral concentration risk. NLB Group calculates the capital requirement for non-financial risks (which include capital risk, profitability risk, strategic risk, divestment risk and reputation risk) if it assesses that an individual risk is crucial for NLB Group. In addition, the non-regulatory risks include the effects of stress scenarios for credit (deterioration of the credit-rating structure, decrease in real-estate market prices), currency, liquidity, interest rate risk in the banking book, credit spread risks, and market risks arising from securities.

5.24. Off-balance sheet liabilities

a) Contractual amounts of off-balance sheet financial instruments

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Short-term guarantees	162,535	190,705	87,957	97,543
- financial	109,412	124,080	49,611	50,844
- non-financial	53,123	66,625	38,346	46,699
Long-term guarantees	586,895	599,865	447,125	489,163
- financial	222,869	233,706	140,031	162,973
- non-financial	364,026	366,159	307,094	326,190
Commitments to extend credit	1,075,940	1,101,241	881,198	923,755
Letters of credit	17,485	19,402	3,761	3,567
Other	8,329	7,289	118	117
	1,851,184	1,918,502	1,420,159	1,514,145
Provisions (note 5.17.b)	(53,681)	(81,999)	(49,865)	(77,643)
Total	**1,797,503**	**1,836,503**	**1,370,294**	**1,436,502**

Fee income from all issued non-financial guarantees amounted to EUR 5,643 thousand (2015: EUR 5,665 thousand) in NLB Group, and to EUR 5,224 thousand (2015: EUR 5,192 thousand) at NLB.

b) Analysis of derivative financial instruments by notional amounts

in EUR thousand

	NLB Group				NLB			
	31.12.2016		31.12.2015		31.12.2016		31.12.2015	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Swaps	57,188	810,972	90,258	1,023,123	57,188	810,972	90,258	1,026,002
- currency swaps	57,188	-	90,258	3,312	57,188	-	90,258	3,312
- interest rate swaps	-	808,898	-	997,810	-	808,898	-	1,000,689
- currency interest rate swaps	-	2,074	-	22,001	-	2,074	-	22,001
Options	10,703	1,495	15,085	4,763	10,703	1,495	15,085	4,763
- currency options	-	-	7,093	-	-	-	7,093	-
- interest rate options	-	1,495	-	4,763	-	1,495	-	4,763
- securities options	10,703	-	7,992	-	10,703	-	7,992	-
Forward contracts	192,950	7,468	114,030	12,188	191,280	7,468	114,393	12,188
- currency forward	192,950	7,468	114,030	12,188	191,280	7,468	114,393	12,188
Futures	2,400	-	2,500	-	2,400	-	2,500	-
- currency futures	2,400	-	2,500	-	2,400	-	2,500	-
Total	**263,241**	**819,935**	**221,873**	**1,040,074**	**261,571**	**819,935**	**222,236**	**1,042,953**
	1,083,176		**1,261,947**		**1,081,506**		**1,265,189**	

The notional amounts of derivative financial instruments that qualify for hedge accounting at NLB Group and NLB amount to EUR 108,554 thousand (31 December 2015: EUR 172,223 thousand). Derivatives that qualify for hedge accounting are used to hedge interest rate risk.

The fair values of derivative financial instruments are disclosed in notes 5.2., 5.5., and 5.15.

c) Operating lease commitments

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

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Real estate				
Not later than one year	1,775	1,833	957	980
Later than one year and not later than five years	6,283	5,977	3,668	3,802
Later than five years	1,666	1,921	1,709	1,842
Other				
Not later than one year	383	399	259	251
Later than one year and not later than five years	772	1,085	373	454
Total	**10,879**	**11,215**	**6,966**	**7,329**

d) Operating lease income

Future minimum operating lease income:

in EUR thousand

NLB Group	2016	2015
Not later than one year	3,775	6,619
Later than one year and not later than five years	6,004	14,069
Later than five years	197	35,957
Total	**9,976**	**56,645**

In 2016 the expected future operating lease income is lower due to the expected sale of investment properties.

e) Capital commitments

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Capital commitments for purchase of:				
- property and equipment	179	1,193	92	1,099
- intangible assets	1,363	2,408	1,260	2,285
Total	**1,542**	**3,601**	**1,352**	**3,384**

5.25. Funds managed on behalf of third parties

Funds managed on behalf of third parties are accounted separately from NLB Group's funds. Income and expenses arising with respect to these funds are charged to the respective fund, and no liability falls on NLB Group in connection with these transactions. NLB Group charges fees for its services.

Funds managed on behalf of third parties

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Fiduciary activities	21,511,615	11,056,208	20,518,240	10,167,040
Settlement and other services	1,509,864	1,110,667	1,482,693	1,079,281
Total	**23,021,479**	**12,166,875**	**22,000,933**	**11,246,321**

Fiduciary activities

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Assets				
Clearing or transaction account claims for client assets	**21,452,329**	**11,006,524**	**20,463,466**	**10,124,884**
- from financial instruments	21,444,586	10,999,108	20,456,016	10,117,536
- receipt, processing, and execution of orders	9,292,661	1,261,293	8,786,845	808,071
- management of financial instruments portfolio	380,344	339,607	-	-
- custody services	11,771,581	9,398,208	11,669,171	9,309,465
- to Central Securities Clearing Corporation or bank settlement account for sold financial instrument	820	191	527	123
- to other settlement systems and institutions for bought financial instrument (debtors)	6,923	7,225	6,923	7,225
Clients' money	**59,286**	**49,684**	**54,774**	**42,156**
- at settlement account for client assets	33,940	20,715	29,428	13,187
- at bank transaction accounts	25,346	28,969	25,346	28,969
Liabilities				
Clearing or transaction liabilities for client assets	**21,511,615**	**11,056,208**	**20,518,240**	**10,167,040**
- to client from cash and financial instruments	21,500,968	11,041,371	20,508,917	10,152,750
- receipt, processing, and execution of orders	9,297,620	1,263,851	8,791,804	810,629
- management of financial instruments portfolio	383,825	346,656	-	-
- custody services	11,819,523	9,430,864	11,717,113	9,342,121
- to Central Securities Clearing Corporation or bank settlement account for bought financial instrument	75	126	75	126
- to other settlement systems and institutions for bought financial instrument (creditors)	10,030	14,363	8,706	13,816
- to bank or settlement bank account for fees and costs, etc.	542	348	542	348

Fee income for funds managed on behalf of third parties

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Fiduciary activities (note 4.3.b)	8,323	7,111	6,716	5,859
Settlement and other services	796	966	633	848
Total	**9,119**	**8,077**	**7,349**	**6,707**

6. Events after the reporting date

There were no events after 31 December 2016 that could materially significant influence the presented financial statements.

7. Risk management

a) Risk management strategies and processes

The key goal of NLB Group's Risk Management Department is to assess, monitor, and manage risks within the group. NLB Group proactively develops methodologies and models to evaluate, monitor, and define mitigation criteria for all relevant risk types. Sound and holistic understanding of risk management is embedded into the entire organisation, to proactively monitor and mitigate risks, and to ensure the prudent and economic use of its capital. Key risk guidelines of NLB Group are defined by its Risk Appetite and Risk Strategy, which are regularly revised and enhanced. The Strategy of NLB Group, the Risk Appetite and Risk Strategy guidelines and the key internal policies of NLB Group - which are approved by the Management Board and by the Supervisory Board - specify the strategic goals, risk appetite guidelines, approaches, and methodologies for monitoring, measuring, and managing all types of risk.

The management of credit risk, which is the most important risk category in NLB Group, concentrates on taking moderate risks and ensuring an optimal return given the risks assumed, beside the continuity of a strong commitment to reduce the legacy of non-performing exposures towards average EU levels. As regards liquidity risk, the activities are geared towards constantly ensuring an appropriate level of liquidity, both short- and long-term. Concerning market and operational risks, NLB Group follows the orientation that such risks must not significantly impact its operations. The tolerance for other risk types is low, and focuses on minimising their possible impacts on NLB Group's entire operations.

NLB regularly monitors its target Risk Appetite profile, both for NLB Group and NLB, representing the key component of the risk mitigation process. Risk profile enables detailed monitoring and proactive management of exposure to credit, market, interest, liquidity, operational risk, while non-financial and other risks are managed within ICAAP process. The usage of risk profile limits and potential deviations from limits and target values are reported regularly to the respective committees and/or the Management Board of the Bank, a comprehensive Risk Report is reviewed quarterly both by the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank. The banking subsidiaries within NLB Group have adapted a corresponding approach to monitor their target risk profiles. Additionally, the Group has set up early warning systems in different risk areas with the intention of strengthening existing internal controls and timely responses when necessary.

For the purpose of an efficient risk mitigation process, NLB Group applies a single set of standards to retail and corporate loan collateral, representing a secondary source of repayment with the aim of efficient credit risk management and consuming capital economically. The Group has a system for monitoring and reporting collateral at fair (market) value in accordance with the International Valuation Standards (IVS). When hedging market risks NLB Group follows the principle of natural hedge or using derivatives in line with hedge accounting principles.

NLB Group pays great attention and importance to the risk culture and awareness of all relevant risks within the entire organisation. Pursuant to the new EBA guidelines, the Group is constantly upgrading the existing ICAAP process by enhancing its inclusion into the decision-making process at strategic and operating levels, and the formally established ILAAP process that refers to the comprehensive assessment of liquidity risk.

The internal risk management policies of NLB Group members include aligned key risk management guidelines at the level of the Group, along with the requirements arising from the local regulations.
The policies are approved by the members' management and also discussed by their supervisory boards. They define in detail the approaches and methodologies for monitoring, measuring and managing all types of risks, with an emphasis on:

- monitoring the credit portfolio and minimising losses arising from credit risk, which considering its business model is the principal risk of NLB Group;
- ensuring a sufficient level of liquidity;
- minimising negative income effects arising from market risks; and
- minimising potential losses arising from operational risks.

b) Risk management structure and organisation

Risk management in NLB Group is in charge of assessing, monitoring and managing risks within NLB as the main entity in Slovenia, and the competence centre for six banking subsidiary banks. Furthermore, NLB Group is also responsible to several companies for ancillary services, and a number of non-core subsidiaries which are in a controlled wind-down.

Risk monitoring in NLB Group is centralised within the specialised Business-line Risk, encompassing several organisational units of NLB. This business line is in charge of formulating and controlling the risk management policies, coordinating activities related to the harmonisation of risk management in NLB Group, monitoring NLB Group's exposure to all types of business risk, and preparation of external and internal reports. Credit ratings of materially important clients and the issuing of credit risk opinions (credit advice as part of the co-decision principle) are centralised via the Credit Committee of NLB. All members of NLB Group which are included in the consolidated financial statements of NLB Group report their exposure to risks to the competent organisational units in NLB. These report all the relevant information to the Assets and Liabilities Committee (ALCO) of NLB Group, the Management Board, and the Risk Committee of the Supervisory Board, which adopt the required measures or decisions.

The primary responsibility for managing the risks assumed by NLB Group members within the framework of their business strategy lies with their management teams, which are obliged to pursue the strategic goals and implement the planned business results as well as monitor and manage risks in accordance with the guidelines at the NLB Group level. For this purpose, the members must adopt appropriate risk management policies. The supervisory board of a member gives approval to objectives and policies, and within its competence monitors their implementation as well as assesses their effectiveness. The member's management or the management board and its committees may in accordance with their authorisations delegate certain tasks, particularly operating responsibilities in risk management, to lower management levels.

Risk monitoring in NLB Group members is centralised within an independent and/or separate organisational unit. The centralised monitoring of risks ensures the establishment of standardised and systemic approaches to risk management, and thus a comprehensive overview of events in the Group's and each member's statement of financial position. In compliance with the Risk Management Standards of NLB Group, this is organised in all members in such a manner that risk measurement and monitoring is separated from its management and/or business function, which is important due to the objectivity required when assessing business decisions. The organisational unit for managing risks is directly responsible to the Management Board or its committees (Credit Committee, ALCO and Operational Risk Committee), which report to the Supervisory Board (Risk Committee of the Supervisory Board or Board of Directors).

The organisation and delimitation of competencies in the risk management area are designed to prevent conflicts of interest and ensure a transparent and documented decision-making process, subject to an appropriate upward and downward flow of information.

c) Risk measurement and reporting systems

NLB is as a systemic bank involved in the Single Supervisory Mechanism, whereby the supervision is under the jurisdiction of the Joint Supervisory Team of the European Central Bank and the Bank of Slovenia. ECB regulations are followed by all NLB Group members, while NLB Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators.

The measurement systems and the risk management principles are crucial elements of the risk management policies which, for the purpose of consolidated control, are aligned with all regulatory requirements of the Bank of Slovenia and the European Central Bank, taking into account the provisions of the Directive (CRD), Decision (CRR), and EBA guidelines. Referring to capital adequacy, NLB Group applies the standardised approach to credit and market risk, and the basic approach to operational risks - with the exception of NLB which applies the standardised approach.

NLB Group performs a uniform assessment and management of risks across the entire Group, taking into account the specifics of the markets in which individual Group members are operating in line with the Group's Risk management standards. For the internal needs of measuring of exposure to credit, market, interest, operational, and non-financial risks in NLB Group, besides the prescribed regulations internal methodologies and approaches are used that enable more detailed monitoring and management of risks. Moreover common group guidelines for ICAAP and ILAAP process are established. All of them are aligned with the Basel and EBA guidelines as well as the best methodological approaches in banking practice. A more detailed description of the methodologies for monitoring individual types of risks is provided in the following sections related to each individual risk separately.

In NLB Group, reporting complies with the internal guidelines which, in terms of the substance and frequency of reporting and, besides internal requirements, take into account the requirements of the Bank of Slovenia and the European Central Bank. At the individual level, members of NLB Group also comply with the requirements of the local regulations. Reporting is carried out in the form of standardised reports. This is enabled by risk management policies reasonably aligned with the methodologies for measuring and harmonising exposure to risks, appropriately established databases and the automation of report preparation at the NLB Group level, which also ensures their quality and reduces the possibility of errors.

d) Main emphasis of risk management in 2016

NLB Group was further strengthening the robustness of its risk management system in all respective risk categories in order to manage them comprehensively and prudently. In 2016 NLB Group upgraded Risk Appetite Statement and Risk Strategy, representing NLB Group's fundamental risk management documents. NLB Group further enhanced its risk management system by additional upgrading of comprehensive steering processes within the revised risk management framework. Furthermore, the ICAAP process was upgraded with the aim of supporting the business decision-making process, ILAAP was introduced and internal stress testing capabilities were enhanced. To support these activities internally, developed models were additionally upgraded, also in connection with relevant expected macroeconomic factors.

The most important risk in NLB Group, in line with strategic orientations, remains the credit risk category. NLB Group gives great emphasis to constantly improving the credit portfolio quality, where the quality of new financing of corporate and retail clients, and a well-diversified portfolio structure represent the key goals. Such efforts have so far resulted in a sustainable cost of risk, and the modest formation of new non-performing exposures in the year 2016, partially also due to the positive macroeconomic conditions. The Group managed to further reduce the volume of non-performing exposures towards average EU banking levels with a wide range of tools, while at the same time actively participated in the restructuring of clients in the past has brought additional positive results. The emphasis is on the development of internal scoring models for different client segments in order to consistently detect risks and achieve better responsiveness in relations with clients.

In a very low interest rate environment, with severe competition on the market, NLB Group is faced with excess liquidity. Consequently, a lot of attention is being put on the structure and concentration of liquidity reserves, while keeping in mind potential adverse negative market movements. The Group has sufficient liquidity reserves even in the event of possible realisation of liquidity stress scenarios. NLB Group maintains a conservative policy for market risks. The Group's exposure towards interest rate risk has recently slightly increased as a result of an excess liquidity position and a low interest rate environment, but remains within the targeted low risk appetite profile.

There is also a large emphasis on the management of operational risks, where NLB Group follows the guideline that such risk may not considerably influence its operations. Special attention has been paid to the development of a stress testing system, based on modelling data on loss events and a scenario analysis referring to high severity/low frequency events. Furthermore, key risk indicators were established as an early warning system for the broader field of operational risks, with the aim of improving existing internal controls and timely responding when necessary.

Nevertheless, NLB Group places great importance on regularly monitoring novelties in the regulations, effective approaches in banking practice, and their implementation so as to further improve supervision over the assumption of risks and their management in practice.

7.1. Credit risk management

a) Introduction

In its operations, NLB Group is exposed to credit risk or the risk of losses due to the failure of a debtor to settle its liabilities to NLB Group. For that reason, it proactively and comprehensively monitors and assesses the aforementioned risk. In that process, NLB Group follows the International Financial Reporting Standards, regulations issued by the Bank of Slovenia, and the EBA guidelines. This area is governed in greater detail by the internal methodologies and procedures set out in internal acts.

Through regular reviews of the business practices and the credit portfolios of NLB entities, NLB ensures that the credit risk management of those entities functions in accordance with NLB Group's risk management standards in order to ensure meaningfully uniform procedures at the consolidated level.

NLB Group manages credit risk at two levels:

- At the level of the individual customer/group of customers, where appropriate procedures are followed in various phases of the relationship with a customer prior to, during, and after the conclusion of an agreement. Prior to concluding an agreement, a customer's performance, financial position, and past cooperation with NLB are assessed. It is also important to secure high-quality collateral that does not affect a customer's credit rating. This is followed by various forms of monitoring a customer, in particular an assessment of its ability to generate sufficient cash flows for the regular settlement of its liabilities and contractual obligations. As regards this detection of risks, regular monitoring of clients within the Early Warning System (EWS) is important. For the purpose of objectively assessing a client's operation comprehensively, internal scoring models for particular client segments have been developed.
- The quality of the credit portfolio, including on-balance and off-balance sheet exposures, is actively monitored and analysed at the level of the overall portfolio of NLB Group and NLB. Comprehensive analyses are regularly performed in terms of client segmentation (depending on the client type and size), credit rating structure, arrears and/or volume of non-performing/past due and restructured receivables, coverage with impairments and provisions, collateral received, concentrations arising from a group of related clients and concentrations within an industry, currency exposure, and other indicators of risks in the credit portfolio. A lot of attention is put on regular monitoring

of new deals and other changes or trends, with the emphasis on the early detection of increased risks and their optimisation in relation of profitability. NLB Group appropriately diversifies its portfolio to mitigate specific components of credit risk (i.e. the risk deriving from operations with a specific customer, sector, positions in financial instruments, or other specific events). Increasing emphasis is also placed on stress tests that forecast the effects of negative movements in the portfolio on the level of impairments and provisions, and on capital adequacy within the second pillar. Capital requirements for credit risk at NLB Group level within the first pillar are calculated according to the standardised approach, while within the second pillar stress testing and concentration risk assessment are carried out.

NLB and other NLB Group members assess the level of credit risk losses on an individual basis for material claims, which are reviewed individually, and at the group level for the rest of the portfolio.

The primary aim of an individual review is to determine whether objective evidence of impairment exists. Such evidence includes information regarding significant financial problems encountered by a customer, regarding actual breaches of contractual obligations such as arrears in the settlement of liabilities, whether financial assets will be restructured for economic or legal reasons, and the likelihood that a customer will enter into bankruptcy or a financial reorganisation. Expected future cash flows (from ordinary operations and the possible redemption of collateral) are assessed following an individual review. If their discounted value differs from the book value of the financial asset in question, impairment must be recognised. If objective evidence of impairment does not exist, losses are assessed at the group level.

Collective impairments are made for the remainder of the portfolio, which is not assessed on an individual basis. To that end, the portfolio is broken down into groups of similar claims, and then further into sub-groups with respect to their credit rating. Here, impairments are created regarding the probability of default (PD) and regarding the average rate of default or loss given default (LGD) associated with non-performing claims. The probability of default is determined by transition matrices which illustrate the migration of customers between rating categories, using an unweighted moving average. The average rate of default or loss given default, which indicates how much we will lose on average when a claim becomes non-performing, is determined based on the amount of impairments created for non-performing loans as the non-weighted average of loss given a default. When creating collective provisions for commitments, on the basis of empirical data regarding the redemption of guarantees in the past, the probability of the redemption of guarantees is taken into account when creating collective provisions.

Activities related to meeting the IFRS 9 requirements, which will enter into force at the beginning of 2018, including quantitative impact study and foreseen methodological adaptations, are underway (note 2.34.).

b) Main emphasis in 2016

In the process of constantly enhancing credit risk management NLB Group focuses on taking moderate risks and simultaneously ensuring an optimal return considering the risks assumed. To ensure long-term profitable operations, NLB Group endeavours for a gradual improvement in the quality of the credit portfolio with a new, sound portfolio, and simultaneously focuses on a proactive resolving of non-performing exposures, including established structured approaches in restructuring and work-out areas.

Constant improvement of credit portfolio quality represents the most important key aim, with a focus on the quality of new placements leading to a diversified portfolio of customers. NLB Group puts considerable emphasis on new corporate and retail financing. The lower indebtedness of companies and their successful restructuring had a positive influence on the approval of new loans. In the retail segment, positive trends were shown in the larger trust of clients in economic developments and the related consumption, the reduced unemployment rate and partial recovery of the real-estate market. In comparison with the previous period, a larger volume of new loans was approved to this segment of clients. Beside the structure of the credit portfolio (the share of the portfolio with an A or B rating) is constantly improving. Efforts resulted in sustainable cost of risk and modest formation of new non-performing exposures in the current year, also partially due to the positive macroeconomic conditions.

The restructuring and work-out capacities and approaches built in the past are partly still occupied with the legacy of non-performing loans, although increasingly focused on actively resolving new cases with a faster and more active approach to restructuring and work-out. In addition to the organic reduction of non-performing exposures, NLB Group was able to sell off part of the receivables due to investors in two tranches (corporate and retail) resulted in a non-performing exposure reduction of EUR 233.3 million. As at 31 December 2016 the share of non-performing exposure by EBA methodology was 10.0%. Moreover the coverage ratio remains high at 64.6%, which is well above the EU average published by EBA (44.3%).

c) Internal rating system and authorisations

in EUR thousand

NLB Group	31.12.2016 Gross loans and advances	31.12.2016 Loans and advances (%)	31.12.2016 Impairment provision	31.12.2016 Impairment provision (%)	31.12.2015 Gross loans and advances	31.12.2015 Loans and advances (%)	31.12.2015 Impairment provision	31.12.2015 Impairment provision (%)
A	4,872,072	58.4	23,763	0.5	4,816,101	54.8	22,773	0.5
B	1,852,289	22.2	60,619	3.3	1,564,895	17.8	54,140	3.5
C	410,975	4.9	64,451	15.7	650,739	7.4	106,585	16.4
D and E	1,201,333	14.4	754,917	62.8	1,751,317	19.9	1,079,579	61.6
Total	**8,336,669**	**100.0**	**903,750**	**10.8**	**8,783,052**	**100.0**	**1,263,077**	**14.4**

*Other financial assets are not included.

in EUR thousand

NLB	31.12.2016 Gross loans and advances	31.12.2016 Loans and advances (%)	31.12.2016 Impairment provision	31.12.2016 Impairment provision (%)	31.12.2015 Gross loans and advances	31.12.2015 Loans and advances (%)	31.12.2015 Impairment provision	31.12.2015 Impairment provision (%)
A	3,581,311	61.3	11,653	0.3	3,540,605	56.5	11,727	0.3
B	1,087,449	18.6	24,464	2.2	934,586	14.9	20,643	2.2
C	454,477	7.8	45,873	10.1	737,199	11.8	64,653	8.8
D and E	718,476	12.3	422,758	58.8	1,048,450	16.8	597,892	57.0
Total	**5,841,713**	**100.0**	**504,748**	**8.6**	**6,260,840**	**100.0**	**694,915**	**11.1**

*Other financial assets are not included.

The basis for the client credit rating classification in NLB Group is an internally developed methodology. It is based on internal statistical analyses, good banking practices, as well as regulations of the Bank of Slovenia (Decision of the Bank of Slovenia on the Assessment of Credit Risk Losses of Banks and Savings Banks) and requirements of the European Banking Authority (EBA). The rating methodology is used across the entire NLB Group. A uniform credit grade scale of 12 rating classes was implemented in 2015, while before other members of NLB Group were using a narrower credit grade scale. The rating methodology consists of 12 credit rating classes for classifying legal persons, whereby nine of the credit rating classes represent a going concern, i.e. performing clients, and three of them non-performing clients, i.e. 'defaulters.'

Grade A (AAA-A) includes the best clients with a low degree of default probability, and which is characterised by high capital adequacy and a high coverage of financial liabilities with free cash flow. Grade B (BBB-B) includes clients with a low credit risk, one class lower than A-grade clients. The clients operate successfully, have a sufficient cash flow to settle their obligations, but some are more sensitive to changes in the industry or the economy. C (CCC-C) grade clients are exposed to a higher and above-average level of credit risk. The Bank reasonably restricts cooperation with such clients and decreases its exposure. For some of these clients, the specialised restructuring unit must participate in the process.

The D-, DF- and E-grades represent defaulters or clients with a high probability of default. Besides clients in insolvency proceedings and with arrears of over 90 days, this category includes clients where the Bank, based on past operations and future projections, assesses a high probability of default ("unlikely to pay"). D- and E-grade clients are ordinarily handled by the specialised units for restructuring or workout and legal support or by the specialised working groups.

Authorisations, procedures, and the detailed rating methodology, as well as the setting of a maximum borrowing limit and the impairment of claims, are formalised in NLB Group's internal acts. A standard customer rating methodology, with the prescribed set and quality of input data and elements of a rating analysis, applies to all NLB Group entities. Here it should be noted that decisions regarding the limits and internal ratings of materially-significant customers of NLB Group are harmonised and performed in line with the responsibility of centralised credit analysis function and NLB Credit Committee.

NLB regularly reviews the business practices and credit portfolios of NLB Group entities to make sure they are operating in accordance with the minimum risk management standards of NLB Group. This ensures appropriate standard processes for managing and reporting credit risks at the consolidated level.

d) Maximum exposure to credit risk

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Cash, cash balances at central banks, and other demand deposits at banks	1,299,014	1,161,983	617,039	496,806
Debt securities classified as loans and receivables	85,315	394,579	85,315	394,579
Loans to government	775,986	688,474	668,300	578,184
Loans to banks	435,537	431,775	408,056	345,207
Loans to financial organisations	74,344	139,852	273,310	391,911
Loans to individuals	3,091,508	2,907,991	1,951,115	1,889,683
Granted overdrafts	182,322	185,912	147,779	152,042
Loans for houses and flats	1,589,762	1,503,814	1,208,996	1,165,800
Consumer loans	1,090,120	962,884	480,626	471,889
Other loans	229,304	255,381	113,714	99,952
Loans to other customers	2,970,229	2,957,304	1,950,869	1,966,361
Loans to large corporate customers	1,534,628	1,645,169	1,296,126	1,263,055
Loans to small- and medium-sized enterprises	1,435,601	1,312,135	654,743	703,306
Other financial assets	61,014	69,521	36,151	48,944
Trading assets	87,699	267,403	87,693	267,870
Financial assets designated at fair value through profit or loss	734	753	-	-
Available-for-sale financial assets	1,998,533	1,661,729	1,526,787	1,177,947
Held-to-maturity financial assets	611,449	565,535	611,449	565,535
Derivatives - hedge accounting	217	1,083	217	1,083
Total net financial assets	**11,491,579**	**11,247,229**	**8,216,301**	**8,124,110**
Guarantees	749,430	790,570	535,082	586,706
Financial guarantees	332,281	357,786	189,642	213,817
Non-financial guarantees	417,149	432,784	345,440	372,889
Loan commitments	1,075,940	1,101,241	881,198	923,755
Other potential liabilities	25,814	26,691	3,879	3,684
Total contingent liabilities	**1,851,184**	**1,918,502**	**1,420,159**	**1,514,145**
Total maximum exposure to credit risk	**13,342,763**	**13,165,731**	**9,636,460**	**9,638,255**

Maximum exposure to credit risk is a presentation of NLB Group's exposure to credit risk separately by individual types of financial assets and conditional obligations. Exposures stated in the above table are shown for the balance sheet items in their net book value as reported in the statement of financial position, and for off-balance sheet items in the amount of their nominal value.

NLB Group has 92.9% (31 December 2015: 85.8%) of loans and advances that are neither past due nor impaired, 1.7% (31 December 2015: 5.4%) of loans and advances past due but not impaired, 5.4% (31 December 2015: 8.8%) of impaired loans. NLB has 94.5% (31 December 2015: 86.6%) of loans and advances that are neither past due nor impaired, 0.5% (31 December 2015: 0.6%) of loans and advances past due but not impaired, 5.0% (31 December 2015: 12.8%) of individually impaired loans.

e) Collateral from loans and advances

in EUR thousand

31.12.2016	NLB Group – Fully/over collateralised loans and advances – Net value of loans and advances	Fair value of collateral	Loans and advances not or not fully covered with collateral – Net value of loans and advances	Fair value of collateral
Debt securities	85,315	85,315	-	-
Loans to government	251,551	317,715	524,435	33
Loans to banks	6	14	435,531	532
Loans to financial organisations	19,431	71,350	54,913	296
Loans to individuals	1,908,266	3,568,947	1,183,242	82,845
Granted overdrafts	-	-	182,322	958
Loans for houses and flats	1,372,758	2,759,543	217,004	60,596
Consumer loans	479,756	710,314	610,364	9,643
Other loans	55,752	99,090	173,552	11,648
Loans to other customers	1,782,319	4,175,647	1,187,910	403,571
Loans to large corporate customers	898,439	1,659,912	636,189	155,478
Loans to small- and medium-sized enterprises	883,880	2,515,735	551,721	248,093
Other financial assets	659	7,634	60,355	355
Total	**4,047,547**	**8,226,622**	**3,446,386**	**487,632**

in EUR thousand

31.12.2015	NLB Group – Fully/over collateralised loans and advances – Net value of loans and advances	Fair value of collateral	Loans and advances not or not fully covered with collateral – Net value of loans and advances	Fair value of collateral
Debt securities	394,579	394,579	-	-
Loans to government	106,460	175,914	582,014	7
Loans to banks	29	106	431,746	610
Loans to financial organisations	31,724	79,141	108,128	7,145
Loans to individuals	1,964,725	3,919,693	943,266	150,360
Granted overdrafts	-	-	185,912	-
Loans for houses and flats	1,283,725	2,827,096	220,089	95,683
Consumer loans	623,828	970,322	339,056	16,820
Other loans	57,172	122,275	198,209	37,857
Loans to other customers	1,874,743	5,130,963	1,082,561	683,433
Loans to large corporate customers	1,081,843	2,455,629	563,326	304,934
Loans to small- and medium-sized enterprises	792,900	2,675,334	519,235	378,499
Other financial assets	2,965	38,713	66,556	417
Total	**4,375,225**	**9,739,109**	**3,214,271**	**841,972**

in EUR thousand

	NLB			
	Fully/over collateralised loans and advances		Loans and advances not or not fully covered with collateral	
31.12.2016	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Debt securities	85,315	85,315	-	-
Loans to government	223,474	230,986	444,826	-
Loans to banks	-	-	408,056	77
Loans to financial organisations	18,826	68,974	254,484	-
Loans to individuals	1,491,043	2,463,534	460,072	41,862
Granted overdrafts	-	-	147,779	-
Loans for houses and flats	1,089,934	2,018,702	119,062	41,214
Consumer loans	401,096	444,816	79,530	648
Other loans	13	16	113,701	-
Loans to other customers	1,128,371	2,196,939	822,498	320,580
Loans to large corporate customers	745,588	1,188,052	550,538	139,999
Loans to small- and medium-sized enterprises	382,783	1,008,887	271,960	180,581
Other financial assets	82	2,429	36,069	285
Total	**2,947,111**	**5,048,177**	**2,426,005**	**362,804**

in EUR thousand

	NLB			
	Fully/over collateralised loans and advances		Loans and advances not or not fully covered with collateral	
31.12.2015	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Debt securities	394,579	394,579	-	-
Loans to government	70,046	76,041	508,138	-
Loans to banks	-	-	345,207	153
Loans to financial organisations	28,274	74,746	363,637	6,791
Loans to individuals	1,411,275	2,342,930	478,408	67,162
Granted overdrafts	-	-	152,042	-
Loans for houses and flats	1,013,194	1,895,187	152,606	63,388
Consumer loans	398,047	447,701	73,842	3,774
Other loans	34	42	99,918	-
Loans to other customers	1,164,744	2,473,144	801,617	498,112
Loans to large corporate customers	796,995	1,360,792	466,060	225,583
Loans to small- and medium-sized enterprises	367,749	1,112,352	335,557	272,529
Other financial assets	294	3,403	48,650	412
Total	**3,069,212**	**5,364,843**	**2,545,657**	**572,630**

f) Credit protection policy

NLB Group applies a single set of standards to retail and corporate loan collateral, as developed by the members through the collateral harmonisation project. The master document regulating loan collateral in NLB Group is the Loan Collateral Policy in NLB Group and NLB. The Policy has been adopted by the Management Board of NLB and by the supervisory bodies of respective members for other members of NLB Group. The Policy represents the basic orientations bank employees must take into account when signing, evaluating, monitoring, and reporting collateral, with the aim of reducing credit risk.

NLB Group primarily accepts collateral complying with the Basel II requirements with the aim of improving credit risk management and consuming capital economically. In accordance with Basel II, collateral may consist of pledged deposits, government guarantees, bank guarantees, debt securities issued by central governments and central banks, bank debt securities, and real-estate mortgages (the real estate must be located in the European Economic Area for the effect on capital to be recognised).

Loans made to companies and sole proprietors may be secured by other forms of collateral as well (for example, a lien on movable property, a pledge of an equity stake, collateral by pledged/assigned receivables, etc.) if it is assessed that the collateral could generate a cash flow if it were needed as a secondary source of payment. In the case of a lower probability that such an item of collateral would generate a cash flow, a conservative approach is followed, namely, such collateral can be taken, but for reporting purposes the value is zero.

g) The processes for valuing collateral

Pursuant to the law, NLB Group has set up a system for monitoring and reporting collateral at fair (market) value.

The market value of real estate or movable property used as collateral is obtained from valuation reports of licensed appraisers or, for low contract amounts, from sales agreements not older than one year. The market value of financial instruments held by NLB Group is obtained from the organised market – the stock exchange – for listed financial instruments or determined in accordance with the internal methodology for unlisted financial instruments (such collateral is used exceptionally and on a small scale in loans granted to companies and sole proprietors).

NLB has compiled a reference list of licensed appraisers. All appraisals must be made for the purpose of secured lending and in accordance with the International Valuation Standards (IVS). Appraisals related to retail loans are generally ordered only from appraisers with whom the Bank has a contract for real-estate valuations. For corporate loans, appraisals are usually submitted by clients. If a client submits an appraisal not made by an appraiser included on the Bank's reference list, the expert department employing licensed appraisers (certified appraisers in construction with licences granted by the Ministry of Justice, and certified real-estate value appraisers with licences granted by the Slovenian Institute of Auditors) will verify the appraisal. The expert department is also responsible for reviewing valuations of real estate serving as collateral for large loans.

Other NLB Group members obtain valuations from in-house appraisers and outsourced appraisers, all having the necessary licences.
NLB Group has compiled a reference list of appraisers for valuations of real estate located outside Slovenia. Appraisals must be made in accordance with the IVS. For larger loans, real-estate evaluations must be reviewed by an internal licensed appraiser with knowledge of the local real-estate market.

When assuring collateral, NLB Group follows the internal regulations which define the minimum security or pledge ratios. NLB Group strives to obtain collateral with a higher value than the underlying exposure (depending on the borrower's rating, loan maturity etc.) with the aim of reducing negative consequences resulting from any major swings in market prices of the assets used as collateral. In the case of a reduced value of collateral and/or deteriorated debtor credit rating, additional collateral is sought as necessary and in accordance with the contractual provisions.

If real estate, movable property, and financial instruments serve as collateral, the Bank's lien should be entered as top ranking. Exceptionally, where the value of the mortgaged real estate is large enough, the lien can be entered with a different priority order.

NLB Group monitors the value of collateral during the loan repayment period in accordance with the mandatory periods and internal instructions. For example, the value of collateral using mortgaged real estate is monitored annually by either preparing individual assessments or using the internal methodology for preparing an own value appraisal of real estate (which applies to Slovenia, Serbia, and Montenegro) based on public records and indexes of real-estate value published by the relevant government authorities (the Surveying and Mapping Authority in Slovenia).

h) The main types of collateral taken by the Bank

NLB Group accepts different forms of material and personal security as loan collateral.

Material loan collateral gives the right in case of the debtor (borrower) defaulting on their contractual obligations to sell specific property to recover claims, keep specific non-cash property or cash, or reduces or offsets the amount of exposure against the counterparty's debt to the Bank.

NLB Group accepts the following material types of loan collateral:
- asset-backed collateral:
  - collateral backed by business and residential real estate;
  - collateral backed by movable property;
  - cash receivable collateral;
- collateral by a pledge of financial assets (bank deposits or cash-like instruments, debt securities of different issuers, investment fund units, equity securities, or convertible bonds);
- pledge of an equity stake;
- pledge or assignment of receivables as collateral; and
- other material forms of loan collateral (life insurance policies pledged to the Bank, etc.).

Personal loan collateral is a method for reducing credit risk whereby a third party undertakes to pay the debt in case of the primary debtor (borrower) defaulting.

NLB Group accepts the following types of personal loan collateral:
- joint and several guarantees by retail and corporate clients;
- bank guarantees;
- government guarantees (e.g. of the Republic of Slovenia);
- guarantees by national and regional development agencies; and
- insurance with an insurance company, etc.

Loans are very often secured by a combination of collateral types.

The general recommendations on loan collateral are specified in the internal instructions and include the elements specified below. The decision on the type of collateral and the coverage of loan by collateral depends on the analysis of data on the debtor (the debtor's credit rating and creditworthiness) and loan maturity; the difference arises from whether the loan is granted to retail or a corporate client. Corporate clients (companies and sole proprietors) must submit bills of exchange with written authorities for the creditor to fill them in for every loan.

NLB has also created, in the area of real-estate loan collateral, an 'on-line' connection with the Surveying and Mapping Authority in Slovenia which allows direct and immediate verification of the existence of property.

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

i) Evaluation risk of collateral

Client/counterparty credit risk is the key decision parameter when approving exposures. Collateral is a secondary source of repayment, and therefore decisions on approvals of exposures should not primarily be based on the provided collateral. However, collateral is an important comfort element in the approval process and, depending on the credit rating of the client, a prerequisite. NLB Group has prescribed the minimum ratios between the value of collateral and the loan amount, depending on the type of collateral and the client rating. The ratios are based on experience, regulatory guidelines, and are prescribed in the Collateral Manual.

NLB Group pays particular attention to closely monitoring the fair value of collateral, and to receiving regular and independent revaluations by applying the International Valuation Standards. Through a detailed examination of all collateral received, NLB has ensured that only collateral is taken into account from which payment can be realistically expected if it is liquidated.

NLB Group has the largest concentration on collaterals arising from mortgages on real-estate, which is a comparatively reliable and quality type of collateral; however, among others due to the falling real-estate market prices in recent history, the Bank is closely monitoring the real-estate collateral values and, where required, is establishing higher amounts of impairments and provisions for non-performing loans secured by real estate, based on estimated discounts of the real-estate value (specified in the Collateral Manual) which are expected to be achieved in a sale (expected payment from collateral).

Collateral consisting of securities entails market risk, specifically the risk of changes in the prices of securities on capital markets. To limit such risks and restrict the possibility of the value of instruments received as collateral falling below approved limits, the Rules determine minimum pledge ratios for securing loans on the basis of pledged securities and equity shares in NLB. Any deviation from the Rules is subject to the prior approval of the respective decision bodies of the Bank. The ratio between the loan amount and the securities' value is determined with regard to the securities' liquidity, maturity, correlation with changes in market indexes, i.e. by considering the key features reflecting the level of volatility of market prices, and the ability to sell the securities at the market price. For certain types of securities, the ratio is also determined by considering the issuer's credit rating, which reflects the credit risk entailed in collateral-using securities. In the case of adverse changes in the capital markets, the loan-to-collateral ratio may fall below the prescribed limit; in such a case, the debtor will be asked to provide additional securities or another type of collateral.

Collateral consisting of sureties of corporate clients, sureties of private individuals, and bank guarantees entail the credit risk of the provider of the collateral. NLB Group includes the amount of the guarantees received in the exposure limit of the guarantor, and guarantees are only taken into account as collateral if the guarantor has sufficient overall creditworthiness.

The Collateral Manual regulates which forms of collateral are acceptable, and which preconditions a type of collateral needs to fulfil to be able to be considered.

j) Net loans and advances neither past due nor impaired

in EUR thousand

31.12.2016	NLB Group A	NLB Group B	NLB Group C	NLB Group D and E	NLB Group Total	NLB A	NLB B	NLB C	NLB D and E	NLB Total
Debt securities	85,315	-	-	-	85,315	85,315	-	-	-	85,315
Loans to government	566,017	186,441	15,020	20	767,498	541,763	117,206	3,208	-	662,177
Loans to banks	337,639	97,798	81	-	435,518	320,201	87,774	81	-	408,056
Loans to financial organisations	38,473	4,562	30,300	-	73,335	33,873	2,096	236,541	-	272,510
Loans to individuals	2,922,528	31,441	24,684	90	2,978,744	1,878,392	2,710	15,531	-	1,896,633
Granted overdrafts	168,673	1,576	3,844	-	174,093	137,655	221	3,658	-	141,534
Loans for houses and flats	1,529,074	7,563	12,389	3	1,549,029	1,169,230	2,003	10,392	-	1,181,625
Consumer loans	1,028,158	18,250	5,539	11	1,051,958	468,478	128	926	-	469,532
Other loans	196,624	4,052	2,912	76	203,664	103,029	358	555	-	103,942
Loans to other customers	853,188	1,433,753	241,794	33,353	2,562,089	689,070	850,513	148,625	30,146	1,718,354
Loans to large corporate customers	622,397	689,474	77,223	15,493	1,404,587	603,429	546,134	27,984	13,920	1,191,467
Loans to small- and medium-sized enterprises	230,792	744,279	164,571	17,860	1,157,502	85,641	304,379	120,641	16,226	526,887
Other financial assets	44,634	9,996	1,847	56	56,533	25,229	7,629	1,602	-	34,460
Total	**4,847,794**	**1,763,991**	**313,726**	**33,519**	**6,959,030**	**3,573,843**	**1,067,928**	**405,588**	**30,146**	**5,077,505**

in EUR thousand

31.12.2015	NLB Group A	NLB Group B	NLB Group C	NLB Group D and E	NLB Group Total	NLB A	NLB B	NLB C	NLB D and E	NLB Total
Debt securities	394,579	-	-	-	394,579	394,579	-	-	-	394,579
Loans to government	445,382	190,291	33,936	29	669,638	439,997	125,097	3,662	-	568,756
Loans to banks	300,464	126,084	-	-	426,548	202,097	141,694	-	-	343,791
Loans to financial organisations	27,101	1,889	75,339	48	104,377	23,629	189	99,422	48	123,288
Loans to individuals	2,575,773	14,822	25,400	61	2,616,056	1,781,889	5,230	19,333	-	1,806,452
Granted overdrafts	157,312	466	2,599	-	160,377	141,486	309	2,538	-	144,333
Loans for houses and flats	1,364,783	6,508	16,569	3	1,387,863	1,100,006	4,402	14,893	-	1,119,301
Consumer loans	864,481	7,163	5,246	58	876,948	450,740	192	1,552	-	452,484
Other loans	189,197	685	986	-	190,868	89,657	327	350	-	90,334
Loans to other customers	854,318	1,066,181	294,123	26,904	2,241,526	663,035	638,834	258,197	21,041	1,581,107
Loans to large corporate customers	681,411	574,717	158,243	19,348	1,433,719	595,135	415,879	121,089	15,927	1,148,030
Loans to small- and medium-sized enterprises	172,907	491,464	135,880	7,556	807,807	67,900	222,955	137,108	5,114	433,077
Other financial assets	55,480	3,142	1,287	21	59,930	38,455	2,371	1,162	1	41,989
Total	**4,653,097**	**1,402,409**	**430,085**	**27,063**	**6,512,654**	**3,543,681**	**913,415**	**381,776**	**21,090**	**4,859,962**

* The loans and advances disclosed in the above tables are not individually impaired since they are fully or over collateralised.

k) Net loans and advances past due but not individually impaired

in EUR thousand

31.12.2016	NLB Group Up to 30 days	NLB Group Up to 90 days	NLB Group Over 90 days	NLB Group Total	NLB Up to 30 days	NLB Up to 90 days	NLB Over 90 days	NLB Total
Loans to government	401	1,345	-	1,746	-	-	-	-
Loans to banks	19	-	-	19	-	-	-	-
Loans to financial organisations	207	-	2	209	-	-	-	-
Loans to individuals	56,097	10,782	1,216	68,095	21,758	4,229	-	25,987
Granted overdrafts	3,856	1,141	26	5,023	2,204	1,057	-	3,261
Loans for houses and flats	10,040	2,212	174	12,426	4,889	1,115	-	6,004
Consumer loans	22,567	4,850	549	27,966	6,028	1,484	-	7,512
Other loans	19,634	2,579	467	22,680	8,637	573	-	9,210
Loans to other customers	40,889	8,203	5,600	54,692	2,378	106	24	2,508
Loans to large corporate customers	5,361	474	323	6,158	124	-	24	148
Loans to small- and medium-sized enterprises	35,528	7,729	5,277	48,534	2,254	106	-	2,360
Other financial assets	2,136	46	170	2,352	54	2	1	57
Total	**99,749**	**20,376**	**6,988**	**127,113**	**24,190**	**4,337**	**25**	**28,552**

in EUR thousand

31.12.2015	NLB Group Up to 30 days	NLB Group Up to 90 days	NLB Group Over 90 days	NLB Group Total	NLB Up to 30 days	NLB Up to 90 days	NLB Over 90 days	NLB Total
Loans to government	8,468	56	-	8,524	1	-	-	1
Loans to banks	29	-	-	29	-	-	275	275
Loans to financial organisations	79	28	34	141	-	-	33	33
Loans to individuals	203,459	14,770	1,957	220,186	28,005	1,867	-	29,872
Granted overdrafts	20,055	840	69	20,964	2,591	743	-	3,334
Loans for houses and flats	66,899	2,905	591	70,395	7,689	389	-	8,078
Consumer loans	64,930	1,725	413	67,068	9,452	133	-	9,585
Other loans	51,575	9,300	884	61,759	8,273	602	-	8,875
Loans to other customers	149,789	13,698	13,464	176,951	1,508	177	1,888	3,573
Loans to large corporate customers	40,384	1,842	2,179	44,405	-	-	24	24
Loans to small- and medium-sized enterprises	109,405	11,856	11,285	132,546	1,508	177	1,864	3,549
Other financial assets	3,412	229	383	4,024	88	1	18	107
Total	**365,236**	**28,781**	**15,838**	**409,855**	**29,602**	**2,045**	**2,214**	**33,861**

* The loans and advances disclosed in the above tables are not individually impaired since they are fully or over collateralised.

l) Individually impaired loans and advances

in EUR thousand

	NLB Group			NLB		
31.12.2016	**Gross value**	**Impairment provision**	**Net value**	**Gross value**	**Impairment provision**	**Net value**
Loans to government	12,556	(5,814)	6,742	9,260	(3,137)	6,123
Loans to financial organisations	26,261	(25,461)	800	26,229	(25,429)	800
Loans to individuals	113,027	(68,358)	44,669	52,059	(23,564)	28,495
Granted overdrafts	10,974	(7,768)	3,206	7,925	(4,941)	2,984
Loans for houses and flats	50,730	(22,423)	28,307	35,152	(13,785)	21,367
Consumer loans	35,351	(25,155)	10,196	7,484	(3,902)	3,582
Other loans	15,972	(13,012)	2,960	1,498	(936)	562
Loans to other customers	1,008,733	(655,285)	353,448	600,636	(370,629)	230,007
Loans to large corporate customers	323,493	(199,610)	123,883	252,848	(148,337)	104,511
Loans to small- and medium-sized enterprises	685,240	(455,675)	229,565	347,788	(222,292)	125,496
Other financial assets	14,225	(12,096)	2,129	4,746	(3,112)	1,634
Total	**1,174,802**	**(767,014)**	**407,788**	**692,930**	**(425,871)**	**267,059**

in EUR thousand

	NLB Group			NLB		
31.12.2015	**Gross value**	**Impairment provision**	**Net value**	**Gross value**	**Impairment provision**	**Net value**
Loans to government	16,836	(6,524)	10,312	12,754	(3,327)	9,427
Loans to banks	5,439	(241)	5,198	1,338	(197)	1,141
Loans to financial organisations	72,282	(36,948)	35,334	314,078	(45,488)	268,590
Loans to individuals	184,308	(112,559)	71,749	105,041	(51,682)	53,359
Granted overdrafts	15,182	(10,611)	4,571	11,984	(7,609)	4,375
Loans for houses and flats	85,150	(39,594)	45,556	66,093	(27,672)	38,421
Consumer loans	62,339	(43,471)	18,868	24,940	(15,120)	9,820
Other loans	21,637	(18,883)	2,754	2,024	(1,281)	743
Loans to other customers	1,475,971	(937,144)	538,827	895,611	(513,930)	381,681
Loans to large corporate customers	438,867	(271,822)	167,045	285,868	(170,867)	115,001
Loans to small- and medium-sized enterprises	1,037,104	(665,322)	371,782	609,743	(343,063)	266,680
Other financial assets	31,711	(26,144)	5,567	11,340	(4,492)	6,848
Total	**1,786,547**	**(1,119,560)**	**666,987**	**1,340,162**	**(619,116)**	**721,046**

m) Net loans analysis

in EUR thousand

31.12.2016	NLB Group Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	85,315	-	-	85,315
Loans to government	767,498	1,746	6,742	775,986
Loans to banks	435,518	19	-	435,537
Loans to financial organisations	73,335	209	800	74,344
Loans to individuals	2,978,744	68,095	44,669	3,091,508
Granted overdrafts	174,093	5,023	3,206	182,322
Loans for houses and flats	1,549,029	12,426	28,307	1,589,762
Consumer loans	1,051,958	27,966	10,196	1,090,120
Other loans	203,664	22,680	2,960	229,304
Loans to other customers	2,562,089	54,692	353,448	2,970,229
Loans to large corporate customers	1,404,587	6,158	123,883	1,534,628
Loans to small- and medium-sized enterprises	1,157,502	48,534	229,565	1,435,601
Other financial assets	56,533	2,352	2,129	61,014
Total	**6,959,032**	**127,113**	**407,788**	**7,493,933**

in EUR thousand

31.12.2015	NLB Group Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	394,579	-	-	394,579
Loans to government	669,638	8,524	10,312	688,474
Loans to banks	426,548	29	5,198	431,775
Loans to financial organisations	104,377	141	35,334	139,852
Loans to individuals	2,616,056	220,186	71,749	2,907,991
Granted overdrafts	160,377	20,964	4,571	185,912
Loans for houses and flats	1,387,863	70,395	45,556	1,503,814
Consumer loans	876,948	67,068	18,868	962,884
Other loans	190,868	61,759	2,754	255,381
Loans to other customers	2,241,526	176,951	538,827	2,957,304
Loans to large corporate customers	1,433,719	44,405	167,045	1,645,169
Loans to small- and medium-sized enterprises	807,807	132,546	371,782	1,312,135
Other financial assets	59,930	4,024	5,567	69,521
Total	**6,512,654**	**409,855**	**666,987**	**7,589,496**

in EUR thousand

31.12.2016	NLB Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	85,315	-	-	85,315
Loans to government	662,177	-	6,123	668,300
Loans to banks	408,056	-	-	408,056
Loans to financial organisations	272,510	-	800	273,310
Loans to individuals	1,896,633	25,987	28,495	1,951,115
Granted overdrafts	141,534	3,261	2,984	147,779
Loans for houses and flats	1,181,625	6,004	21,367	1,208,996
Consumer loans	469,532	7,512	3,582	480,626
Other loans	103,942	9,210	562	113,714
Loans to other customers	1,718,354	2,508	230,007	1,950,869
Loans to large corporate customers	1,191,467	148	104,511	1,296,126
Loans to small- and medium-sized enterprises	526,887	2,360	125,496	654,743
Other financial assets	34,460	57	1,634	36,151
Total	**5,077,505**	**28,552**	**267,059**	**5,373,116**

in EUR thousand

31.12.2015	NLB Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	394,579	-	-	394,579
Loans to government	568,756	1	9,427	578,184
Loans to banks	343,791	275	1,141	345,207
Loans to financial organisations	123,288	33	268,590	391,911
Loans to individuals	1,806,452	29,872	53,359	1,889,683
Granted overdrafts	144,333	3,334	4,375	152,042
Loans for houses and flats	1,119,301	8,078	38,421	1,165,800
Consumer loans	452,484	9,585	9,820	471,889
Other loans	90,334	8,875	743	99,952
Loans to other customers	1,581,107	3,573	381,681	1,966,361
Loans to large corporate customers	1,148,030	24	115,001	1,263,055
Loans to small- and medium-sized enterprises	433,077	3,549	266,680	703,306
Other financial assets	41,989	107	6,848	48,944
Total	**4,859,962**	**33,861**	**721,046**	**5,614,869**

n) Repossessed assets

NLB Group and NLB received the following assets by taking possession of collateral held as security and held them at the reporting date:

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Nature of assets	Net value		Net value	
Securities (note 5.4.b)	24,162	21,277	20,832	18,977
Investment property (note 5.10.)	48,658	57,599	3,750	3,750
Property and equipment (note 5.9.)	1,523	1,839	7	7
Investments in subsidiaries and associates	-	-	2,484	3,248
Other assets (note 5.13.)	79,059	75,652	4,263	3,371
Total	**153,402**	**156,367**	**31,336**	**29,353**

Other assets on NLB Group in the amount of EUR 76,416 thousand (31 December 2015: EUR 72,433 thousand) and on NLB in the amount of EUR 4,263 thousand (31 December 2015: EUR 3,371 thousand) consist of real estate, and the rest are other assets received as collateral.

o) Analysis of loans and advances by industry sectors

in EUR thousand

NLB Group	31.12.2016				31.12.2015			
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	435,886	(349)	435,537	5.81	432,017	(242)	431,775	5.69
Finance	132,156	(27,863)	104,293	1.39	202,661	(38,300)	164,361	2.17
Electricity, gas, and water	176,230	(19,754)	156,476	2.09	134,658	(29,576)	105,082	1.38
Construction industry	260,537	(109,189)	151,348	2.02	319,901	(164,532)	155,369	2.05
Heavy industry	852,257	(168,205)	684,052	9.13	911,548	(241,932)	669,616	8.82
Education	15,314	(696)	14,618	0.20	18,036	(1,263)	16,773	0.22
Agriculture, forestry, and fishing	43,309	(9,515)	33,794	0.45	67,071	(24,400)	42,671	0.56
Public sector	364,764	(12,270)	352,494	4.70	424,955	(15,831)	409,124	5.39
Individuals	3,190,724	(99,216)	3,091,508	41.25	3,050,810	(142,819)	2,907,991	38.32
Mining	31,913	(6,300)	25,613	0.34	86,915	(14,202)	72,713	0.96
Entrepreneurs	99,715	(6,642)	93,073	1.24	103,205	(16,617)	86,588	1.14
Services	962,743	(156,285)	806,458	10.76	1,208,684	(246,164)	962,520	12.68
Transport and communications	869,779	(39,908)	829,871	11.07	829,706	(39,330)	790,376	10.41
Trade industry	873,406	(242,743)	630,663	8.42	964,366	(282,832)	681,534	8.98
Health care and social security	27,936	(4,815)	23,121	0.31	28,519	(5,037)	23,482	0.31
Other financial assets	76,467	(15,453)	61,014	0.81	96,599	(27,078)	69,521	0.92
Total	**8,413,136**	**(919,203)**	**7,493,933**	**100.00**	**8,879,651**	**(1,290,155)**	**7,589,496**	**100.00**

in EUR thousand

NLB	31.12.2016				31.12.2015			
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	408,056	-	408,056	7.59	345,404	(197)	345,207	6.15
Finance	341,644	(45,910)	295,734	5.50	461,704	(48,575)	413,129	7.36
Electricity, gas, and water	112,083	(6,279)	105,804	1.97	86,984	(16,559)	70,425	1.25
Construction industry	136,071	(71,294)	64,777	1.21	163,190	(91,144)	72,046	1.28
Heavy industry	569,022	(88,472)	480,550	8.94	652,104	(138,005)	514,099	9.16
Education	10,643	(54)	10,589	0.20	13,342	(402)	12,940	0.23
Agriculture, forestry, and fishing	15,437	(1,223)	14,214	0.26	27,611	(10,492)	17,119	0.30
Public sector	248,993	(2,265)	246,728	4.59	301,481	(2,647)	298,834	5.32
Individuals	1,990,184	(39,069)	1,951,115	36.31	1,957,859	(68,176)	1,889,683	33.65
Mining	25,332	(5,297)	20,035	0.37	30,910	(5,860)	25,050	0.45
Entrepreneurs	46,148	(2,587)	43,561	0.81	64,181	(10,502)	53,679	0.96
Services	782,110	(91,419)	690,691	12.85	988,569	(144,690)	843,879	15.03
Transport and communications	777,964	(17,903)	760,061	14.15	756,836	(26,859)	729,977	13.00
Trade industry	366,587	(131,753)	234,834	4.37	393,574	(127,080)	266,494	4.75
Health care and social security	11,439	(1,223)	10,216	0.19	17,091	(3,727)	13,364	0.24
Other financial assets	39,922	(3,771)	36,151	0.67	54,067	(5,123)	48,944	0.87
Total	**5,881,635**	**(508,519)**	**5,373,116**	**100.00**	**6,314,907**	**(700,038)**	**5,614,869**	**100.00**

p) Analysis of net loans and advances by geographical sectors

in EUR thousand

	NLB Group		NLB	
Country	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Republic of Slovenia	4,633,952	4,752,525	4,663,239	4,869,768
Other European Union members	468,887	439,839	393,858	357,823
Other countries	2,391,094	2,397,132	316,019	387,278
Total	**7,493,933**	**7,589,496**	**5,373,116**	**5,614,869**

q) Analysis of debt securities and derivative financial instruments by geographical sectors

in EUR thousand

31.12.2016	NLB Group						NLB				
Country	Loans and advances	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative financial instruments	Loans and advances	Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative financial instruments
Republic of Slovenia	85,315	49,747	-	544,187	415,165	13,347	85,315	49,747	479,792	415,165	13,347
Other members of European Union	-	19,010	734	1,031,073	196,284	5,399	-	19,010	1,031,073	196,284	5,399
- Italy	-	-	-	42,203	-	-	-	-	42,203	-	-
- Ireland	-	-	471	35,935	-	-	-	-	35,935	-	-
- France	-	-	103	149,327	48,720	10	-	-	149,327	48,720	10
- Belgium	-	-	-	45,511	16,031	98	-	-	45,511	16,031	98
- Netherlands	-	-	-	102,420	26,123	240	-	-	102,420	26,123	240
- Austria	-	19,010	-	29,609	40,878	1	-	19,010	29,609	40,878	1
- Germany	-	-	-	200,358	43,533	146	-	-	200,358	43,533	146
- Finland	-	-	-	39,220	3,247	-	-	-	39,220	3,247	-
- Sweden	-	-	160	64,610	-	-	-	-	64,610	-	-
- Denmark	-	-	-	67,722	-	-	-	-	67,722	-	-
- Luxembourg	-	-	-	57,222	16,729	-	-	-	57,222	16,729	-
- Great Britain	-	-	-	113,675	-	4,904	-	-	113,675	-	4,904
- Slovakia	-	-	-	20,583	-	-	-	-	20,583	-	-
- Spain	-	-	-	25,930	-	-	-	-	25,930	-	-
- Other	-	-	-	36,748	1,023	-	-	-	36,748	1,023	-
United States of America	-	-	-	9,074	-	-	-	-	9,074	-	-
Other countries	-	-	-	414,199	-	413	-	-	6,848	-	407
- Macedonia	-	-	-	159,993	-	-	-	-	-	-	-
- Serbia	-	-	-	54,568	-	6	-	-	-	-	-
- Bosnia and Herzegovina	-	-	-	72,384	-	-	-	-	-	-	-
- Montenegro	-	-	-	54,765	-	-	-	-	-	-	-
- Kosovo	-	-	-	65,641	-	405	-	-	-	-	405
- Other	-	-	-	6,848	-	2	-	-	6,848	-	2
Total	**85,315**	**68,757**	**734**	**1,998,533**	**611,449**	**19,159**	**85,315**	**68,757**	**1,526,787**	**611,449**	**19,153**

in EUR thousand

31.12.2015	NLB Group						NLB				
Country	Loans and advances	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative financial instruments	Loans and advances	Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative financial instruments
Republic of Slovenia	394,579	82,096	-	470,881	383,540	10,172	394,579	82,096	423,884	383,540	10,639
Other members of European Union	-	154,273	753	740,851	181,995	20,835	-	154,273	738,184	181,995	20,835
- Italy	-	-	-	23,333	5,064	-	-	-	23,333	5,064	-
- Ireland	-	-	486	6,933	5,161	-	-	-	6,933	5,161	-
- France	-	-	104	78,656	21,958	1	-	-	78,656	21,958	1
- Belgium	-	-	-	58,054	3,527	1,083	-	-	55,388	3,527	1,083
- Netherlands	-	-	-	73,039	36,494	14,357	-	-	73,039	36,494	14,357
- Austria	-	20,007	-	52,914	37,592	-	-	20,007	52,914	37,592	-
- Germany	-	73,156	-	161,928	52,519	597	-	73,156	161,928	52,519	597
- Finland	-	-	-	38,928	3,273	-	-	-	38,928	3,273	-
- Sweden	-	-	163	37,036	-	-	-	-	37,036	-	-
- Denmark	-	25,001	-	6,450	-	-	-	25,001	6,450	-	-
- Luxembourg	-	-	-	68,177	13,326	-	-	-	68,177	13,326	-
- Great Britain	-	33,008	-	99,102	-	4,797	-	33,008	99,102	-	4,797
- Slovakia	-	3,101	-	15,801	2,059	-	-	3,101	15,801	2,059	-
- Spain	-	-	-	14,745	-	-	-	-	14,745	-	-
- Other	-	-	-	5,755	1,022	-	-	-	5,754	1,022	-
United States of America	-	-	-	15,879	-	-	-	-	15,879	-	-
Other countries	-	993	-	434,118	-	117	-	993	-	-	117
- Macedonia	-	-	-	175,366	-	3	-	-	-	-	-
- Serbia	-	-	-	81,491	-	-	-	-	-	-	1
- Bosnia and Herzegovina	-	-	-	59,712	-	-	-	-	-	-	-
- Montenegro	-	-	-	49,786	-	-	-	-	-	-	-
- Kosovo	-	-	-	67,763	-	114	-	-	-	-	116
- Other	-	993	-	-	-	-	-	993	-	-	-
Total	**394,579**	**237,362**	**753**	**1,661,729**	**565,535**	**31,124**	**394,579**	**237,362**	**1,177,947**	**565,535**	**31,591**

r) Internal rating of derivatives counterparties

	31.12.2016	31.12.2015
NLB Group and NLB	**in %**	**in %**
A	76.66	81.27
B	22.17	15.84
C	0.11	1.24
D and E	1.06	1.65
Total	**100.00**	**100.00**

All derivatives in the banking book are entered into with counterparties with an external investment-grade rating.

When derivatives are entered into on behalf of NLB Group's customers, such customers usually do not have an external rating, but all such transactions are covered through back-to-back transactions involving third parties with an external investment-grade rating.

s) Debt securities in NLB's and NLB Group's portfolio that represent subordinated liabilities for the issuer

in EUR thousand

31.12.2016	NLB Group				NLB			
Internal rating	**A**	**B**	**C**	**Total**	**A**	**B**	**C**	**Total**
Available-for-sale financial assets	583	-	-	583	583	-	-	583
Loans and advances								
- loans and advances to banks	-	-	-	-	10,961	3,989	-	14,950
- loans and advances to customers	-	-	-	-	-	-	5,898	5,898
Total	**583**	**-**	**-**	**583**	**11,544**	**3,989**	**5,898**	**21,431**

in EUR thousand

31.12.2015	NLB Group				NLB			
Internal rating	**A**	**B**	**C**	**Total**	**A**	**B**	**C**	**Total**
Available-for-sale financial assets	601	-	-	601	601	-	-	601
Loans and advances								
- loans and advances to banks	-	-	1,136	1,136	10,946	3,982	1,136	16,064
- loans and advances to customers	-	-	132	132	-	-	6,435	6,435
Total	**601**	**-**	**1,268**	**1,869**	**11,547**	**3,982**	**7,571**	**23,100**

t) Presentation of net financial instruments by measurement category

in EUR thousand

	NLB Group							
31.12.2016	**Trading assets**	**Financial assets designated at fair value through profit or loss**	**Available-for-sale financial assets**	**Loans and receivables**	**Financial leases**	**Held-to-maturity financial assets**	**Derivatives for hedge accounting**	**Total**
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	1,299,014	-	-	-	1,299,014
Securities	68,757	6,694	2,072,153	85,340	-	611,449	-	2,844,393
- Bonds	19,735	734	1,619,228	85,315	-	611,449	-	2,336,461
- Shares	-	-	73,620	-	-	-	-	73,620
- Commercial bills	19,010	-	274,489	-	-	-	-	293,499
- Cash certificates	-	-	199	-	-	-	-	199
- Treasury bills	30,012	-	104,617	-	-		-	134,629
- Private equity fund	-	2,011	-	-	-	-	-	2,011
- Reverse sell and repurchase agreements	-	-	-	25	-	-	-	25
- Other investments	-	3,949	-	-	-	-	-	3,949
Derivatives	18,942	-	-	-	-	-	217	19,159
Loans and receivables	-	-	-	7,197,167	150,412	-	-	7,347,579
- Loans to government	-	-	-	765,154	10,832	-	-	775,986
- Loans to banks	-	-	-	435,537	-	-	-	435,537
- Loans to financial organisations	-	-	-	74,312	32	-	-	74,344
- Loans to individuals	-	-	-	3,027,652	63,856	-	-	3,091,508
Granted overdrafts	-	-	-	182,322	-	-	-	182,322
Loans for houses and flats	-	-	-	1,589,762	-	-	-	1,589,762
Consumer loans	-	-	-	1,090,120	-	-	-	1,090,120
Other loans	-	-	-	165,448	63,856	-	-	229,304
- Loans to other customers	-	-	-	2,894,512	75,692	-	-	2,970,204
Loans to large corporate customers	-	-	-	1,530,194	4,409	-	-	1,534,603
Loans to small- and medium-sized enterprises	-	-	-	1,364,318	71,283	-	-	1,435,601
Other financial assets	-	-	-	61,014	-	-	-	61,014
Total financial assets	**87,699**	**6,694**	**2,072,153**	**8,642,535**	**150,412**	**611,449**	**217**	**11,571,159**

in EUR thousand

	NLB Group							
31.12.2015	**Trading assets**	**Financial assets designated at fair value through profit or loss**	**Available-for-sale financial assets**	**Loans and receivables**	**Financial leases**	**Held-to-maturity financial assets**	**Derivatives for hedge accounting**	**Total**
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	1,161,983	-	-	-	1,161,983
Securities	237,372	7,595	1,737,191	394,604	-	565,535	-	2,942,297
- Bonds	43,555	753	1,350,942	394,579	-	545,561	-	2,335,390
- Shares	10	-	75,462	-	-	-	-	75,472
- Commercial bills	151,171	-	151,168	-	-	-	-	302,339
- Certificates of deposits	-	-	77,939	-	-	-	-	77,939
- Treasury bills	42,636	-	81,680	-	-	19,974	-	144,290
- Private equity fund	-	4,913	-	-	-	-	-	4,913
- Reverse sell and repurchase agreements	-	-	-	25	-	-	-	25
- Other investments	-	1,929	-	-	-	-	-	1,929
Derivatives	30,041	-	-	-	-	-	1,083	31,124
Loans and receivables	-	-	-	6,947,552	177,819	-	-	7,125,371
- Loans to government	-	-	-	675,094	13,380	-	-	688,474
- Loans to banks	-	-	-	431,775	-	-	-	431,775
- Loans to financial organisations	-	-	-	139,559	293	-	-	139,852
- Loans to individuals	-	-	-	2,843,107	64,884	-	-	2,907,991
Granted overdrafts	-	-	-	185,912	-	-	-	185,912
Loans for houses and flats	-	-	-	1,503,814	-	-	-	1,503,814
Consumer loans	-	-	-	962,884	-	-	-	962,884
Other loans	-	-	-	190,497	64,884	-	-	255,381
- Loans to other customers	-	-	-	2,858,017	99,262	-	-	2,957,279
Loans to large corporate customers	-	-	-	1,615,919	29,225	-	-	1,645,144
Loans to small- and medium-sized enterprises	-	-	-	1,242,098	70,037	-	-	1,312,135
Other financial assets	-	-	-	69,521	-	-	-	69,521
Total financial assets	**267,413**	**7,595**	**1,737,191**	**8,573,660**	**177,819**	**565,535**	**1,083**	**11,330,296**

in EUR thousand

	NLB						
31.12.2016	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	617,039	-	-	617,039
Securities	68,757	2,011	1,594,094	85,340	611,449	-	2,361,651
- Bonds	19,735	-	1,262,363	85,315	611,449	-	1,978,862
- Shares	-	-	67,307	-	-	-	67,307
- Commercial bills	19,010	-	209,331	-	-	-	228,341
- Treasury bills	30,012	-	55,093	-		-	85,105
- Private equity fund	-	2,011	-	-	-	-	2,011
- Reverse sell and repurchase agreements	-	-	-	25	-	-	25
Derivatives	18,936	-	-	-	-	217	19,153
Loans and receivables	-	-	-	5,251,625	-	-	5,251,625
- Loans to government	-	-	-	668,300	-	-	668,300
- Loans to banks	-	-	-	408,056	-	-	408,056
- Loans to financial organisations	-	-	-	273,285	-	-	273,285
- Loans to individuals	-	-	-	1,951,115	-	-	1,951,115
Granted overdrafts	-	-	-	147,779	-	-	147,779
Loans for houses and flats	-	-	-	1,208,996	-	-	1,208,996
Consumer loans	-	-	-	480,626	-	-	480,626
Other loans	-	-	-	113,714	-	-	113,714
- Loans to other customers	-	-	-	1,950,869	-	-	1,950,869
Loans to large corporate customers	-	-	-	1,296,126	-	-	1,296,126
Loans to small- and medium-sized enterprises	-	-	-	654,743	-	-	654,743
Other financial assets	-	-	-	36,151	-	-	36,151
Total financial assets	**87,693**	**2,011**	**1,594,094**	**5,990,155**	**611,449**	**217**	**8,285,619**

in EUR thousand

31.12.2015	NLB						
	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	496,806	-	-	496,806
Securities	237,372	4,913	1,248,359	394,604	565,535	-	2,450,783
- Bonds	43,555	-	999,781	394,579	545,561	-	1,983,476
- Shares	10	-	70,412	-	-	-	70,422
- Commercial bills	151,171	-	151,168	-	-	-	302,339
- Treasury bills	42,636	-	26,998	-	19,974	-	89,608
- Private equity fund	-	4,913	-	-	-	-	4,913
- Reverse sell and repurchase agreements	-	-	-	25	-	-	25
Derivatives	30,508	-	-	-	-	1,083	31,591
Loans and receivables	-	-	-	5,171,321	-	-	5,171,321
- Loans to government	-	-	-	578,184	-	-	578,184
- Loans to banks	-	-	-	345,207	-	-	345,207
- Loans to financial organisations	-	-	-	391,911	-	-	391,911
- Loans to individuals	-	-	-	1,889,683	-	-	1,889,683
Granted overdrafts	-	-	-	152,042	-	-	152,042
Loans for houses and flats	-	-	-	1,165,800	-	-	1,165,800
Consumer loans	-	-	-	471,889	-	-	471,889
Other loans	-	-	-	99,952	-	-	99,952
- Loans to other customers	-	-	-	1,966,336	-	-	1,966,336
Loans to large corporate customers	-	-	-	1,263,030	-	-	1,263,030
Loans to small- and medium-sized enterprises	-	-	-	703,306	-	-	703,306
Other financial assets	-	-	-	48,944	-	-	48,944
Total financial assets	**267,880**	**4,913**	**1,248,359**	**6,111,675**	**565,535**	**1,083**	**8,199,445**

As at 31 December 2016 and 31 December 2015, all of NLB Group's financial liabilities, except for derivatives designated as hedging instruments, trading liabilities and financial liabilities designated at fair value through profit or loss, were carried at amortised cost.

7.2. Market risk

NLB defines market risk as the risk of potential financial losses due to changes in rates and/or market prices (exchange rates, credit spreads, and equity prices) or in parameters that affect prices (volatilities and correlations). Losses may impact profit or loss directly, for example in the case of trading book positions. However, for the banking book positions they are reflected in the revaluation reserve. The exposure to the market risk is to a certain degree integrated into the banking industry and offers an opportunity to create financial results and value.

The Global Risk Department of NLB is independent from the trading activities and reports to the bank's committee ALCO. They also monitor and manage exposure to market risks separately for the banking and the trading book. Exposures and limits are monitored daily and reported to the ALCO committee on a regular basis.

The bank uses a wide selection of quantitative and qualitative tools for measuring, managing, and reporting market risks such as value-at-risk (VaR), sensitivity analysis, stress testing, back-testing, scenarios, other market risk mitigants (concentration of exposures, gap limits, stop-loss limits, etc.), net interest income sensitivity, economic value of equity, and economic capital. Stress testing provides an indication of the potential losses that could occur in severe market conditions.

In the area of currency risk, NLB Group pursues the goal of low exposure. NLB monitors the open position of NLB Group on an ongoing basis. The orientation of NLB Group in interest rate risk management is to prevent negative effects on the net revenues arising from changed market interest rates. In line with this, the tolerance for this risk is low. The conclusion of transactions involving derivatives at NLB is limited to the servicing of the clients' and hedging of the Group's own open positions. In accordance with the provisions of the Strategy on trading in financial instruments in NLB Group, the trading activities in other NLB Group members are very restricted. Thus, NLB is the only Group member with a trading book in accordance with CRR requirements.

Monitoring and managing NLB Group's exposure to market risks is decentralised. However, uniform guidelines and exposure limits for each type of risk are set for individual NLB Group entities. The methodologies are in line with regulatory requirements on individual and consolidated levels, while reporting to the regulator on the consolidated level is carried out using the standardised approach. Pursuant to the relevant policies, NLB Group entities must monitor and manage exposure to market risks and report to NLB accordingly. The exposure of an individual NLB Group entity is regularly monitored and reported to the Assets and Liabilities Committee of NLB Group (NLB Group ALCO).

7.2.1. Currency risk (FX)

Foreign currency risk (FX) is a risk of the potential losses from the open FX positions due to the changes of the foreign currency rates. The exposures of NLB to the movement of the FX rates have impact on the financial position and cash flows of the bank. The bank measures and manages the FX risk with a usage of combination of sensitivity analysis, VaR, scenarios and stress testing.

In the trading book, similar to the other market risks, risk is managed on the basis of VaR limits which are approved by the Management Board and in accordance to the adopted Policy of managing market risk in the trading book of NLB.

NLB monitors and manages FX risk in the banking book according to the Policy of managing FX risk in NLB. The policy is primarily composed to protect Common Equity Tier 1 against the negative effects of the volatility of the FX rates.

Currency risk management in NLB Group is decentralised. Each member is responsible for its own currency risk policy, which also includes a limit system and is in line with local regulatory requirements as well as the parent Bank's guidelines and standards. Policies are confirmed by local committees. NLB monitors and manages NLB Group currency risk exposure on a monthly basis for each member and on the consolidated level.

The positions of all currencies in the statement of financial position of NLB, for which a daily limit is set, are monitored daily. Exposure to currency risks is managed by the Financial Markets Department on the basis of a report obtained from the Global Risk Department. The Financial Markets Department manages FX positions on the currency level so that they are always within the limits or close.

Exposure to currency risks is discussed at daily liquidity meetings and monthly meetings of the Assets and Liabilities Committee of NLB Group.

a) The amount of financial instruments denominated in euros and in foreign currency

in EUR thousand

	NLB Group				
31.12.2016	**EUR**	**USD**	**CHF**	**Other**	**Total**
Financial assets					
Cash, cash balances at central banks, and other demand deposits at banks	855,746	63,403	38,516	341,349	1,299,014
Trading assets	87,693	-	-	6	87,699
Financial assets designated at fair value through profit or loss	6,694	-	-	-	6,694
Available-for-sale financial assets	1,824,890	30,151	3,330	213,782	2,072,153
Derivatives - hedge accounting	217	-	-	-	217
Loans and advances					
- debt securities	85,315	-	-	-	85,315
- loans and advances to banks	322,404	79,204	-	33,929	435,537
- loans and advances to customers	6,013,998	55,829	90,670	751,570	6,912,067
- other financial assets	42,037	91	28	18,858	61,014
Held-to-maturity financial assets	611,449	-	-	-	611,449
Fair value changes of the hedged items in portfolio hedge of interest rate risk	678	-	-	-	678
Total financial assets	**9,851,121**	**228,678**	**132,544**	**1,359,494**	**11,571,837**
Financial liabilities					
Trading liabilities	18,788	-	-	3	18,791
Financial liabilities designated at fair value through profit or loss	2,011	-	-	-	2,011
Derivatives - hedge accounting	29,024	-	-	-	29,024
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	18,835	6,798	8,800	7,901	42,334
- borrowings from banks and central banks	328,348	25,285	18,130	6	371,769
- due to customers	8,110,708	192,654	73,334	1,060,451	9,437,147
- borrowings from other customers	83,619	-	-	-	83,619
- debt securities in issue	277,726	-	-	-	277,726
- subordinated liabilities	27,145	-	-	-	27,145
- other financial liabilities	90,732	1,454	1,873	16,236	110,295
Total financial liabilities	**8,986,936**	**226,191**	**102,137**	**1,084,597**	**10,399,861**
Net on-balance sheet financial position	**864,185**	**2,487**	**30,407**	**274,897**	**1,171,976**
Derivative financial instruments	26,519	2,077	(21,417)	(13,954)	(6,775)
Net financial position	**890,704**	**4,564**	**8,990**	**260,943**	**1,165,201**
31.12.2015					
Total financial assets	**9,688,316**	**204,996**	**151,560**	**1,286,165**	**11,331,037**
Total financial liabilities	**8,871,950**	**208,203**	**103,304**	**1,042,770**	**10,226,227**
Net on-balance sheet financial position	**816,366**	**(3,207)**	**48,256**	**243,395**	**1,104,810**
Derivative financial instruments	53,173	1,998	(45,057)	(16,964)	(6,850)
Net financial position	**869,539**	**(1,209)**	**3,199**	**226,431**	**1,097,960**

in EUR thousand

	NLB				
31.12.2016	**EUR**	**USD**	**CHF**	**Other**	**Total**
Financial assets					
Cash, cash balances at central banks, and other demand deposits at banks	531,072	36,647	11,289	38,031	617,039
Trading assets	87,693	-	-	-	87,693
Financial assets designated at fair value through profit or loss	2,011	-	-	-	2,011
Available-for-sale financial assets	1,563,577	28,148	-	2,369	1,594,094
Derivatives - hedge accounting	217	-	-	-	217
Loans and advances					
- debt securities	85,315	-	-	-	85,315
- loans and advances to banks	335,806	52,274	377	19,599	408,056
- loans and advances to customers	4,693,213	51,882	88,281	10,218	4,843,594
- other financial assets	36,060	65	1	25	36,151
Held-to-maturity financial assets	611,449	-	-	-	611,449
Fair value changes of the hedged items in portfolio hedge of interest rate risk	678	-	-	-	678
Total financial assets	**7,947,091**	**169,016**	**99,948**	**70,242**	**8,286,297**
Financial liabilities					
Trading liabilities	18,787	-	-	-	18,787
Financial liabilities designated at fair value through profit or loss	2,011	-	-	-	2,011
Derivatives - hedge accounting	29,024	-	-	-	29,024
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	30,443	22,030	12,112	10,392	74,977
- borrowings from banks and central banks	295,052	25,285	18,130	-	338,467
- due to customers	6,415,472	120,909	47,802	31,207	6,615,390
- borrowings from other customers	4,274	-	-	-	4,274
- debt securities in issue	277,726	-	-	-	277,726
- other financial liabilities	67,301	960	94	429	68,784
Total financial liabilities	**7,140,090**	**169,184**	**78,138**	**42,028**	**7,429,440**
Net on-balance sheet financial position	**807,001**	**(168)**	**21,810**	**28,214**	**856,857**
Derivative financial instruments	26,519	2,077	(21,417)	(13,954)	(6,775)
Net financial position	**833,520**	**1,909**	**393**	**14,260**	**850,082**
31.12.2015					
Total financial assets	**7,839,819**	**157,334**	**123,931**	**79,102**	**8,200,186**
Total financial liabilities	**7,057,066**	**158,946**	**82,194**	**48,934**	**7,347,140**
Net on-balance sheet financial position	**782,753**	**(1,612)**	**41,737**	**30,168**	**853,046**
Derivative financial instruments	53,260	1,998	(44,678)	(17,427)	(6,847)
Net financial position	**836,013**	**386**	**(2,941)**	**12,741**	**846,199**

b) Sensitivity analysis for currency risk

NLB Group and NLB

Scenarios	31.12.2016	31.12.2015
USD	+/-8%	+/-13%
CHF	+/-4%	+/-4%
CZK	+/-1%	+/-1%
RSD	+/-2%	+/-3%
MKD	+/-1%	+/-0.4%
JPY	+/-12.5%	+/-10.5%
AUD	+/-11%	+/-15%
HUF	+/-5%	+/-7%
HRK	+/-2%	+/-1%

in EUR thousand

	NLB Group		NLB	
31.12.2016	**Effects on income statement**	**Effects on other comprehensive income**	**Effects on income statement**	**Effects on other comprehensive income**
Appreciation of				
USD	271	-	72	7
CHF	(205)	227	13	-
CZK	(8)	23	2	-
RSD	(3)	1,567	2	-
MKD	1	-	1	-
Other	(16)	2,053	70	-
Effects on comprehensive income	**40**	**3,870**	**160**	**7**
Depreciation of				
USD	(229)	-	(61)	(6)
CHF	187	(208)	(12)	-
CZK	7	(22)	(2)	-
RSD	2	(1,506)	(2)	-
MKD	(1)	-	(1)	-
Other	23	(2,001)	(60)	-
Effects on comprehensive income	**(11)**	**(3,737)**	**(138)**	**(6)**
Total	**29**	**133**	**22**	**1**

in EUR thousand

31.12.2015	NLB Group		NLB	
	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensive income
Appreciation of				
USD	(11)	-	45	10
CHF	(434)	384	(9)	-
CZK	(7)	38	9	-
RSD	(5)	2,391	1	-
MKD	1	782	1	-
Other	(27)	718	65	-
Effects on comprehensive income	**(483)**	**4,313**	**112**	**10**
Depreciation of				
USD	8	-	(35)	(8)
CHF	397	(351)	8	-
CZK	6	(37)	(9)	-
RSD	5	(2,235)	(1)	-
MKD	(1)	(771)	(1)	-
Other	35	(709)	(52)	-
Effects on comprehensive income	**450**	**(4,103)**	**(90)**	**(8)**
Total	**(33)**	**210**	**22**	**2**

c) Value at Risk analysis

The methodology for measuring currency risk at NLB Group level is based on the net open foreign exchange position principle and monitoring of the nominal limits (for the total open position by currency), related to the capital size of an NLB Group member. The internal CVaR method described above is used for the illustration below of exposure to currency risk which derives from the quarterly net open positions of NLB Group entities. CVaR was the result of exchange rate volatility, which affected the potential loss or the level of CVaR.

in EUR thousand

NLB Group	2016			2015		
CVaR	**Average**	**Maximum**	**Minimum**	**Average**	**Maximum**	**Minimum**
Currency risk (trading book and banking book)	1,291	1,495	1,034	6,019	21,564	3,480

NLB uses an internal 'Conditional Value at Risk' (CVaR) model to calculate currency risk arising from open positions. The calculation of the CVaR value is adjusted to Basel standards (99% confidence interval, monitored period of 300 business days, 10-day holding position period), and based on the historical simulation method. CVaR is calculated for currency risk for the whole open bank position (e.g. the position of the trading and banking book together) as NLB's total open position is managed by the Treasury Department.

in EUR thousand

NLB	2016			2015		
CVaR	**Average**	**Maximum**	**Minimum**	**Average**	**Maximum**	**Minimum**
Currency risk (trading book and banking book)	157	414	52	307	4,353	7

7.2.2. Managing market risks in the trading book

Market risk exposure in the trading book arises mostly as a result of the changes in interest rates, credit spreads, FX rates, and equity prices.

The Management Board determines total risk appetite and limits by the risk type. The limits are monitored daily by the Global Risk Department.

NLB uses an internal VaR model based on the variance-covariance method for other market risks. The daily calculation of the VAR value is adjusted to Basel standards (99% confidence interval, monitored period of 250 business days, 10-day holding position period).

In 2016, FX risk in the trading book amounted to an average of EUR 104 thousand (2015: EUR 182 thousand). Compared to the previous year, the average VaR ratio is lower. An occasionally higher VaR mainly arises from SPOT deals with companies with the trading date t+0, and a closing deal with the trading date t+2.

In 2016, interest rate risks in the trading book amounted to an average of EUR 232 thousand (2015: EUR 346 thousand), and is lower compared to the previous year. At the end of 2016, the market value of the debt securities portfolio amounted to EUR 68,757 thousand (2015: EUR 237,372 thousand).

in EUR thousand

NLB Group and NLB	2016			2015		
VaR	**Average**	**Minimum**	**Maximum**	**Average**	**Minimum**	**Maximum**
FX risk trading book	104	5	771	182	18	893
Interest rate risk in trading book	232	63	538	346	151	717

The average, maximum, and minimum values in the upper table are calculated on the basis of daily VaR calculations, which are based on daily open positions and movements in market data during the past monitored period (250 working days). The “average” value represents the arithmetic mean of daily VaR values in 2016, while the “maximum” and “minimum” values represent the highest and lowest values of daily VaR calculations in 2016, respectively.

7.2.3. Managing interest rate risk

The management of interest rate risks in the NLB banking book is separated from the measurement and monitoring of those risks. In the past, NLB implemented an interest rate risk management policy that reflects a conservative strategy for assuming interest rate risks and is based on general Basel risk management standards and EBA guidelines.

NLB manages interest rate risk in conjunction with credit, currency foreign exchange, and liquidity risks as there is a close correlation between those risks that can have a significant impact on the stability of the interest rate margin. NLB also stabilises its interest rate margin through an appropriate pricing policy, a fund transfer pricing policy, and the securities portfolio of the banking book.

The management of interest rate risk arising from banking book transactions is facilitated by managing the interest rate maturity of all on- and off-balance sheet items in individual maturity buckets. It takes into account the positions in each currency, adjusted to credit risk. The maturity calculation model for interest-insensitive liability items and interest-sensitive items without maturity (e.g. available capital and stable sight deposits) was approved by the national regulator. An important part of managing interest rate risk is the securities portfolio of the banking book, which is subject to strict internal rules and policies. The primary purpose of the portfolio is to maintain adequate liquidity reserves, while it also contributes to the stability of the interest rate margin.

Several analyses are performed in the management of interest rate risks (limited positions in individual maturity buckets, modified duration, BPV limits, and interest rate margin). The BPV (basis point value) method helps to estimate changes in the market value of a banking book position due to a parallel shift in the yield curve. The BPV is calculated for different segments of the banking book and for the banking book as a whole. NLB also prepares calculations of the impact of changes in interest rates on net interest income.

The basic tool for managing interest rate risk in the banking book is the management of items from NLB's statement of financial position. The strategies that foresee appropriate adjustments to items from the statement of financial position are discussed and adopted at the executive level of NLB, or within the scope of NLB's Assets and Liabilities Committee. If the management of interest rate risk using items from the statement of financial position is not possible, NLB manages risk by using the following derivative financial instruments:

- interest rate swaps,
- overnight index swaps,
- cross currency swaps, and
- forward rate agreements.

The management of NLB Group's interest rate exposure is not performed at the consolidated level. However, NLB monitors the risk positions of individual members of NLB Group on a regular basis in accordance with the Standards for Risk Management in NLB Group. The aforementioned document comprises guidelines for uniform and effective interest rate risk management.

NLB Group measures Interest Rate Risk in the Banking Book (IRRBB) from an economic view of, as well as earnings sensitivity. Exposure is monitored weekly on the NLB solo level and monthly on the Group level. Measurement and management is done on the basis of maturity gaps, BPV analyses, NII sensitivity stress tests, and limits. Guidelines regarding the limitation and management of interest risks within individual NLB Group members are approved by the ALCO. Beside the prescribed scenario of parallel 200 bp shock on market interest rates, NLB Group also performs other relevant stress scenarios.

IRRBB measurement includes interest-sensitive performing assets and liabilities. Measurement and management of IRRBB include assumptions about non-maturing deposits in line with the valid regulation. The Bank regularly monitors effects of prepayment and early redemption risk on IRRBB exposure, and includes results in stress testing. Beside this hypothesis, banks in monitoring of IRRBB also include other relevant behavioural assumptions.

a) Analysis of financial instruments according to the exposure to interest rate risk

Illustrated below are the carrying amounts of financial instruments categorised by the earlier of contractual reprising or residual maturity.

in EUR thousand

	NLB Group							
31.12.2016	Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	1,299,014	450,644	848,370	848,370	-	-	-	-
Trading assets	87,699	6	87,693	19,220	49,085	9,168	10,220	-
Financial assets designated at fair value through profit or loss	6,694	5,960	734	-	-	-	734	-
Available-for-sale financial assets	2,072,153	73,620	1,998,533	110,145	267,093	494,924	759,436	366,935
Derivatives - hedge accounting	217	217	-	-	-	-	-	-
Loans and advances								
- debt securities	85,315	-	85,315	-	-	1,891	-	83,424
- loans and advances to banks	435,537	7	435,530	114,962	42,138	276,794	1,636	-
- loans and advances to customers	6,912,067	54,612	6,857,455	1,816,432	1,387,083	2,524,693	840,204	289,043
- other financial assets	61,014	61,014	-	-	-	-	-	-
Held-to-maturity financial assets	611,449	-	611,449	37,691	63,047	16,866	264,360	229,485
Fair value changes of the hedged items in portfolio hedge of interest rate risk	678	678	-	-	-	-	-	-
Total financial assets	**11,571,837**	**646,758**	**10,925,079**	**2,946,820**	**1,808,446**	**3,324,336**	**1,876,590**	**968,887**
Financial liabilities								
Trading liabilities	18,791	-	18,791	18,791	-	-	-	-
Financial liabilities designated at fair value through profit or loss	2,011	2,011	-	-	-	-	-	-
Derivatives - hedge accounting	29,024	29,024	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	42,334	332	42,002	41,439	563	-	-	-
- borrowings from banks and central banks	371,769	-	371,769	6,779	134,777	203,215	26,381	617
- due to customers	9,437,147	61,672	9,375,475	7,035,752	572,913	1,342,213	417,065	7,532
- borrowings from other customers	83,619	-	83,619	1,298	8,769	26,878	40,966	5,708
- debt securities in issue	277,726	-	277,726	-	-	277,726	-	-
- subordinated liabilities	27,145	-	27,145	200	11,938	15,007	-	-
- other financial liabilities	110,295	110,295	-	-	-	-	-	-
Total financial liabilities	**10,399,861**	**203,334**	**10,196,527**	**7,104,259**	**728,960**	**1,865,039**	**484,412**	**13,857**
Total interest repricing gap				**(4,157,439)**	**1,079,486**	**1,459,297**	**1,392,178**	**955,030**

in EUR thousand

	NLB Group							
31.12.2015	**Total**	**Non-interest bearing**	**Interest bearing**	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	1,161,983	505,720	656,263	656,263	-	-	-	-
Trading assets	267,413	10	267,403	40,184	32,940	194,278	1	-
Financial assets designated at fair value through profit or loss	7,595	4,913	2,682	1,929	-	-	753	-
Available-for-sale financial assets	1,737,191	75,462	1,661,729	140,587	110,575	293,237	809,994	307,336
Derivatives - hedge accounting	1,083	1,083	-	-	-	-	-	-
Loans and advances								
- debt securities	394,579	-	394,579	-	-	311,466	-	83,113
- loans and advances to banks	431,775	25	431,750	61,550	46,699	322,784	717	-
- loans and advances to customers	6,693,621	51,431	6,642,190	1,969,369	1,345,506	2,463,505	662,116	201,694
- other financial assets	69,521	69,521	-	-	-	-	-	-
Held-to-maturity financial assets	565,535	-	565,535	46,620	17,440	51,696	263,554	186,225
Fair value changes of the hedged items in portfolio hedge of interest rate risk	741	741	-	-	-	-	-	-
Total financial assets	**11,331,037**	**708,906**	**10,622,131**	**2,916,502**	**1,553,160**	**3,636,966**	**1,737,135**	**778,368**
Financial liabilities								
Trading liabilities	29,920	-	29,920	29,920	-	-	-	-
Financial liabilities designated at fair value through profit or loss	4,912	4,912	-	-	-	-	-	-
Derivatives - hedge accounting	33,842	33,842	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	57,982	60	57,922	56,986	-	722	214	-
- borrowings from banks and central banks	571,029	-	571,029	5,517	176,629	349,694	36,254	2,935
- due to customers	9,020,666	79,603	8,941,063	6,244,768	666,622	1,563,576	428,403	37,694
- borrowings from other customers	100,267	-	100,267	1,323	3,019	21,284	46,637	28,004
- debt securities in issue	304,962	-	304,962	-	-	29,917	275,045	-
- subordinated liabilities	27,340	-	27,340	-	12,219	15,121	-	-
- other financial liabilities	75,307	75,307	-	-	-	-	-	-
Total financial liabilities	**10,226,227**	**193,724**	**10,032,503**	**6,338,514**	**858,489**	**1,980,314**	**786,553**	**68,633**
Total interest repricing gap				**(3,422,012)**	**694,671**	**1,656,652**	**950,582**	**709,735**

in EUR thousand

	NLB							
31.12.2016	**Total**	**Non-interest bearing**	**Interest bearing**	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	617,039	128,519	488,520	488,520	-	-	-	-
Trading assets	87,693	-	87,693	19,220	49,085	9,168	10,220	-
Financial assets designated at fair value through profit or loss	2,011	2,011	-	-	-	-	-	-
Available-for-sale financial assets	1,594,094	67,307	1,526,787	27,709	195,730	371,601	569,219	362,528
Derivatives - hedge accounting	217	217	-	-	-	-	-	-
Loans and advances								
- debt securities	85,315	-	85,315	-	-	1,891	-	83,424
- loans and advances to banks	408,056	7	408,049	77,061	28,596	302,392	-	-
- loans and advances to customers	4,843,594	43,021	4,800,573	1,422,972	1,316,675	1,682,375	227,870	150,681
- other financial assets	36,151	36,151	-	-	-	-	-	-
Held-to-maturity financial assets	611,449	-	611,449	37,691	63,047	16,866	264,360	229,485
Fair value changes of the hedged items in portfolio hedge of interest rate risk	678	678	-	-	-	-	-	-
Total financial assets	**8,286,297**	**277,911**	**8,008,386**	**2,073,173**	**1,653,133**	**2,384,293**	**1,071,669**	**826,118**
Financial liabilities								
Trading liabilities	18,787	-	18,787	18,787	-	-	-	-
Financial liabilities designated at fair value through profit or loss	2,011	2,011	-	-	-	-	-	-
Derivatives - hedge accounting	29,024	29,024	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	74,977	-	74,977	74,977	-	-	-	-
- borrowings from banks and central banks	338,467	-	338,467	4,708	133,117	186,846	13,796	-
- due to customers	6,615,390	-	6,615,390	5,281,645	408,851	744,327	174,193	6,374
- borrowings from other customers	4,274	-	4,274	-	-	-	4,265	9
- debt securities in issue	277,726	-	277,726	-	-	277,726	-	-
- other financial liabilities	68,784	68,784	-	-	-	-	-	-
Total financial liabilities	**7,429,440**	**99,819**	**7,329,621**	**5,380,117**	**541,968**	**1,208,899**	**192,254**	**6,383**
Total interest repricing gap				**(3,306,944)**	**1,111,165**	**1,175,394**	**879,415**	**819,735**

in EUR thousand

31.12.2015	NLB Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	496,806	128,682	368,124	368,124	-	-	-	-
Trading assets	267,880	10	267,870	40,651	32,940	194,278	1	-
Financial assets designated at fair value through profit or loss	4,913	4,913	-	-	-	-	-	-
Available-for-sale financial assets	1,248,359	70,412	1,177,947	39,489	60,220	184,845	590,844	302,549
Derivatives - hedge accounting	1,083	1,083	-	-	-	-	-	-
Loans and advances								
- debt securities	394,579	-	394,579	-	-	311,466	-	83,113
- loans and advances to banks	345,207	10	345,197	20,507	23,904	300,626	160	-
- loans and advances to customers	4,826,139	41,199	4,784,940	1,595,772	1,263,047	1,659,100	178,044	88,977
- other financial assets	48,944	48,944	-	-	-	-	-	-
Held-to-maturity financial assets	565,535	-	565,535	46,620	17,440	51,696	263,554	186,225
Fair value changes of the hedged items in portfolio hedge of interest rate risk	741	741	-	-	-	-	-	-
Total financial assets	**8,200,186**	**295,994**	**7,904,192**	**2,111,163**	**1,397,551**	**2,702,011**	**1,032,603**	**660,864**
Financial liabilities								
Trading liabilities	29,909	-	29,909	29,909	-	-	-	-
Financial liabilities designated at fair value through profit or loss	4,912	4,912	-	-	-	-	-	-
Derivatives - hedge accounting	33,842	33,842	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	96,736	-	96,736	96,731	-	5	-	-
- borrowings from banks and central banks	519,926	-	519,926	1,821	174,298	327,414	14,853	1,540
- due to customers	6,293,339	-	6,293,339	4,719,557	505,119	865,732	191,889	11,042
- borrowings from other customers	16,168	-	16,168	-	-	10,009	6,149	10
- debt securities in issue	304,962	-	304,962	-	-	29,917	275,045	-
- other financial liabilities	47,346	47,346	-	-	-	-	-	-
Total financial liabilities	**7,347,140**	**86,100**	**7,261,040**	**4,848,018**	**679,417**	**1,233,077**	**487,936**	**12,592**
Total interest repricing gap				**(2,736,855)**	**718,134**	**1,468,934**	**544,667**	**648,272**

b) Net interest income sensitivity analysis and an economic view of interest rate risk in the banking book

The analysis of interest income sensitivity assumes a move in interest rates by 50 basis points in the short term. The analysis is based on the assumption that the positions used remain unchanged, and that the yield curve shift is parallel. The assessment of the impact of a change in interest rates of 50 basis points on the amount of net interest income of the banking book position:

in EUR thousand

	NLB Group			NLB		
2016	Average (assessment)	Minimum (assessment)	Maximum (assessment)	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest income sensitivity						
EUR	12,009	11,154	13,121	12,025	11,155	12,699
USD	417	319	507	311	182	407
CHF	161	78	247	166	83	248
Other	1,238	1,058	1,390	45	31	50

in EUR thousand

	NLB Group			NLB		
2015	Average (assessment)	Minimum (assessment)	Maximum (assessment)	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest income sensitivity						
EUR	11,788	10,481	12,763	11,408	10,247	12,316
USD	120	9	296	107	13	212
CHF	282	95	608	171	68	277
Other	1,112	1,000	1,310	47	36	61

The values in the table are calculated on the basis of monthly calculations of short-term interest rate gaps, where the applied parallel shift of the yield curve by 50 basis points represents a realistic and practical scenario. The "average" value represents the arithmetic mean of monthly calculations, while the "maximum" and "minimum" values represent the highest and lowest values calculated during the period.

The BPV (Basis Point Value) method is a measure of sensitivity of financial instruments to market interest rates, i.e. changes of the required return. The BPV method is used to assess the change in the value of a position in case market interest rates change by +/- 200 basis points. In this method, a parallel shift of the yield curve is assumed. The basis point value is the measurement of the change in the market value of a position in the case of an assumed change in market interest rates by a certain number of basis points, which is expressed in monetary units. NLB weekly calculates the absolute value of potential negative economic effects that would result from a parallel shift in interest rates by 200 bp.

The assessment of the impact of a change in interest rates of 200 basis points on the economic value of the banking book position:

in EUR thousand

	NLB Group			NLB		
2016	Average (assessment)	Minimum (assessment)	Maximum (assessment)	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest risk in banking book - BPV	162,224	145,727	198,017	120,515	105,469	153,501
Interest risk in banking book - BPV, as % of equity	12.59%	11.36%	14.82%	10.60%	9.29%	13.48%

in EUR thousand

	NLB Group			NLB		
2015	Average (assessment)	Minimum (assessment)	Maximum (assessment)	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest risk in banking book - BPV	134,423	127,415	146,900	103,878	89,619	115,005
Interest risk in banking book - BPV, as % of equity	10.80%	10.24%	11.79%	9.27%	7.90%	10.39%

The values in the table have been calculated on the basis of weekly calculations of interest rate gaps for NLB and monthly on the Group level. The applied parallel shift of the yield curve is by 200 basis points. The "average" value represents the arithmetic mean of monthly calculations, while the "maximum" and "minimum" values represent the highest and lowest values calculated during the period. The calculation does not take the allocation of the stable part of sight deposits into account.

Exposure to interest rate risk mainly arises from investments in high quality debt securities, which are held primarily for liquidity risk management purposes. Due to low/negative interest rate environment in 2016 the bank has also recorded an increase of fixed interest rate mortgage loans. Long-term interest positions of other members in NLB Group, from which present a majority of their exposure to interest-rate risk (economic point of view), mainly arise from a portfolio of mortgage loans with a fixed interest rate.

7.2.4. Risk of changes in prices in the portfolio of equity securities in the banking book

NLB Group's financial instruments trading strategy includes guidelines for the effective management of risks associated with equity investments. Trading with equity securities is not permitted in subsidiaries. Only stock broking services are provided. The majority of the equity securities portfolio in the banking book derives from NLB's position, while smaller positions are also held by certain NLB Group entities.

In terms of equity security investments, NLB has adopted policies for managing these investments that were approved by the Management and the Supervisory Board. The policies relate to the investment structure of the portfolio, its diversification, and the monitoring and measurement of risks. In addition to a standardised methodology, NLB also uses an internal model, which has been adapted in accordance with the requirements of the Basel standards for monitoring and measuring risks related to the equity portfolio.

The carrying value of the equities portfolio in the banking book of NLB Group and NLB is represented in note 5.4.

7.3. Liquidity risk

Liquidity risk is the risk that the bank is unable to meet all of its payment obligations, as well as the risk that the bank is unable to fund the growth of assets at reasonable prices, or at all.

Risk tolerance for liquidity risk is low, therefore NLB Group maintains an adequate level of liquidity to provide sufficient funds for settling its liabilities at all times, even if a specific stress scenario is realised. The Bank measures and manages its liquidity in three stages:

- Current exposure and compliance,
- Forward-looking and stress testing,
- Liquidity in exceptional circumstances.

Overall assessment of the liquidity position of NLB Group is assessed in Internal Liquidity Adequacy Assessment Process (ILAAP) at least once per year for NLB Group, and it includes a clear formal statement on liquidity adequacy, supported by an analysis of ILAAP outcomes. NLB Group maintains a sufficient amount of liquidity reserves in the form of high credit quality debt securities that are eligible for refinancing via the ECB or on the interbank market. In the current situation, NLB Group also strives to follow as closely as possible the long-term trend of diversification on both the liability and asset sides of the balance sheet. NLB Group regularly performs stress tests with the aim of testing the liquidity stability and availability of liquidity reserves in various stress situations. In addition, special attention is given to the fulfilment of the liquidity regulation (CRR/CRD), with monitoring and reporting of the liquidity coverage ratio (LCR) according to the Delegated Act (DA) and net stable funding ratio (NSFR). This also includes monitoring and reporting of Additional Liquidity Monitoring Metrics (ALMM) on solo and consolidated levels. In accordance with the Commission Implementing Regulation (EU), NLB Group regularly monitors and issues quarterly reports on asset encumbrance (AE). Increase in the volume of encumbered assets boosts liquidity risk and the risk of financing, since the Bank has fewer available assets as a liquidity reserve for unexpected liquidity needs.

NLB prepares a monthly static liquidity mismatch table by residual maturity and dynamic liquidity projections taking several cash-flow scenarios into account, to ensure monitoring over the liquidity position of each NLB Group member.

NLB manages its liquidity position (liquidity within one day) daily, for a period of several days or weeks, based on the planning and monitoring of cash flows. Each NLB Group member is responsible for its own liquidity position and carries out the following activities:
- managing intraday liquidity;
- planning and monitoring cash flows;
- monitoring and complying with the liquidity regulations of the central bank;
- adopting business decisions;
- managing liquidity reserves; and
- performing intraday liquidity stress test to define liquidity buffer for smooth functioning of payment system in stressed circumstances.

The Bank actively manages liquidity over the course of a day, taking into account the characteristics of payment settlements to ensure the timely settlement of liabilities in normal and stressed circumstances.

NLB Group has defined a liquidity management plan for exceptional circumstances that lays down guidelines and a plan of activities for recognising problems, searching for solutions, and handling exceptional circumstances. It also provides for the establishment of a system of liquidity management that ensures the maintenance of NLB Group's liquidity and protects the commercial interests of its customers and shareholders.

Liquidity risk management in NLB Group is decentralised under strict monitoring by NLB as a parent bank. Standardised reporting to NLB by all group members is done on a monthly basis. Global Risk gives guidelines and defines minimal standards for group members regarding liquidity risk management in NLB Group Risk Management Standards. Each group member is responsible for ensuring adequate liquidity via the necessary sources of funding and their appropriate diversification and maturity, and by managing liquidity reserves and fulfilling the requirements of regulations governing liquidity. The exposure of an individual NLB Group entity is regularly monitored and reported to the Assets and Liabilities Committee of NLB Group (NLB Group ALCO).

The objectives of monitoring and managing liquidity risk in NLB Group are as follows:
ensuring a sufficient level of liquid assets;
- minimising the costs of maintaining liquidity;
- optimising the amount of liquidity reserves;
- ensuring an appropriate level of liquidity for different situations and stress scenarios; and
- anticipating emergencies or crisis conditions, and implementing contingency plans in the event of extraordinary circumstances.
- preparing dynamic projections of liquidity taking several cash-flow scenarios into account;
- preparing proposals for establishing additional financial assets as collateral for sources of funding

a) Managing NLB Group's liquidity reserves

NLB Group has liquidity reserves available to cover liabilities that fall or may become due. Liquidity reserves must become available on short notice following the realisation of a stress scenario (immediately, i.e. within one week). Liquidity reserves comprise cash, the settlement account at the central bank, sight deposits and short-term deposits at banks, debt securities and loans eligible as collateral for Eurosystem claims, on the basis of which the Bank may generate the requisite liquidity at any time. Available liquidity reserves are liquidity reserves decreased by the reserve requirement, required balances for the continuous performance of payment transactions, encumbered securities, and credit claims for different purposes (secured funding).

The structure of liquidity reserves is shown in the following table.

Structural liquidity reserves

in EUR thousand

	NLB Group		NLB	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
Liquidity reserves				
Cash, cash balances at central banks, and other demand deposits at banks	1,299,014	1,161,983	617,039	496,806
Placements with banks	433,883	427,195	387,599	315,016
Trading book securities	68,757	237,362	68,757	237,362
Banking book securities	2,695,297	2,621,843	2,223,551	2,138,061
ECB eligible loans	849,080	799,757	849,080	799,757
Total liquid assets	**5,346,031**	**5,248,140**	**4,146,026**	**3,987,002**
Encumbered liquid assets	489,775	588,333	161,786	345,398
Unencumbered liquid assets	4,856,256	4,659,807	3,984,240	3,641,604

As at 31 December 2016, 75.8% (31 December 2015: 87.5%) of debt securities in the banking book of NLB Group were government securities and 24.2% (31 December 2015: 12.5%) were bonds from financial organisations. On 15 December 2016, the second of the two GGB securities issued by BAMC in 2013 matured in the amount of EUR 309 million.

The purpose of banking book securities is to provide liquidity, along with stabilisation of the interest margin and interest rate risk management simultaneously. When managing the portfolio, NLB Group uses conservative principles, particularly with respect to the portfolio's structure in terms of issuers' ratings and asset class. The framework for managing the banking book securities are the Policy for managing debt securities in the Financial markets' banking book and the Policy for the management of domestic (Slovenian) corporate debt securities by the Large Corporate Division, which clearly define the objectives and characteristics of the associated portfolio.

The ECB-eligible credit claims comprise loans which fulfil the high eligibility criteria set by the ECB itself and for domestic loans are specified in the Resolution about general rules on Eurosystem monetary policy instruments and procedures (Chapter 4) adopted by the Bank of Slovenia. NLB is the only member of NLB Group that complies with the conditions set by the Eurosystem to classify as an eligible counterparty. This is why these ECB credit claims are included among liquidity reserves.

NLB has encumbered liquid assets for different purposes; the biggest proportion represents ECB-eligible loans and debt securities encumbered for secured funding at the ECB. Members of NLB Group manage their liquidity reserves on a decentralised basis in compliance with the local liquidity regulation and valid policies of NLB Group.

b) Encumbered liquid assets

in EUR thousand

2016	NLB Group				NLB			
	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities
Loans on demand	-	-	1,038,402	-	-	-	488,520	-
Equity instruments	-	-	79,580	79,580	-	-	69,318	69,318
Debt securities	94,340	102,049	2,670,448	2,712,588	94,340	102,049	2,197,968	2,243,792
Loans and advances other than loans on demand	44,557	-	7,364,061	-	37,987	-	5,249,814	-
Other assets	-	-	747,623	-	-	-	640,019	-
Total	**138,897**		**11,900,114**		**132,327**		**8,645,639**	

in EUR thousand

2015	NLB Group				NLB			
	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities
Loans on demand	-	-	933,827	-	-	-	368,124	-
Equity instruments	-	-	82,314	82,314	-	-	75,335	75,335
Debt securities	158,700	166,533	2,701,258	2,755,369	158,700	166,533	2,216,723	2,270,834
Loans and advances other than loans on demand	169,180	-	7,025,737	-	169,180	-	5,051,110	-
Other assets	-	-	750,599	-	-	-	667,613	-
Total	**327,880**		**11,493,735**		**327,880**		**8,378,905**	

c) Collateral received - unencumbered

The nominal amount of collateral received or own debt securities issued not available for encumbrance is shown in the table below:

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Equity instruments	174,680	168,393	161,636	150,419
Debt securities	-	106	-	46
Loans and advances other than loans on demand	127,851	148,303	39,846	50,627
Other assets	7,380,987	8,016,021	3,755,558	4,222,727
Total	**7,683,518**	**8,332,823**	**3,957,040**	**4,423,819**

Neither NLB Group nor NLB has collateral received or own debt securities issued available for encumbrance.

d) Source of encumberance

in EUR thousand

	NLB Group				NLB			
	2016		2015		2016		2015	
	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral
Derivatives	35,755	37,987	32,519	29,087	35,755	37,987	32,519	29,087
Deposits and loans	5,099,974	94,340	4,899,112	298,793	5,099,974	94,340	4,899,112	298,793
Other securities of encumbrance	6,570	6,570	-	-	-	-	-	-
Total	**5,142,299**	**138,897**	**4,931,631**	**327,880**	**5,135,729**	**132,327**	**4,931,631**	**327,880**

As at 31 December 2016, NLB Group and NLB had a large share of unencumbered assets. On the NLB Group level the amount of encumbered assets equalled EUR 138.9 million, relating to the deposit guarantee scheme and to secure funding received from international financial organisations. Due to a very good liquidity position NLB repaid total secured funding in January 2017, therefore encumbered assets decreased even more.

The difference between encumbered liquidity reserves and encumbered assets is presented by a deposit placed as collateral for derivative instruments transactions in accordance with CSA contracts. This deposit does not constitute part of the liquidity reserves. Other sources of encumbrance also represent deposits placed as collateral for issued counter-guarantees.

e) Non-derivative cash flows

The tables below illustrate the cash flows from non-derivative financial instruments by residual maturities at the end of the year. The amounts disclosed in the table are the undiscounted contractual cash flows determined on the basis of spot rates at the end of the reporting period.

in EUR thousand

	NLB Group					
31.12.2016	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Financial liabilities and credit-related commitments						
Financial liabilities designated at fair value through profit or loss	-	-	1,457	554	-	2,011
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	41,947	167	-	222	-	42,336
- borrowings from banks and central banks	4,984	7,015	172,540	137,280	56,492	378,311
- due to customers	6,912,469	461,621	1,349,330	704,753	59,223	9,487,396
- borrowings from other customers	1,343	3,276	10,960	45,228	30,170	90,977
- debt securities in issue	-	-	282,348	-	-	282,348
- subordinated liabilities	-	532	2,193	23,569	12,013	38,307
- other financial liabilities	98,829	3,522	7,668	276	-	110,295
Credit risk related commitments	511,700	185,749	402,635	242,572	91,378	1,434,034
Non-financial guarantees	17,217	38,617	103,531	191,815	65,970	417,150
Total	**7,588,489**	**700,499**	**2,332,662**	**1,346,269**	**315,246**	**12,283,165**
Total financial assets	**2,422,252**	**744,482**	**2,308,621**	**4,488,567**	**2,782,468**	**12,746,390**

in EUR thousand

	NLB Group					
31.12.2015	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Financial liabilities and credit related commitments						
Financial liabilities designated at fair value through profit or loss	-	1,390	1,460	2,062	-	4,912
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	57,046	-	738	214	-	57,998
- borrowings from banks and central banks	3,189	21,433	166,225	310,960	83,358	585,165
- due to customers	6,198,264	590,519	1,519,765	712,502	55,571	9,076,621
- borrowings from other customers	1,346	3,119	21,493	47,840	28,077	101,875
- debt securities in issue	-	-	35,409	282,986	-	318,395
- subordinated liabilities	-	597	1,524	17,772	18,341	38,234
- other financial liabilities	60,622	5,620	4,291	4,774	-	75,307
Credit risk related commitments	518,261	170,080	444,414	217,214	135,749	1,485,718
Non-financial guarantees	14,718	41,207	107,763	196,183	72,913	432,784
Total	**6,853,446**	**833,965**	**2,303,082**	**1,792,507**	**394,009**	**12,177,009**
Total financial assets	**2,446,251**	**554,541**	**2,538,232**	**4,358,254**	**2,610,207**	**12,507,485**

in EUR thousand

	NLB					
31.12.2016	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial liabilities and credit-related commitments						
Financial liabilities designated at fair value through profit or loss	-	-	1,457	554	-	2,011
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	74,977	-	-	-	-	74,977
- borrowings from banks and central banks	3,173	5,211	161,423	118,333	55,868	344,008
- due to customers	5,205,105	314,863	780,567	270,662	55,392	6,626,589
- borrowings from other customers	-	-	-	4,265	9	4,274
- debt securities in issue	-	-	282,348	-	-	282,348
- other financial liabilities	65,854	2,930	-	-	-	68,784
Credit risk-related commitments	437,335	165,656	274,160	166,079	31,489	1,074,719
Non-financial guarantees	14,225	32,702	83,194	171,579	43,740	345,440
Total	**5,800,669**	**521,362**	**1,583,149**	**731,472**	**186,498**	**8,823,150**
Total financial assets	**1,250,372**	**534,380**	**1,614,007**	**3,317,296**	**2,248,475**	**8,964,530**

in EUR thousand

	NLB					
31.12.2015	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial liabilities and credit-related commitments						
Financial liabilities designated at fair value through profit or loss	-	1,390	1,460	2,062	-	4,912
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	96,732	-	5	-	-	96,737
- borrowings from banks and central banks	173	19,361	151,090	279,229	81,949	531,802
- due to customers	4,640,241	412,545	912,190	298,736	47,663	6,311,375
- borrowings from other customers	-	-	10,019	6,149	10	16,178
- debt securities in issue	-	-	35,409	282,986	-	318,395
- other financial liabilities	42,098	5,248	-	-	-	47,346
Credit risk-related commitments	472,311	126,881	317,253	155,197	69,614	1,141,256
Non-financial guarantees	12,771	32,335	86,952	181,766	59,065	372,889
Total	**5,264,326**	**597,760**	**1,514,378**	**1,206,125**	**258,301**	**8,840,890**
Total financial assets	**1,291,636**	**349,793**	**1,872,826**	**3,350,224**	**2,048,505**	**8,912,984**

When determining the gap between the financial liabilities and financial assets in the maturity bucket of up to one month, it is necessary to take account of the fact that financial liabilities include total demand deposits, and that NLB may apply a stability weight of 60% to demand deposits when ensuring compliance with the central bank's regulations concerning calculation of the liquidity position. To ensure NLB Group's and NLB's liquidity, and based on its approach to risk, in previous years NLB Group compiled a substantial amount of high-quality liquid investments, mostly government securities and selected loans, which are accepted as adequate financial assets by the ECB.

Liabilities and credit-related commitments are included in maturity buckets based on their residual contractual maturity.

f) An analysis of the statement of financial position by residual maturity

in EUR thousand

	NLB Group					
31.12.2016	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	1,299,014	-	-	-	-	1,299,014
Trading assets	19,226	49,085	9,168	10,220	-	87,699
Financial assets designated at fair value through profit or loss	3,949	-	-	734	2,011	6,694
Available-for-sale financial assets	200,080	243,215	454,698	735,882	438,278	2,072,153
Derivatives - hedge accounting	217	-	-	-	-	217
Loans and advances						-
- debt securities	-	-	1,891	-	83,424	85,315
- loans and advances to banks	115,030	42,157	276,758	1,592	-	435,537
- loans and advances to customers	682,223	301,455	1,372,325	2,858,422	1,697,642	6,912,067
- other financial assets	58,801	281	1,460	472	-	61,014
Held-to-maturity financial assets	4,471	63,056	17,200	297,206	229,516	611,449
Fair value changes of hedged in portfolio hedge of interest rate risk	164	-	-	180	334	678
Non-current assets classified as held for sale	-	-	4,263	-	-	4,263
Property and equipment	-	-	-	23,368	173,481	196,849
Investment property	-	-	-	43,999	39,664	83,663
Intangible assets	-	-	-	10,818	23,152	33,970
Investments in associates, and joint ventures	-	-	240	-	43,008	43,248
Current income tax assets	490	244	2,124	30	-	2,888
Deferred income tax assets	-	-	-	7,553	182	7,735
Other assets	40,419	655	23,257	27,314	2,913	94,558
Total assets	**2,424,084**	**700,148**	**2,163,384**	**4,017,790**	**2,733,605**	**12,039,011**
Trading liabilities	18,791	-	-	-	-	18,791
Financial liabilities designated at fair value through profit or loss			1,457	554		2,011
Derivatives - hedge accounting	29,024	-	-	-	-	29,024
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	41,947	165	-	222	-	42,334
- borrowings from banks and central banks	4,855	6,920	171,008	133,715	55,271	371,769
- due to customers	6,909,677	456,725	1,331,996	681,072	57,677	9,437,147
- borrowings from other customers	1,298	2,987	9,868	41,616	27,850	83,619
- debt securities in issue	-	-	277,726	-	-	277,726
- subordinated liabilities	-	166	177	16,938	9,864	27,145
- other financial liabilities	98,829	3,522	7,668	276	-	110,295
Provisions	912	827	35,886	62,474	815	100,914
Current income tax liabilities	1,522	284	1,340	-	-	3,146
Deferred income tax liabilities	-	-	-	614	113	727
Other liabilities	6,975	152	1,093	483	-	8,703
Total liabilities	**7,113,830**	**471,748**	**1,838,219**	**937,964**	**151,590**	**10,513,351**
Credit risk related commitments	476,421	114,272	273,914	173,064	64,082	1,101,753
Non-financial guarantees	17,217	38,617	103,531	191,815	65,969	417,149
Total liabilities and credit-related commitments	**7,607,468**	**624,637**	**2,215,664**	**1,302,843**	**281,641**	**12,032,253**

in EUR thousand

	NLB Group					
31.12.2015	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	1,161,983	-	-	-	-	1,161,983
Trading assets	39,191	32,940	194,278	994	10	267,413
Financial assets designated at fair value through profit or loss	1,929	-	-	753	4,913	7,595
Available-for-sale financial assets	209,965	105,128	293,249	750,640	378,209	1,737,191
Derivatives - hedge accounting	1,083	-	-	-	-	1,083
Loans and advances						
- debt securities	-	-	311,466	-	83,113	394,579
- loans and advances to banks	61,556	45,394	322,216	2,609	-	431,775
- loans and advances to customers	900,979	305,796	1,159,058	2,691,095	1,636,693	6,693,621
- other financial assets	52,531	705	822	15,463	-	69,521
Held-to-maturity financial assets	7,573	17,440	57,916	296,381	186,225	565,535
Fair value changes of hedged in portfolio hedge of interest rate risk	-	187	-	-	554	741
Non-current assets classified as held for sale	-	-	4,629	-	-	4,629
Property and equipment	-	-	-	20,835	186,895	207,730
Investment property	-	-	-	90,598	2,915	93,513
Intangible assets	-	-	-	12,819	26,508	39,327
Investments in associates, and joint ventures	-	-	-	294	39,402	39,696
Current income tax assets	423	475	31	-	-	929
Deferred income tax assets	-	-	4,876	4,524	-	9,400
Other assets	32,988	2,461	46,815	10,100	2,990	95,354
Total assets	**2,470,201**	**510,526**	**2,395,356**	**3,897,105**	**2,548,427**	**11,821,615**
Trading liabilities	29,920	-	-	-	-	29,920
Financial liabilities designated at fair value through profit or loss	-	1,390	1,460	2,062	-	4,912
Derivatives - hedge accounting	33,842	-	-	-	-	33,842
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	57,045	-	723	214	-	57,982
- borrowings from banks and central banks	3,050	21,047	163,144	303,381	80,407	571,029
- due to customers	6,194,532	584,268	1,497,562	690,395	53,909	9,020,666
- borrowings from other customers	1,303	3,020	21,124	46,828	27,992	100,267
- debt securities in issue	-	-	29,917	275,045	-	304,962
- subordinated liabilities	-	212	33	12,184	14,911	27,340
- other financial liabilities	60,622	5,620	4,291	4,774	-	75,307
Provisions	616	240	34,330	86,006	1,447	122,639
Current income tax liabilities	-	512	7,002	-	-	7,514
Deferred income tax liabilities	-	-	251	62	-	313
Other liabilities	11,234	480	1,750	1,075	-	14,539
Total liabilities	**6,392,164**	**616,789**	**1,761,587**	**1,422,026**	**178,666**	**10,371,232**
Credit risk-related commitments	518,261	170,080	444,414	217,214	135,749	1,485,718
Non-financial guarantees	14,718	41,207	107,763	196,183	72,913	432,784
Total liabilities and credit-related commitments	**6,925,143**	**828,076**	**2,313,764**	**1,835,423**	**387,328**	**12,289,734**

in EUR thousand

	NLB					
31.12.2016	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	617,039	-	-	-	-	617,039
Trading assets	19,220	49,085	9,168	10,220	-	87,693
Financial assets designated at fair value through profit or loss	-	-	-	-	2,011	2,011
Available-for-sale financial assets	27,709	195,730	371,601	569,219	429,835	1,594,094
Derivatives - hedge accounting	217	-	-	-	-	217
Loans and advances						
- debt securities	-	-	1,891	-	83,424	85,315
- loans and advances to banks	76,786	28,708	289,795	1,816	10,951	408,056
- loans and advances to customers	481,337	177,014	832,452	2,080,704	1,272,087	4,843,594
- other financial assets	35,400	29	492	230	-	36,151
Held-to-maturity financial assets	4,471	63,056	17,200	297,206	229,516	611,449
Fair value changes of hedged in portfolio hedge of interest rate risk	164	-	-	180	334	678
Non-current assets classified as held for sale	-	-	1,788	-	-	1,788
Property and equipment	-	-	-	16,588	73,908	90,496
Investment property	-	-	-	8,151	-	8,151
Intangible assets	-	-	-	9,883	13,462	23,345
Investments in subsidiaries, associates, and joint ventures	-	-	79	38,361	308,284	346,724
Current income tax assets	-	-	2,124	-	-	2,124
Deferred income tax assets	-	-	-	10,622	-	10,622
Other assets	3,423	-	4,996	-	-	8,419
Total assets	**1,265,766**	**513,622**	**1,531,586**	**3,043,180**	**2,423,812**	**8,777,966**
Trading liabilities	18,787	-	-	-	-	18,787
Financial liabilities designated at fair value through profit or loss	-	-	1,457	554	-	2,011
Derivatives - hedge accounting	29,024	-	-	-	-	29,024
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	74,977	-	-	-	-	74,977
- borrowings from banks and central banks	3,167	5,140	160,295	115,212	54,653	338,467
- due to customers	5,204,618	313,155	776,673	266,779	54,165	6,615,390
- borrowings from other customers	-	-	-	4,265	9	4,274
- debt securities in issue	-	-	277,726	-	-	277,726
- other financial liabilities	65,854	2,930	-	-	-	68,784
Provisions	166	475	25,730	53,175	-	79,546
Other liabilities	3,626	7	70	483	-	4,186
Total liabilities	**5,400,219**	**321,707**	**1,241,951**	**440,468**	**108,827**	**7,513,172**
Credit risk related commitments	437,335	165,656	274,160	166,079	31,489	1,074,719
Non-financial guarantees	14,225	32,702	83,194	171,579	43,740	345,440
Total liabilities and credit related commitments	**5,851,779**	**520,065**	**1,599,305**	**778,126**	**184,056**	**8,933,331**

in EUR thousand

	NLB					
31.12.2015	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	496,806	-	-	-	-	496,806
Trading assets	39,658	32,940	194,278	994	10	267,880
Financial assets designated at fair value through profit or loss	-	-	-	-	4,913	4,913
Available-for-sale financial assets	39,489	60,220	184,845	590,844	372,961	1,248,359
Derivatives - hedge accounting	1,083	-	-	-	-	1,083
Loans and advances						
- debt securities	-	-	311,466	-	83,113	394,579
- loans and advances to banks	19,645	21,290	283,551	9,790	10,931	345,207
- loans and advances to customers	677,932	195,689	726,807	2,057,805	1,167,906	4,826,139
- other financial assets	33,764	45	5	15,130	-	48,944
Held-to-maturity financial assets	7,573	17,440	57,916	296,381	186,225	565,535
Fair value changes of hedged in portfolio hedge of interest rate risk	-	187	-	-	554	741
Non-current assets classified as held for sale	-	-	1,776	-	-	1,776
Property and equipment	-	-	-	15,151	79,419	94,570
Investment property	-	-	-	8,613	-	8,613
Intangible assets	-	-	-	11,681	17,946	29,627
Investments in subsidiaries, associates, and joint ventures	-	-	-	34,420	318,675	353,095
Deferred income tax assets	-	-	4,692	4,447	-	9,139
Other assets	6,017	-	3,762	-	-	9,779
Total assets	**1,321,967**	**327,811**	**1,769,098**	**3,045,256**	**2,242,653**	**8,706,785**
Trading liabilities	29,909	-	-	-	-	29,909
Financial liabilities designated at fair value through profit or loss	-	1,390	1,460	2,062	-	4,912
Derivatives - hedge accounting	33,842	-	-	-	-	33,842
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	96,731	-	5	-	-	96,736
- borrowings from banks and central banks	166	19,194	148,818	272,736	79,012	519,926
- due to customers	4,639,535	410,150	904,687	292,564	46,403	6,293,339
- borrowings from other customers	-	-	10,009	6,149	10	16,168
- debt securities in issue	-	-	29,917	275,045	-	304,962
- other financial liabilities	42,098	5,248	-	-	-	47,346
Provisions	-	-	27,494	77,643	-	105,137
Current income tax liabilities	-	-	6,681	-	-	6,681
Other liabilities	3,989	78	570	1,039	-	5,676
Total liabilities	**4,846,270**	**436,060**	**1,129,641**	**927,238**	**125,425**	**7,464,634**
Credit risk-related commitments	472,311	126,881	317,253	155,197	69,614	1,141,256
Non-financial guarantees	12,771	32,335	86,952	181,766	59,065	372,889
Total liabilities and credit-related commitments	**5,331,352**	**595,276**	**1,533,846**	**1,264,201**	**254,104**	**8,978,779**

g) Derivative cash flows

The table below illustrates cash flows from derivatives, broken down into the relevant maturity buckets based on residual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows prepared on the basis of spot rates on the reporting date.

in EUR thousand

	NLB Group					
31.12.2016	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Foreign exchange derivatives						
- Forwards						
- Outflow	(118,175)	(11,542)	(70,553)	-	-	(200,270)
- Inflow	118,256	11,541	70,625	-	-	200,422
- Swaps						
- Outflow	(52,543)	(3,205)	(1,329)	-	-	(57,077)
- Inflow	52,656	3,202	1,330	-	-	57,188
- Futures						
- Outflow	(2,386)	-	-	-	-	(2,386)
- Inflow	2,400	-	-	-	-	2,400
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(809)	(1,411)	(9,409)	(29,866)	(18,562)	(60,057)
- Inflow	348	957	6,205	13,729	10,018	31,257
Total outflow	**(173,913)**	**(16,158)**	**(81,291)**	**(29,866)**	**(18,562)**	**(319,790)**
Total inflow	**173,660**	**15,700**	**78,160**	**13,729**	**10,018**	**291,267**

in EUR thousand

	NLB Group					
31.12.2015	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Foreign exchange derivatives						
- Forwards						
- Outflow	(38,548)	(42,424)	(45,561)	-	-	(126,533)
- Inflow	38,572	42,477	45,610	-	-	126,659
- Swaps						
- Outflow	(67,211)	(25,255)	(1,156)	-	-	(93,622)
- Inflow	67,157	25,256	1,157	-	-	93,570
- Options						
- Outflow	(1,833)	(5,515)	-	-	-	(7,348)
- Inflow	1,833	5,260	-	-	-	7,093
- Futures						
- Outflow	-	(2,518)	-	-	-	(2,518)
- Inflow	-	2,500	-	-	-	2,500
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,469)	(1,412)	(32,516)	(44,167)	(35,015)	(114,579)
- Inflow	474	923	27,624	27,686	24,198	80,905
Total outflow	**(109,061)**	**(77,124)**	**(79,233)**	**(44,167)**	**(35,015)**	**(344,600)**
Total inflow	**108,036**	**76,416**	**74,391**	**27,686**	**24,198**	**310,727**

in EUR thousand

	NLB					
31.12.2016	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Foreign exchange derivatives						
- Forwards						
- Outflow	(116,500)	(11,542)	(70,553)	-	-	(198,595)
- Inflow	116,581	11,541	70,625	-	-	198,747
- Swaps						
- Outflow	(52,543)	(3,205)	(1,329)	-	-	(57,077)
- Inflow	52,656	3,202	1,330	-	-	57,188
- Futures						
- Outflow	(2,386)	-	-	-	-	(2,386)
- Inflow	2,400	-	-	-	-	2,400
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(809)	(1,411)	(9,409)	(29,866)	(18,562)	(60,057)
- Inflow	349	957	6,205	13,729	10,018	31,258
Total outflow	**(172,238)**	**(16,158)**	**(81,291)**	**(29,866)**	**(18,562)**	**(318,115)**
Total inflow	**171,986**	**15,700**	**78,160**	**13,729**	**10,018**	**289,593**

in EUR thousand

	NLB					
31.12.2015	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Foreign exchange derivatives						
- Forwards						
- Outflow	(37,951)	(42,944)	(45,558)	-	-	(126,453)
- Inflow	37,972	42,999	45,610	-	-	126,581
- Swaps						
- Outflow	(67,211)	(25,255)	(1,156)	-	-	(93,622)
- Inflow	67,157	25,256	1,156	-	-	93,569
- Options						
- Outflow	(1,833)	(5,515)	-	-	-	(7,348)
- Inflow	1,833	5,260	-	-	-	7,093
- Futures						
- Outflow	-	(2,518)	-	-	-	(2,518)
- Inflow	-	2,500	-	-	-	2,500
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,469)	(1,412)	(32,516)	(44,178)	(35,069)	(114,644)
- Inflow	483	943	27,707	28,010	24,368	81,511
Total outflow	**(108,464)**	**(77,644)**	**(79,230)**	**(44,178)**	**(35,069)**	**(344,585)**
Total inflow	**107,445**	**76,958**	**74,473**	**28,010**	**24,368**	**311,254**

7.4. Information regarding the quality of debt securities

The portfolio of debt securities in the banking book is intended to provide liquidity and manage NLB Group's interest rate risk. When managing the portfolio, NLB Group uses conservative principles, particularly with respect to issuers' ratings and the maturity of the portfolio.

a) Geographical analysis of the debt securities portfolio in the banking book

in EUR thousand

	NLB Group				NLB			
	31.12.2016		31.12.2015		31.12.2016		31.12.2015	
	Carrying value	in %	Carrying value	in %	Carrying value	in %	Carrying value	in %
Country								
Austria	70,487	2.6	90,506	3.5	70,487	3.2	90,506	4.3
France	198,047	7.3	100,718	3.9	198,047	8.9	100,615	4.7
Germany	243,891	9.0	214,447	8.2	243,891	11.0	214,447	10.0
Netherlands	128,543	4.8	109,533	4.2	128,543	5.8	109,533	5.1
Belgium	61,542	2.3	61,581	2.4	61,542	2.8	58,914	2.8
Slovenia	1,044,751	38.8	1,248,999	47.6	980,357	44.1	1,202,003	56.2
Macedonia	159,995	5.9	172,807	6.6	-	-	-	-
Serbia	54,566	2.0	81,110	3.1	-	-	-	-
Other	733,475	27.2	542,142	20.6	540,684	24.3	362,043	16.9
Total	**2,695,297**	**100.0**	**2,621,843**	**100.0**	**2,223,551**	**100.0**	**2,138,061**	**100.0**

*The analysis includes all debt securities in the banking book regardless of their measurement category (note 7.1.t).

b) Structure of the banking book according to the Fitch credit rating agency

in EUR thousand

	NLB Group				NLB			
	31.12.2016		31.12.2015		31.12.2016		31.12.2015	
	Carrying value	in %	Carrying value	in %	Carrying value	in %	Carrying value	in %
Rating								
AAA	271,157	10.1	349,987	13.3	271,157	12.2	349,987	16.4
AA	349,839	13.0	249,074	9.5	349,839	15.7	245,718	11.5
A	1,455,401	54.0	232,667	8.9	1,455,401	65.5	232,667	10.9
BBB	138,366	5.1	1,278,201	48.7	132,254	5.9	1,271,873	59.5
Other	480,534	17.8	511,914	19.5	14,900	0.7	37,816	1.7
Total	**2,695,297**	**100.0**	**2,621,843**	**100.0**	**2,223,551**	**100.0**	**2,138,061**	**100.0**

c) Structure of the trading book according to the Fitch credit rating agency

	31.12.2016	31.12.2015
NLB Group and NLB	**in %**	**in %**
Rating		
A	72.3	36.7
BBB	-	36.3
Other	27.7	27.0
Total	**100.0**	**100.0**

7.5. Management of non-financial risks

a) Operational risk

When assuming operational risks, NLB Group follows the guideline that such risks may not materially impact its operations and, therefore, the risk appetite for operational risks is low to moderate. Currently, the complexity of NLB Group operations is on a moderate level, although it is constantly reducing through the divestment of non-core activities. The Group has set up a system of collecting loss events, identification, assessment, and management of operational risks, all with the aim of ensuring quality management of operational risks.

All core members of NLB Group monitor the upper limit of tolerance to operational risk, defined as the limit amount of net loss that an individual member still allows in its operations. If the sum of net loss exceeds the tolerance limit, a special treatment of major loss events is required and, if necessary, taking of additional measures for the prevention of the same or similar loss events. The critical limit of loss events is also defined, representing the limit above which the member considers a possible increase in the capital requirement for operational risk within ICAAP and other possible risk management measures. The key risk indicators are regularly monitored (at least quarterly) within NLB Group's Risk Profile. In addition, the Bank has developed special methodology for monitoring key risk indicators, which could indicate increasing of operational risk. Indicators are defined at the level of the Bank.

As the highest authority in the area of operational risk management, NLB appointed an Operational Risk Committee. Relevant operational risk committees were also appointed at other NLB Group banks. The management board serves in this role at other subsidiaries. The main task of the aforementioned bodies is to discuss the most significant operational risks and loss events, and to monitor and support the effective management of operational risks within an individual entity. All NLB Group entities included in the consolidation have adopted relevant documents that are in line with NLB standards. In core members, these documents are in line with the development of operational risk management and regularly updated. The whole NLB Group uses uniform software support, which is also regularly upgraded.

In NLB Group, the reported incurred net loss arising from loss events in 2016 was considerably lower than in the previous year, and represents a relatively small part of the capital requirement for operational risk. In general, considerable attention is paid to reporting loss events and defining operational risks in all segments. To treat major loss events appropriately and as soon as possible, the Bank has introduced an escalation scale for reporting loss events to the top levels of decision-making at NLB and the Supervisory Board of NLB. Additional attention is paid to the reporting of potential loss events in order to improve the internal controls, and thus minimise those and similar events.

Through comprehensive identification of operational risks, possible future losses are identified, estimated, and appropriately managed. The major operational risks are actively managed with the measures taken to reduce them. An operational risk profile is prepared once a year on the basis of the operational risk identification. Special emphasis is put on the most topical risks, among which in particular are those with a low probability of occurrence and very high potential financial influence. For this purpose the Bank has developed the methodology of stress testing for operational risk. The methodology is a combination of modelling loss event data and scenario analysis for exceptional, but plausible events. Scenario analysis will be made based on experience and knowledge of experts from various critical areas.

The capital requirement for operational risk is calculated using the basic indicator approach at NLB Group and using the standardised approach at the NLB level.

b) Business Continuity Management (BCM)

In NLB Group, business continuity management is carried out to protect lives, goods, and reputation. Business continuity plans are prepared to be used in the event of natural disasters, IT disasters, and undesired effects of the environment to mitigate their consequences.

The concept of the action plan, prepared each year, is such that the activities contribute to the upgrading or improvement of the system of business continuity management. The basis for modernising the business continuity plans is the regular annual analysis of the impact on operations (BIA). On its basis, the adequacy of the plans for office buildings and IT plans is checked. The best indicator of the adequacy of the business continuity plans is testing. In 2016, 44 tests were carried out at NLB (37 internal ones and 7 with external business partners). No major deviations were discovered.

In NLB Group, know-how and methodologies are transferred to the members (except small members). The members have adopted appropriate documents which are in line with the standards of NLB and revised in accordance with the development of business continuity management. The activity of the members is monitored throughout the year, and expert assistance is provided if necessary. For more efficient functioning of the business continuity management system in NLB Group, training courses and visits to individual banking members are also provided. In 2016, NLB thus carried out e-education for all NLB employees, a training course for members of the Crisis Management Team and the Crisis Teams of office buildings. Upon IT disasters/failures, the Bank successfully used the IT plans and instructions for manual procedures, and thus also ensured business operations in emergency situations.

c) Management of other types of non-financial risks – capital risk, strategic risks, reputation risk and profitability risk

Risks not included in the calculation of capital requirements by the regulatory approach but which are also important for NLB Group are adequately discussed in the context of the internal capital adequacy assessment process (ICAAP). NLB has established the relevant methodologies for identifying and assessing specific types of risk (capital, strategic, reputation and profitability risk); the methodologies are subject to regular review. The calculation of internal capital requirements for non-financial risks is made quarterly at NLB Group level. If a certain risk is assessed as a key risk, capital requirements are created. Individual capital requirements for non-financial risks are calculated by certain NLB Group banks in accordance with their national regulations. Significant and material changes in the calculation of capital requirements for individual NLB Group entities could discretionarily result in an increase in relevant capital requirements at NLB Group level.

7.6. Fair value hierarchy of financial and non-financial assets and liabilities

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. NLB Group uses various valuation techniques to determine fair value. IFRS 13 specifies a fair value hierarchy with respect to the inputs and assumptions used to measure financial and non-financial assets and liabilities at fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the assumptions of NLB Group. This hierarchy gives the highest priority to observable market data when available, and the lowest priority to unobservable market data. NLB Group considers relevant and observable market prices in its valuations, where possible. The fair value hierarchy comprises the following levels:

- Level 1 – Quoted prices (unadjusted) on active markets. This level includes listed equities, debt instruments, derivatives, units of investment funds, and other unadjusted market prices of assets and liabilities. When an asset or liability may be exchanged in multiple active markets, the principal market for the asset or liability must be determined. In the absence of a principal market, the most advantageous market for the asset or liability must be determined.
- Level 2 – A valuation technique where inputs are observable, either directly (i.e. prices) or indirectly (i.e. derived from prices). Level 2 includes prices quoted for similar assets or liabilities in active markets and prices quoted for identical or similar assets, and liabilities in markets that are not active. The sources of input parameters for financial instruments, such as yield curves, credit spreads, foreign exchange rates, and the volatility of interest rates and foreign exchange rates, are Reuters and Bloomberg.
- Level 3 – A valuation technique where inputs are not based on observable market data. Unobservable inputs are used to the extent that relevant observable inputs are not available. Unobservable inputs must reflect the assumptions that market participants would use when pricing an asset or liability. This level includes non-tradable shares and bonds, and derivatives associated with these investments and other assets and liabilities for which fair value cannot be determined with observable market inputs.

Wherever possible, fair value is determined as an observable market price in an active market for an identical asset or liability. An active market is a market in which transactions for an asset or liability are executed with sufficient frequency and volume to provide pricing information on an ongoing basis. Assets and liabilities measured at fair value in active markets are determined as the market price of a unit (e.g. share) at the measurement date, multiplied by the quantity of units owned by NLB Group. The fair value of assets and liabilities whose market is not active is determined using valuation techniques. These techniques bear a different intensity level of estimates and assumptions, depending on the availability of observable market inputs associated with the asset or liability that is the subject of the valuation. Unobservable inputs shall reflect the estimates and assumptions that other market participants would use when pricing the asset or liability.

For non-financial assets measured at fair value and not classified at Level 1, fair value is determined based on valuation reports provided by certified valuators. Valuations are prepared in accordance with the International Valuation Standards (IVS).

a) Financial and non-financial assets and liabilities measured at fair value in the financial statements

in EUR thousand

	NLB Group				NLB			
31.12.2016	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets								
Financial instruments held for trading	49,747	37,547	405	87,699	49,747	37,541	405	87,693
Debt instruments	49,747	19,010	-	68,757	49,747	19,010	-	68,757
Derivatives	-	18,537	405	18,942	-	18,531	405	18,936
Derivatives - hedge accounting	-	217	-	217	-	217	-	217
Financial assets designated at fair value through profit or loss	6,694	-	-	6,694	2,011	-	-	2,011
Debt instruments	734	-	-	734	-	-	-	-
Equity instruments	5,960	-	-	5,960	2,011	-	-	2,011
Financial assets available-for-sale	1,648,721	417,527	5,903	2,072,151	1,330,150	262,134	1,810	1,594,094
Debt instruments	1,627,608	370,924	-	1,998,532	1,309,223	217,564	-	1,526,787
Equity instruments	21,113	46,603	5,903	73,619	20,927	44,570	1,810	67,307
Financial liabilities								
Financial instruments held for trading	-	18,791	-	18,791	-	18,787	-	18,787
Derivatives	-	18,791	-	18,791	-	18,787	-	18,787
Derivatives - hedge accounting	-	29,024	-	29,024	-	29,024	-	29,024
Financial liabilities designated at fair value through profit or loss	-	2,011	-	2,011	-	2,011	-	2,011
Non-financial assets								
Investment properties	-	83,662	-	83,662	-	8,151	-	8,151
Non-current assets classified as held for sale	-	4,263	-	4,263	-	1,788	-	1,788
Non-financial assets impaired during the year								
Recoverable amount of property, plant, and equipment	-	4,762	-	4,762	-	967	-	967
Recoverable amount of investments in subsidiaries, associates, and joint ventures	-	-	-	-	-	16,663	20,198	36,861

in EUR thousand

	NLB Group				NLB			
31.12.2015	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets								
Financial instruments held for trading	85,208	181,098	1,107	267,413	85,208	181,565	1,107	267,880
Debt instruments	85,198	151,171	993	237,362	85,198	151,171	993	237,362
Equity instruments	10	-	-	10	10	-	-	10
Derivatives	-	29,927	114	30,041	-	30,394	114	30,508
Derivatives - hedge accounting	-	1,083	-	1,083	-	1,083	-	1,083
Financial assets designated at fair value through profit or loss	7,595	-	-	7,595	4,913	-	-	4,913
Debt instruments	753	-	-	753	-	-	-	-
Equity instruments	6,842	-	-	6,842	4,913	-	-	4,913
Financial assets available-for-sale	1,344,175	383,056	9,960	1,737,191	1,037,876	203,609	6,874	1,248,359
Debt instruments	1,324,978	336,751	-	1,661,729	1,018,857	159,090	-	1,177,947
Equity instruments	19,197	46,305	9,960	75,462	19,019	44,519	6,874	70,412
Financial liabilities								
Financial instruments held for trading	-	29,920	-	29,920	-	29,909	-	29,909
Derivatives	-	29,920	-	29,920	-	29,909	-	29,909
Derivatives - hedge accounting	-	33,842	-	33,842	-	33,842	-	33,842
Financial liabilities designated at fair value through profit or loss	-	4,912	-	4,912	-	4,912	-	4,912
Non-financial assets								
Investment properties	-	93,513	-	93,513	-	8,613	-	8,613
Non-current assets classified as held for sale	-	4,629	-	4,629	-	1,776	-	1,776
Non-financial assets impaired during the year								**-**
Recoverable amount of property, plant, and equipment	-	13,296	-	13,296	-	-	-	-
Recoverable amount of investments in subsidiaries, associates, and joint ventures	-	-	-	-	-	23,146	11,273	34,419

b) Significant transfers of financial instruments between levels of valuation

NLB Group's policy of transfers of financial instruments between levels of valuation is illustrated in the table below.

					Derivatives		
Fair value hierarchy	**Equities**	**Equity stake**	**Funds**	**Fixed income**	**Equities**	**Currency**	**Interest**
1	market value from exchange market		regular valuation by fund management company	market value from exchange market			
2				valuation model	valuation model (underlying in level 1)	valuation model	valuation model
3	valuation model	valuation model	valuation model	valuation model	valuation model (underlying in level 3)		
Transfers	from level 1 to level 3		from level 1 to level 3	from level 1 to level 2	from level 2 to level 3		
	equity excluded from exchange market		fund management stops publishing regular valuation	fixed income excluded from exchange market	underlying excluded from exchange market		
	from level 1 to level 3		from level 3 to level 1	from level 1 to level 2	from level 3 to level 2		
	companies in insolvency proceedings		fund management starts publishing regular valuation	fixed income not liquid (no trading for 6 months)	underlying included into exchange market		
	from level 3 to level 1			from level 1 to level 3 and from level 2 to level 3			
	equity included to exchange market			companies in insolvency proceedings			
				from level 2 to level 1 and from level 3 to level 1			
				start trading with fixed income on exchange market			
				from level 3 to level 2			
				until valuation parameters are confirmed on ALCO (at least on quarterly basis)			

For 2016 and 2015, neither NLB Group nor NLB had any significant transfers of financial instruments between levels of valuation.

c) Financial and non-financial assets and liabilities at Level 2 regarding the fair value hierarchy

Financial instruments on Level 2 of the fair value hierarchy at NLB Group and NLB include:

- debt securities: bonds not quoted on active markets and valuated by a valuation model;
- equities;
- derivatives: derivatives except forward derivatives and options on equity instruments that are not quoted on active markets;
- the National Resolution Fund; and
- structured deposits.

When valuing bonds classified on Level 2, NLB Group primarily uses the income approach based on an estimation of future cash flows discounted to the present value.

The input parameters used in the income approach are the risk-free yield curve and the spread over the yield curve (credit, liquidity, country).

Fair values for derivatives are determined using a discounted cash flow model based on the risk-free yield curve. Fair values for options are determined using valuation models for options (Garman and Kohlhagen model, binomial model, and Black-Scholes model).

At least three valuation methods are used for the valuation of investment property. The majority of investment property is valued using the income approach where the present value of future expected returns is assessed. When valuing an investment property, average rents at similar locations and capitalisation ratios such as: the risk-free yield, risk premium, liquidity premium, risk premium to account for the management of the investment, and the risk premium to account for capital preservation are used. Rents at similar locations are generated from various sources, like data from lessors and lessees, web databases, and own databases. NLB Group has observable data for all investment property at its disposal. If observable data for similar locations are not available, NLB Group uses data from wider locations and appropriately adjusts such data.

Non-current assets held for sale represent property, plant, and equipment that are measured at fair value less costs to sell because it is lower than the previous carrying amount of those assets.

d) Financial and non-financial assets and liabilities at Level 3 of the fair value hierarchy

Financial instruments on Level 3 of the fair value hierarchy in NLB Group and NLB include:

- debt securities: structured debt securities from inactive emerging markets;
- equities: mainly Slovenian corporate and financial equities that are not quoted on active markets; and
- derivative financial instruments: forward derivatives and options on equity instruments that are not quoted on an active organised market. Fair values for forward derivatives are determined using the discounted cash flow model. Fair values for equity options are determined using valuation models for options (Garman and Kohlhagen model, binomial model and Black-Scholes model). Unobservable inputs include the fair values of underlying instruments determined using valuation models. The source of observable market inputs is the Reuters information system.

NLB Group uses three valuation methods for the valuation of equity financial assets: the income approach, market approach, and cost approach.

The most commonly used valuation technique is the income approach. The income approach is based on an estimation of future cash flows discounted to the present value. One of the key elements of the valuation is the projection of the cash flows the company is able to generate in the future. Based on that, the projection of the future cash flow is generated. The key variables that affect the amount of cash flows, and thus the estimated fair value of the financial asset also include an assumption regarding the long-term EBITDA margin. A discount rate that is appropriate for the risks associated with the realisation of these benefits is used to discount cash flows. The discount rate is determined as the weighted average cost of capital. A forecast of future cash flows and a calculation of the weighted average cost of capital is prepared for an accurate forecasting period (usually 10 years from the date of the prediction value), and for a period following the period of accurate forecasting. Assumptions of long-term stable growth in the amount of 2.5% are used for the period following the period of accurate forecasting. NLB Group can select values of unobservable input data within a reasonable possible range, but uses those input data that other market participants would use.

Movements of financial assets and liabilities at Level 3

in EUR thousand

	Financial instruments held for trading		Financial assets available-for-sale	Total financial assets	Financial liabilities held for trading
NLB Group	**Debt instruments**	**Derivatives**	**Equity instruments**		**Derivatives**
Balance as at 1 January 2015	**892**	**120**	**6,742**	**7,754**	**4,171**
Exchange differences	101	-	(32)	69	-
Disposal of subsidiary	-	-	(48)	(48)	-
Valuation:					
- through profit or loss	-	(6)	(4,732)	(4,738)	87
- recognised in other comprehensive income	-	-	3,584	3,584	-
Increases	-	-	4,357	4,357	-
Decreases	-	-	(22)	(22)	(4,258)
Transfer out of level 3	-	-	111	111	-
Balance as at 31 December 2015	**993**	**114**	**9,960**	**11,067**	**-**
Exchange differences	(37)	-	29	(8)	-
Valuation:					
- through profit or loss	-	291	(178)	113	-
- recognised in other comprehensive income	-	-	1,431	1,431	-
Increases	-	-	1,066	1,066	-
Decreases	(956)	-	(6,405)	(7,361)	-
Balance as at 31 December 2016	**-**	**405**	**5,903**	**6,308**	**-**

in EUR thousand

	Financial instruments held for trading		Financial assets available-for-sale	Total financial assets	Financial liabilities held for trading
NLB	**Debt instruments**	**Derivatives**	**Equity instruments**		**Derivatives**
Balance as at 1 January 2015	**892**	**120**	**5,925**	**6,937**	**4,171**
Exchange differences	101	-	-	101	-
Valuation:					
- through profit or loss	-	(6)	(2,705)	(2,711)	87
- recognised in other comprehensive income	-	-	3,676	3,676	-
Decreases	-	-	(22)	(22)	(4,258)
Balance as at 31 December 2015	**993**	**114**	**6,874**	**7,981**	**-**
Exchange differences	(37)	-	-	(37)	-
Valuation:					
- through profit or loss	-	291	(178)	113	-
- recognised in other comprehensive income	-	-	453	453	-
Increases	-	-	1,066	1,066	-
Decreases	(956)	-	(6,405)	(7,361)	-
Balance as at 31 December 2016	**-**	**405**	**1,810**	**2,215**	**-**

NLB Group and NLB recognise the effects from the valuation of trading instruments in the income statement item 'Gains Less Losses from Financial Assets and Liabilities not classified at Fair Value through Profit or Loss' and exchange differences recognised in the income statement item 'Foreign Exchange Translation Gains Less Losses.' Effects from the valuation of available-for-sale financial assets are recognised in the income statement item 'Impairment Charge' and in the accumulated other comprehensive income item 'Available-for-sale Financial Assets.'

In 2016, NLB Group and NLB recognised the following unrealised gains or losses for financial instruments that were at Level 3 as at 31 December 2016:

in EUR thousand

	NLB Group		NLB	
31.12.2016	**Trading assets**	**Available-for-sale financial assets**	**Trading assets**	**Available-for-sale financial assets**
Items of Income statement				
Gains/(losses) from financial assets and liabilities held for trading	291	-	291	-
Impairment charge	-	178	-	178
Item of Other comprehensive income				
Available-for-sale financial assets	-	1,364	-	386

in EUR thousand

	NLB Group		NLB	
31.12.2015	**Trading assets**	**Available-for-sale financial assets**	**Trading assets**	**Available-for-sale financial assets**
Items of Income statement				
Gains/(losses) from financial assets and liabilities held for trading	(6)	-	(6)	-
Impairment charge	-	4,732	-	2,705
Foreign exchange translation gains/(losses)	101	-	101	-
Item of Other comprehensive income				
Available-for-sale financial assets	-	3,584	-	3,676

e) Fair value of financial instruments not measured at fair value in financial statements

in EUR thousand

	NLB Group				NLB			
	31.12.2016		31.12.2015		31.12.2016		31.12.2015	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Loans and advances								
- debt securities	85,315	78,953	394,579	397,079	85,315	78,953	394,579	397,079
- loans and advances to banks	435,537	434,958	431,775	431,736	408,056	415,771	345,207	354,369
- loans and advances to customers	6,912,067	6,962,419	6,693,621	6,685,798	4,843,594	4,884,828	4,826,139	4,838,561
- other financial assets	61,014	61,014	69,521	69,521	36,151	36,151	48,944	48,944
Held-to-maturity investments	611,449	671,344	565,535	624,977	611,449	671,344	565,535	624,977
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	42,334	42,314	57,982	58,008	74,977	74,977	96,736	96,736
- borrowings from banks and central banks	371,769	377,037	571,029	566,144	338,467	348,331	519,926	513,719
- due to customers	9,437,147	9,461,925	9,020,666	9,036,023	6,615,390	6,626,851	6,293,339	6,299,181
- borrowings from other customers	83,619	83,851	100,267	101,197	4,274	4,258	16,168	15,783
- debt securities in issue	277,726	280,278	304,962	308,989	277,726	280,278	304,962	308,989
- subordinated liabilities	27,145	28,777	27,340	27,585	-	-	-	-
- other financial liabilities	110,295	110,295	75,307	75,307	68,784	68,784	47,346	47,346

Loans and advances to banks

The estimated fair value of deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and residual maturities. The fair value of overnight deposits equals their carrying value.

Loans and advances to customers

Loans and advances are the net of the allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates for debts with similar credit risk and residual maturities to determine their fair value.

Deposits and borrowings

The fair value of sight deposits and overnight deposits equals their carrying value. However, their actual value for NLB Group depends on the timing and amounts of cash flows, current market rates, and the credit risk of the depository institution itself. A portion of sight deposits is stable, similar to term deposits. Therefore, their economic value for NLB Group differs from the carrying amount.

The estimated fair value of other deposits and borrowings from customers is based on discounted cash flows using interest rates for new deposits with similar residual maturities.

Held-to-maturity financial assets and issued debt securities

The fair value of held-to-maturity financial assets and issued debt securities is based on their quoted market price, or value calculated by using a discounted cash flow method and prevailing money market interest rates.

Other financial assets and liabilities

The carrying amount of other financial assets and liabilities is a reasonable approximation of their fair value as they mainly relate to short-term receivables and payables.

Fair value hierarchy of financial instruments not measured at fair value in financial statements

in EUR thousand

	NLB Group				NLB			
31.12.2016	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Loans and advances								
- debt securities	-	78,953	-	78,953	-	78,953	-	78,953
- loans and advances to banks	-	434,958	-	434,958	-	415,771	-	415,771
- loans and advances to customers	-	6,962,419	-	6,962,419	-	4,884,828	-	4,884,828
- other financial assets	-	61,014	-	61,014	-	36,151	-	36,151
Held-to-maturity investments	671,344	-	-	671,344	671,344	-	-	671,344
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	42,314	-	42,314	-	74,977	-	74,977
- borrowings from banks and central banks	-	377,037	-	377,037	-	348,331	-	348,331
- due to customers	-	9,461,925	-	9,461,925	-	6,626,851	-	6,626,851
- borrowings from other customers	-	83,851	-	83,851	-	4,258	-	4,258
- debt securities in issue	280,278	-	-	280,278	280,278	-	-	280,278
- subordinated liabilities	-	28,777	-	28,777	-	-	-	-
- other financial liabilities	-	110,295	-	110,295	-	68,784	-	68,784

in EUR thousand

	NLB Group				NLB			
31.12.2015	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Loans and advances								
- debt securities	-	397,079	-	397,079	-	397,079	-	397,079
- loans and advances to banks	-	431,736	-	431,736	-	354,369	-	354,369
- loans and advances to customers	-	6,685,798	-	6,685,798	-	4,838,561	-	4,838,561
- other financial assets	-	69,521	-	69,521	-	48,944	-	48,944
Held-to-maturity investments	624,977	-	-	624,977	624,977	-	-	624,977
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	58,008	-	58,008	-	96,736	-	96,736
- borrowings from banks and central banks	-	566,144	-	566,144	-	513,719	-	513,719
- due to customers	-	9,036,023	-	9,036,023	-	6,299,181	-	6,299,181
- borrowings from other customers	-	101,197	-	101,197	-	15,783	-	15,783
- debt securities in issue	308,989	-	-	308,989	308,989	-	-	308,989
- subordinated liabilities	-	27,585	-	27,585	-	-	-	-
- other financial liabilities	-	75,307	-	75,307	-	47,346	-	47,346

7.7. Offsetting financial assets and financial liabilities

NLB Group has entered into foreign exchange netting arrangements with certain banks and companies. Cash flows from all FX derivatives with counterparties that are due on the same day are settled on a net basis, i.e. a single cash flow for each currency. Assets and liabilities related to these FX netting arrangements are not presented in a net amount in the statement of financial position because netting rules apply to cash flows and not to an instrument as a whole.

In accordance with the European Market Infrastructure Regulation (EMIR), NLB Group also novated certain standardised derivative financial instruments to a central counterparty in 2013. A system of daily margins assures the mitigation and collateralisation of exposures, as well as the daily settlement of cash flows for each currency.

in EUR thousand

	NLB Group			
31.12.2016		**Amounts not set-off on the statement of financial position**		
Financial assets/liabilities	**Gross amounts of recognised financial assets/liabilities**	**Impact of master netting agreements**	**Financial instruments collateral**	**Net amount**
Derivatives - assets	18,746	5,335	300	13,111
Derivatives - liabilities	39,663	5,335	31,180	3,148

in EUR thousand

	NLB Group			
31.12.2015		**Amounts not set-off on the statement of financial position**		
Financial assets/liabilities	**Gross amounts of recognised financial assets/liabilities**	**Impact of master netting agreements**	**Financial instruments collateral**	**Net amount**
Derivatives - assets	29,918	10,100	7,844	11,974
Derivatives - liabilities	47,454	10,100	22,882	14,472

in EUR thousand

	NLB			
31.12.2016		**Amounts not set-off on the statement of financial position**		
Financial assets/liabilities	**Gross amounts of recognised financial assets/liabilities**	**Impact of master netting agreements**	**Financial instruments collateral**	**Net amount**
Derivatives - assets	18,746	5,335	300	13,111
Derivatives - liabilities	39,663	5,335	31,180	3,148

in EUR thousand

	NLB			
31.12.2015		**Amounts not set-off on the statement of financial position**		
Financial assets/liabilities	**Gross amounts of recognised financial assets/liabilities**	**Impact of master netting agreements**	**Financial instruments collateral**	**Net amount**
Derivatives - assets	30,385	10,100	7,844	12,441
Derivatives - liabilities	47,454	10,100	22,881	14,473

NLB Group and NLB have no financial assets/liabilities set off in the statement of financial position.

8. Analysis by segment for NLB Group

a) Segments

in EUR thousand

	NLB Group							
2016	**Corporate banking in Slovenia**	**Retail banking in Slovenia**	**Financial markets in Slovenia**	**Foreign strategic markets**	**Non-core markets and activities**	**Other activities**	**Unallocated**	**Total**
Total net income	76,768	137,757	50,171	179,370	26,293	9,415	-	479,774
Net income from external customers	85,060	130,120	43,997	180,629	26,173	9,765	-	475,744
Intersegment net income	(8,292)	7,637	6,174	(1,259)	120	(350)	-	4,030
Net interest income	45,891	71,222	48,536	136,909	15,404	(657)	-	317,305
Net interest income from external customers	54,183	63,918	42,416	139,240	17,854	(306)	-	317,305
Intersegment net interest income	(8,292)	7,304	6,120	(2,331)	(2,450)	(351)	-	-
Administrative expenses	(40,159)	(90,794)	(11,118)	(87,477)	(21,884)	(13,758)	-	(265,190)
Depreciation and amortisation	(4,394)	(10,350)	(1,036)	(8,013)	(2,290)	(2,262)	-	(28,345)
Reportable segment profit/(loss) before impairment and provision charge	32,214	36,612	38,017	83,880	2,119	(6,604)	-	186,238
Other net gains/(losses) from equity investments in subsidiaries, associates and joint ventures	-	5,159	-	-	(153)	-	-	5,006
Impairment and provisions charge	(2,680)	(10,245)	53	(16,290)	(20,857)	(10,626)	-	(60,645)
Profit/(loss) before income tax	29,534	31,527	38,070	67,590	(18,891)	(17,230)	-	130,600
Owners of the parent	29,534	31,527	38,070	61,982	(18,891)	(17,230)	-	124,992
Non-controlling interests	-	-	-	5,608	-	-	-	5,608
Income tax	-	-	-	-	-	-	(14,975)	(14,975)
Profit for the year								**110,017**
Reportable segment assets	2,338,698	2,074,736	3,375,667	3,540,474	502,610	163,578	-	11,995,763
Investments in associates and joint ventures	-	43,248	-	-	-	-	-	43,248
Reportable segment liabilities	1,198,058	5,229,761	907,159	3,038,921	57,935	81,517	-	10,513,351
Additions to non-current assets	2,305	7,286	363	7,882	2,928	463	-	21,227

in EUR thousand

2015	NLB Group							
	Corporate banking in Slovenia	Retail banking in Slovenia	Financial markets in Slovenia	Foreign strategic markets	Non-core markets and activities	Other activities	Unallocated	Total
Total net income	85,149	150,746	72,909	165,946	10,025	2,526	-	487,301
Net income from external customers	95,627	136,337	65,944	168,818	13,853	2,812	-	483,391
Intersegment net income	(10,478)	14,409	6,965	(2,872)	(3,828)	(286)	-	3,910
Net interest income	55,783	78,253	60,192	125,208	21,579	(813)	-	340,202
Net interest income from external customers	66,261	59,210	57,583	128,858	28,816	(527)	-	340,202
Intersegment net interest income	(10,478)	19,043	2,608	(3,650)	(7,237)	(286)	-	-
Administrative expenses	(39,211)	(94,818)	(11,068)	(85,396)	(26,404)	(12,997)	-	(269,894)
Depreciation and amortisation	(4,833)	(11,934)	(1,192)	(8,036)	(3,423)	(2,438)	-	(31,856)
Reportable segment profit/(loss) before impairment and provision charge	41,105	43,994	60,649	72,514	(19,802)	(12,909)	-	185,551
Other net gains/(losses) from equity investments in subsidiaries, associates and joint ventures	-	4,486	-	-	(174)	-	-	4,312
Impairment and provisions charge	10,351	(9,795)	218	(27,807)	(50,103)	(5,969)	-	(83,105)
Profit/(loss) before income tax	51,456	38,685	60,867	44,707	(70,079)	(18,878)	-	106,758
Owners of the parent	51,456	38,685	60,867	41,243	(70,079)	(18,878)	-	103,294
Non-controlling interests	-	-	-	3,464	-	-	-	3,464
Income tax	-	-	-	-	-	-	(11,380)	(11,380)
Profit for the year								**91,914**
Reportable segment assets	2,160,440	2,015,459	3,350,804	3,389,032	752,137	114,047	-	11,781,919
Investments in associates and joint ventures	-	39,696	-	-	-	-	-	39,696
Reportable segment liabilities	1,193,660	4,906,699	1,139,738	2,942,463	114,111	74,561	-	10,371,232
Additions to non-current assets	4,673	12,127	762	10,129	8,747	4,104	-	40,541

Segment reporting is presented in accordance with the strategy on the basis of the organisational structure used in management reporting of NLB Group's results.

NLB Group's segments are business units that focus on different customers and markets. They are managed separately because each business unit requires different strategies and service levels.

Other NLB Group members are, based on their business activity, included in only one segment. The business activities of NLB are divided into several segments. Interest income is reallocated between segments on the basis of multiple internal transfer rates (fund transfer pricing – FTP).

Description of NLB Group's segments:

- Retail banking in Slovenia represents banking with individuals in NLB and assets management – NLB Skladi. It also includes the contribution to the financial result of the joint venture NLB Vita and the associates Skupna pokojninska družba and Bankart;
- Corporate banking in Slovenia, which includes: operations with large (key), medium-sized (mid-market), micro and small businesses, and Intensive Care and Non-performing loans;
- Financial markets in Slovenia, which include treasury activities, asset liability management, trading in financial instruments, brokerage, and custody of securities, as well as financial advisory;
- Foreign strategic markets represent all business activities of NLB Group members in strategic markets of NLB Group (Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia and Serbia), except leasing entities;
- Non-strategic markets and activities represent total activities of NLB Group members in non-strategic markets of NLB Group (Croatia, Germany, Switzerland, and Czech Republic) and all leasing entities. It also includes the operating result of non-financial entities (NLB Propria, Prospera Plus) and the performance of the Internal restructuring unit of NLB; and
- Other represents items of NLB income statement not related to reportable segments.

NLB Group is primarily a financial group, and net interest income represents the majority of its net revenues. NLB Group's main indicator of a segment's efficiency is net profit before tax.

There was no income from transactions with a single external customer that amounted to 10% or more of NLB Group's income.

b) Geographical information

Geographical analysis includes a breakdown of items with respect to the country in which individual NLB Group entities are located.

in EUR thousand

	Revenues		Net income		Profit/(loss) before income tax		Income tax	
NLB Group	2016	2015	2016	2015	2016	2015	2016	2015
Slovenia	348,961	405,711	297,495	322,343	70,094	95,721	(7,854)	(7,198)
South East Europe	234,014	231,515	176,148	171,269	60,900	33,749	(7,115)	(4,188)
Macedonia	83,364	79,578	61,824	55,944	28,533	13,927	(2,755)	(1,549)
Serbia	21,585	22,463	18,822	19,025	1,733	(1,199)	(152)	(35)
Montenegro	30,186	30,986	16,484	21,661	(794)	6,414	(116)	(126)
Croatia	181	840	(125)	707	(3,250)	(4,321)	(1)	-
Bosnia and Herzegovina	65,882	65,531	51,698	47,865	22,098	9,759	(2,802)	(1,436)
Bulgaria	-	-	-	(1)	84	(77)	-	-
Kosovo	32,816	32,117	27,445	26,068	12,496	9,246	(1,289)	(1,042)
Western Europe	1,127	3,033	2,105	(10,185)	(137)	(20,997)	(6)	5
Germany	19	2	474	250	(248)	243	-	-
Switzerland	1,108	3,031	1,631	(10,435)	111	(21,240)	(6)	5
Czech Republic	1	-	(4)	(36)	(257)	(1,715)	-	1
Total	**584,103**	**640,259**	**475,744**	**483,391**	**130,600**	**106,758**	**(14,975)**	**(11,380)**

The column 'Revenues' includes interest and similar income, dividend income, and fee and commission income. The column 'Net Income' includes net interest income, dividend income, net fee and commission income, the net effect of financial instruments, foreign exchange translation, effect on derecognition of assets, and net operating income.

in EUR thousand

	Non-current assets		Total assets		Number of employees	
NLB Group	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Slovenia	225,643	240,592	8,393,754	8,289,804	3,065	3,225
South East Europe	130,949	138,513	3,602,358	3,469,279	3,104	3,136
Macedonia	33,448	33,919	1,147,375	1,117,708	891	875
Serbia	24,822	24,778	316,023	280,274	424	480
Montenegro	29,476	35,580	478,682	495,044	342	341
Croatia	2,568	3,623	27,164	33,032	16	16
Bosnia and Herzegovina	27,222	27,031	1,116,169	1,077,299	942	930
Bulgaria	-	1	-	333	-	2
Kosovo	13,413	13,581	516,945	465,589	489	492
Western Europe	247	296	39,742	58,961	6	11
Germany	222	240	2,782	3,273	1	2
Switzerland	25	56	36,960	55,688	5	9
Czech Republic	891	865	3,157	3,571	-	-
Total	**357,730**	**380,266**	**12,039,011**	**11,821,615**	**6,175**	**6,372**

The table below presents data on NLB Group members before intercompany eliminations and consolidation journals.

in EUR thousand

	Revenues		Net income		Profit/(loss) before income tax		Income tax	
NLB Group	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Slovenia	390,240	435,691	333,099	342,489	52,829	34,302	(4,554)	(8,516)
South East Europe	234,257	231,869	179,677	167,159	66,530	34,943	(7,083)	(4,057)
Macedonia	83,422	79,638	61,078	54,737	28,739	13,997	(2,755)	(1,549)
Serbia	21,748	22,685	19,235	19,005	2,304	(686)	(119)	(53)
Montenegro	30,199	30,887	21,073	20,267	4,456	6,292	(116)	23
Croatia	152	813	(695)	(383)	(3,378)	(4,015)	(1)	-
Bosnia and Herzegovina	65,921	65,729	51,228	47,187	22,087	10,148	(2,803)	(1,436)
Bulgaria	-	-	-	(1)	(230)	(77)	-	-
Kosovo	32,815	32,117	27,758	26,347	12,552	9,284	(1,289)	(1,042)
Western Europe	1,197	4,036	1,455	5,534	(4,958)	(4,792)	(6)	5
Germany	20	3	466	242	(247)	243	-	-
Switzerland	1,177	4,033	989	5,292	(4,711)	(5,035)	(6)	5
Czech Republic	107	108	2	(217)	(257)	(1,715)	-	1
Total	**625,801**	**671,704**	**514,233**	**514,965**	**114,144**	**62,738**	**(11,643)**	**(12,567)**

9. Related-party transactions

A related party is a person or entity that is related to NLB Group in such a manner that it has control or joint control, has a significant influence, or is a member of the key management personnel of the reporting entity. Related parties of NLB Group and NLB include: key management personnel (Management Board, other key management personnel and their family members); the Supervisory Board; companies in which members of the Management Board, key management personnel or their family members have control, joint control, or a significant influence; the ultimate parent; subsidiaries, associates, and joint ventures.

A number of banking transactions are entered into with related parties in the normal course of business. The volume of related-party transactions and the outstanding balances are as follows:

in EUR thousand

	Management Board and other Key management personnel		Family members of the Management Board and other key management personnel		Companies in which members of the Management Board, key management personnel or their family members have control, joint control or a significant influence		Supervisory Board	
NLB Group and NLB	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Loans issued								
Balance as at 1 January	1,953	2,102	468	347	375	451	2	18
Increase	1,367	1,046	445	326	368	89	-	30
Decrease	(1,210)	(1,195)	(421)	(205)	(372)	(165)	(2)	(46)
Balance as at 31 December	**2,110**	**1,953**	**492**	**468**	**371**	**375**	**-**	**2**
Interest income	41	44	9	12	9	10	-	-
Deposits received								
Balance as at 1 January	2,158	1,958	729	1,136	106	199	223	115
Increase	3,038	3,042	725	971	464	191	146	485
Decrease	(3,117)	(2,842)	(757)	(1,378)	(90)	(284)	(239)	(377)
Balance as at 31 December	**2,079**	**2,158**	**697**	**729**	**480**	**106**	**130**	**223**
Interest expense	(14)	(20)	(4)	(10)	-	-	(1)	(1)
Other financial liabilities	**1,536**	**794**	**-**	**-**	**2**	**1**	**-**	**-**
Guarantees issued and credit commitments	**248**	**223**	**83**	**83**	**147**	**14**	**3**	**17**
Fee income	13	11	6	6	9	7	-	1
Other income	2	-	-	-	-	-	-	-
Other expenses	(2)	-	-	-	-	-	-	-

Ultimate parent company of NLB is the Republic of Slovenia.

in EUR thousand

	NLB Group		NLB	
	Ultimate parent		Ultimate parent	
	2016	2015	2016	2015
Loans issued				
Balance as at 1 January	227,341	233,895	220,646	225,971
Increase	7,520	32,384	7,355	32,177
Decrease	(56,272)	(38,938)	(54,841)	(37,502)
Balance as at 31 December	**178,589**	**227,341**	**173,160**	**220,646**
Interest income	5,896	7,648	5,732	7,441
Deposits received				
Balance as at 1 January	110,001	375,102	110,001	375,102
Increase	12,803,693	47,400,068	12,803,693	47,400,068
Decrease	(12,843,689)	(47,665,169)	(12,843,689)	(47,665,169)
Balance as at 31 December	**70,005**	**110,001**	**70,005**	**110,001**
Interest expense	(5)	(43)	(5)	(43)
Investments in securities				
Balance as at 1 January	891,576	1,094,826	845,039	1,015,263
Exchange difference on opening balance	-	(1)	-	-
Increase	390,860	405,541	366,845	343,435
Decrease	(345,457)	(594,698)	(339,544)	(499,873)
Valuation	(2,643)	(14,092)	(2,399)	(13,786)
Balance as at 31 December	**934,336**	**891,576**	**869,941**	**845,039**
Interest income	28,019	28,889	27,224	28,602
Other financial assets	**153**	**168**	**1**	**16**
Other financial liabilities	**6**	**9**	**6**	**9**
Guarantees issued and credit commitments	**849**	**824**	**849**	**824**
Fee income	129	113	129	113
Fee expense	(39)	(55)	(39)	(55)
Other income	5	32	5	32
Other expense	(1)	(2)	(1)	(2)

NLB Group and NLB disclose all transactions with the ultimate controlling party. For transactions with other government-related entities, NLB Group discloses individually significant transactions.

in EUR thousand

NLB Group and NLB	Amount of significant transactions concluded during the year		Number of significant transactions concluded during the year	
	2016	2015	2016	2015
Loans	158,136	200,000	1	1
Borrowings, deposits and business accounts	-	48,669	-	1
Commitments to extend credit	140,004	-	2	-

	Year-end balance of all significant transactions		Number of significant transactions at year-end	
	2016	2015	2016	2015
Loans	770,407	617,185	5	5
Debt securities classified as loans and advances	85,315	394,579	1	1
Borrowings, deposits and business accounts	135,020	134,798	3	3
Commitments to extend credit	140,000	-	2	-

	Effects in income statement during the year	
	2016	2015
Interest income from loans	3,796	3,291
Interest income from debt securities classified as loans and receivables	16,425	25,066
Interest expense from borrowings, deposits and business accounts	(225)	(517)
Interest income from commitments to extend credit	894	294

in EUR thousand

	Associates		Joint ventures	
NLB Group	2016	2015	2016	2015
Loans issued				
Balance as at 1 January	1,625	1,942	93,823	104,590
Increase	124	1,453	109,548	37,215
Decrease	(331)	(1,770)	(183,514)	(47,982)
Balance as at 31 December	**1,418**	**1,625**	**19,857**	**93,823**
Interest income	48	65	932	2,681
Impairment	16	(23)	9,730	(5,794)
Deposits received				
Balance as at 1 January	1,179	1,642	6,036	4,116
Exchange difference on opening balance	-	-	(37)	(17)
Increase	6,945	6,503	182,990	138,099
Decrease	(2,286)	(6,966)	(183,791)	(136,162)
Balance as at 31 December	**5,838**	**1,179**	**5,198**	**6,036**
Interest expense	-	(1)	(25)	(139)
Debt securities in issue	-	569	-	-
Interest expense	(17)	(23)	-	-
Other financial assets	**30**	**32**	**141**	**208**
Impairment	-	-	(1)	(1)
Other financial liabilities	**927**	**1,025**	**92**	**203**
Interest expense	-	-	-	(132)
Guarantees issued and credit commitments	**40**	**43**	**28**	**29**
Income provisons for guaranties and commitments	-	-	-	776
Fee income	126	113	3,689	3,301
Fee expense	(11,502)	(9,903)	(2,055)	(1,905)
Other income	233	367	580	560
Other expense	(1,092)	(1,119)	(89)	-

in EUR thousand

	Subsidiaries		Associates		Joint ventures	
NLB	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Loans issued						
Balance as at 1 January	381,746	608,748	1,625	1,942	93,799	103,972
Increase	105,439	289,100	124	1,453	109,508	33,985
Decrease	(166,461)	(516,102)	(331)	(1,770)	(183,485)	(44,158)
Balance as at 31 December	**320,724**	**381,746**	**1,418**	**1,625**	**19,822**	**93,799**
Interest income	7,453	10,679	48	65	931	2,679
Impairment	(9,272)	(18,626)	16	(23)	9,730	(5,794)
Deposits						
Balance as at 1 January	3,438	12,328	-	-	-	-
Increase	298,795	193,746	-	-	-	-
Decrease	(273,802)	(202,636)	-	-	-	-
Balance as at 31 December	**28,431**	**3,438**	**-**	**-**	**-**	**-**
Interest income	9	251	-	-	-	-
Impairment	-	6,796	-	-	-	-
Deposits received						
Balance as at 1 January	59,407	48,380	1,179	1,642	3,438	770
Increase	11,271,052	8,128,118	6,945	6,503	77,034	45,232
Decrease	(11,275,903)	(8,117,091)	(2,286)	(6,966)	(76,029)	(42,564)
Balance as at 31 December	**54,556**	**59,407**	**5,838**	**1,179**	**4,443**	**3,438**
Interest expense	(29)	(20)	-	(1)	-	(2)
Debt securities in issue	**-**	**-**	**-**	**569**	**-**	**-**
Interest expense	-	-	(17)	(23)	-	-
Derivatives						
Fair value	-	469	-	-	-	-
Contractual amount	-	3,836	-	-	-	-
Other financial assets	**723**	**5,054**	**30**	**28**	**140**	**207**
Impairment	11	(11)	-	-	(1)	(1)
Other financial liabilities	**296**	**357**	**849**	**948**	**1**	**176**
Interest expense	-	-	-	-	-	(132)
Guarantees issued and credit commitments	**34,451**	**38,660**	**40**	**43**	**27**	**28**
Income/(expense) provisons for guaranties and commitments	442	46	-	-	-	776
Received loan commitments and financial guarantees	**500**	**750**	**-**	**-**	**-**	**-**
Fee income	4,336	4,935	126	113	3,419	3,040
Fee expense	(75)	(109)	(10,182)	(9,903)	(1,427)	(1,413)
Other income	527	478	233	367	540	481
Other expense	(2,830)	(2,914)	(845)	(1,119)	(89)	-

Key management compensation

The performance of key management is defined by financial and non-financial criteria. They are entitled to the annual variable part of the salary based on their achievement of the financial and non-financial performance criteria, which encompass the goals of NLB Group or NLB, the goals of the organisational unit, and the personal goals of the employee performing special work.

Members of the Management Board are entitled to contractual gross salary considering the limitations of the Slovenian and European legislation.

Simultaneously, under the contract, members of the Management Board are entitled to a performance bonus based on criteria set by the Supervisory Board. Each year, the Supervisory Board determines the criteria of remuneration upon the adoption of the Bank's annual business plan. The Supervisory Board determines the performance bonuses with the conclusion of each business year. In accordance with the legislation, the annual performance bonus cannot in any case exceed 30 percent of gross salaries in a business year of members of the Management Board. In addition, members of the Management Board are entitled to performance bonuses only proportionally, depending on their actual employment in the Bank for the period for which the performance bonus relates. The first 50 percent of the performance bonus is due for payment within 15 days of the General Meeting of Shareholders that voted on use of the previous year's profit and the discharge of the Management Board. Payment of the remaining 50 percent of the performance bonus is deferred.

Upon the conclusion of the General Meeting of Shareholders, members of the Supervisory Board receive payment for their performance and attendance, while the previously mentioned amounts are limited to a decision of the General Meeting of Shareholders, and are in full compliance with the applicable recommendations of corporate governance.

in EUR thousand

	Management Board		Other key management personnel		Supervisory Board	
NLB Group and NLB	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Short-term benefits	504	579	4,866	4,372	245	182
Cost refunds	4	7	112	113	74	77
Long-term bonuses:						
- severance pay	-	-	-	36	-	-
- other benefits	5	3	76	40	-	-
- variable part of payments	78	77	499	536	-	-
Total	**591**	**666**	**5,553**	**5,097**	**319**	**259**

Short-term benefits include:

- monetary benefits (gross salaries, supplementary insurance, holiday allowances, other bonuses); and
- non-monetary benefits (company cars, health care, apartments etc.).

The reimbursement of cost comprises food allowances and travel expenses.

Payments to individual members of the Management Board

in EUR

Member		2016	2015
Blaž Brodnjak 01.12.2012	Short-term benefits:		
	- gross salary and holiday allowance	137,586	131,601
	- benefits and other short-term bonuses	3,049	4,109
	Costs refunds	1,267	1,230
	Long-term bonuses:		
	- other benefits	1,410	763
	- variable part of payments	19,621	19,246
	Total	**162,933**	**156,949**
Andreas Burkhardt 18.09.2013	Short-term benefits:		
	- gross salary and holiday allowance	137,586	131,601
	- benefits and other short-term bonuses	26,148	27,364
	Costs refunds	1,157	1,169
	Long-term bonuses:		
	- other benefits	1,410	763
	- variable part of payments	19,621	19,246
	Total	**185,922**	**180,143**
Archibald Kremser 31.07.2013	Short-term benefits:		
	- gross salary and holiday allowance	137,586	131,601
	- benefits and other short-term bonuses	19,150	20,037
	Costs refunds	1,151	1,187
	Long-term bonuses:		
	- other benefits	1,410	763
	- variable part of payments	19,621	19,246
	Total	**178,918**	**172,834**
Laszló Pelle 26.10.2016	Short-term benefits:		
	- gross salary and holiday allowance	13,570	-
	- benefits and other short-term bonuses	3,278	-
	Costs refunds	115	-
	Long-term bonuses:		
	- other benefits	470	-
	Total	**17,433**	**-**
Janko Medja 2.10.2012 - 5.2.2016	Short-term benefits:		
	- gross salary and holiday allowance	25,033	131,601
	- benefits and other short-term bonuses	166	1,652
	Costs refunds	538	3,299
	Long-term bonuses:		
	- other benefits	235	763
	- variable part of payments	19,621	19,246
	Total	**45,593**	**156,561**

The above table shows earnings paid to individuals in the year when they were members of the Management Board.

Payments to individual members of the Supervisory Board

in EUR

Member		2016	2015
Sergeja Slapničar 12.06.2013	Session fees	7,370	6,600
	Annual compensation	27,547	21,619
	Costs refunds	898	1,562
Uroš Ivanc 12.06.2013	Session fees	6,930	6,655
	Annual compensation	25,096	21,619
	Costs refunds	404	214
Andreas Klingen 22.06.2015	Session fees	7,370	2,420
	Annual compensation	25,744	10,365
	Costs refunds	13,833	8,051
Primož Karpe 11.02.2016	Session fees	6,600	-
	Annual compensation	28,585	-
	Costs refunds	5,591	-
László Zoltan Urbán 11.02.2016	Session fees	5,280	-
	Annual compensation	16,563	-
	Costs refunds	5,341	-
Matjaž Titan 04.08.2016	Session fees	1,430	-
	Annual compensation	8,750	-
	Costs refunds	-	-
David Kastelic 04.08.2016	Session fees	1,155	-
	Annual compensation	8,750	-
	Costs refunds	-	-
Alexander Bayr 04.08.2016	Session fees	1,650	-
	Annual compensation	7,440	-
	Costs refunds	3,564	-
David Eric Simon 04.08.2016	Session fees	1,375	-
	Annual compensation	8,750	-
	Costs refunds	1,958	-
Janko Gedrih 10.2.2016 - 15.4.2016	Session fees	1,045	-
	Annual compensation	6,261	-
	Costs refunds	180	-
Anton Macuh 10.2.2016 - 15.4.2016	Session fees	1,485	-
	Annual compensation	3,324	-
	Costs refunds	60	-
Anton Ribnikar 10.2.2016 - 15.4.2016	Session fees	1,705	-
	Annual compensation	4,499	-
	Costs refunds	267	-

in EUR

Member		2016	2015
Miha Košak 12.6.2013 - 10.2.2016	Session fees	1,210	7,931
	Annual compensation	3,950	26,749
	Costs refunds	3,536	22,955
Gorazd Podbevšek 12.6.2013 - 10.2.2016	Session fees	1,210	6,886
	Annual compensation	3,362	24,894
	Costs refunds	-	1,306
Tit A. Erker 12.6.2013 - 3.8.2016	Session fees	5,720	6,831
	Annual compensation	14,826	25,556
	Costs refunds	38,598	42,262
Peter Groznik 4.11.2014 - 27.8.2015	Session fees	-	2,915
	Annual compensation	-	11,085
	Costs refunds	-	616

The above table shows earnings paid to individuals in the year when they were members of the Supervisory Board.

Building a better working world

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of NLB Group ("NLB Group" or "the Group") and the separate financial statements of Nova Ljubljanska Banka, d.d. ("NLB" or "the Bank") which comprise the consolidated and separate statement of financial position as at December 31, 2015, and the consolidated and separate income statement, consolidated and separate statement of other comprehensive income, consolidated and separate statement of changes in shareholders' equity and consolidated and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated and Separate Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Group and the Bank as of December 31, 2015, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter

We draw attention to Note 5.17 to the financial statements, which describe the uncertainty related to the outcome of the lawsuits filed against NLB d.d. by two Croatian banks which have not yet been decided. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

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

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

Ljubljana, April 7, 2016

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

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

Primož Kovačič
Certified Auditor

STATEMENT *of Management's Responsibility*

The Management Board hereby confirms its responsibility for preparing the financial statements of NLB d.d. and the consolidated financial statements of NLB Group for the year ended 31 December 2015, and for the accompanying accounting policies and notes to the financial statements.

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and with the requirements of the Slovenian Companies Act and Banking Act so as to give a true and fair view of the financial position of NLB d.d. and NLB Group as at 31 December 2015 and their financial results and cash flows for the year then ended.

The Management Board also confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were prepared according to the principles of prudence and good management. The Management Board further confirms that the financial statements of NLB d.d. and NLB Group, together with the notes, have been prepared on a going-concern basis for NLB d.d. and NLB Group and in line with valid legislation and the International Financial Reporting Standards as adopted by the European Union.

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

The Management Board

Archibald Kremser
Member of the Management Board

Andreas Burkhardt
Member of the Management Board

Blaž Brodnjak
Deputy President
of the Management Board

Income statement

in EUR thousand

		NLB d.d.		NLB Group	
	Notes	2015	2014	2015	2014
Interest and similar income	4.1.	269,000	332,225	443,203	498,163
Interest and similar expense	4.1.	(60,993)	(104,882)	(103,001)	(168,157)
Net interest income		**208,007**	**227,343**	**340,202**	**330,006**
Dividend income	4.2.	1,264	1,695	1,346	1,778
Fee and commission income	4.3.	128,896	130,499	195,710	192,841
Fee and commission expense	4.3.	(30,828)	(29,761)	(56,899)	(53,212)
Net fee and commission income		**98,068**	**100,738**	**138,811**	**139,629**
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	4.4.	10,685	37,096	10,659	37,413
Gains less losses from financial assets and liabilities held for trading	4.5.	(25,304)	(2,574)	(18,877)	3,620
Gains less losses from financial assets and liabilities designated at fair value through profit or loss		-	-	(3)	60
Fair value adjustments in hedge accounting	5.5.a)	231	(982)	231	(982)
Foreign exchange translation gains less losses	4.6.	23,251	170	11,831	(1,776)
Gains less losses on derecognition of assets		(450)	(584)	(624)	(1,292)
Other operating income	4.7.	13,234	19,014	27,329	29,543
Other operating expenses	4.8.	(15,133)	(15,803)	(26,824)	(23,968)
Administrative expenses	4.9.	(165,813)	(168,948)	(265,984)	(267,727)
Depreciation and amortisation	4.10.	(21,410)	(24,356)	(31,856)	(35,776)
Provisions for other liabilities and charges	4.11.	5,153	(30,750)	696	(24,378)
Impairment charge	4.12.	(93,114)	(62,321)	(83,801)	(117,061)
Gains less losses from capital investments in subsidiaries, associates and joint ventures	4.13.	13,747	4,683	4,312	2,872
Net losses from non-current assets held for sale		(567)	(1,671)	(690)	(2,762)
Profit/(loss) before income tax		**51,849**	**82,750**	**106,758**	**69,199**
Income tax	4.14.	(7,968)	(1,221)	(11,380)	(4,131)
Profit/(loss) for the year		**43,881**	**81,529**	**95,378**	**65,068**
Attributable to owners of the parent		43,881	81,529	91,914	62,336
Attributable to non-controlling interests		-	-	3,464	2,732
Earnings per share (in EUR per share)		2.2	4.1	4.6	3.1

The notes are an integral part of these financial statements.

Statement of comprehensive income

in EUR thousand

	Notes	NLB d.d. 2015	NLB d.d. 2014	NLB Group 2015	NLB Group 2014
Net gain/(loss) for the year after tax		**43,881**	**81,529**	**95,378**	**65,068**
Other comprehensive income after tax		**(6,650)**	**29,923**	**(12,859)**	**33,452**
Items that will not be reclassified to income statement					
Actuarial losses on defined benefit pensions plans		**(706)**	**(3,946)**	**(1,975)**	**(3,656)**
Share of other comprehensive income/(losses) of entities accounted for using the equity method		**-**	**-**	**69**	**(111)**
Income tax relating to components of other comprehensive income	5.19.	**740**	**-**	**738**	**-**
Items that may be reclassified subsequently to income statement					
Foreign currency translation		**-**	**-**	**(2,685)**	**(2,467)**
Translation losses taken to equity		-	-	(2,685)	(2,467)
Cash flow hedges (effective portion)		**509**	**(655)**	**509**	**(655)**
Net valuation losses taken to equity	5.5.c)	(78)	(1,334)	(78)	(1,334)
Transferred to profit	5.5.c)	587	679	587	679
Available-for-sale financial assets		**(8,562)**	**41,461**	**(8,496)**	**40,970**
Valuation (losses)/gains taken to equity	5.4.c)	(314)	77,908	(2,316)	77,518
Transferred to profit	4.4. and 4.12.	(8,248)	(36,447)	(6,180)	(36,548)
Share of other comprehensive (losses)/income of entities accounted for using the equity method		**-**	**-**	**(2,804)**	**7,449**
Income tax relating to components of other comprehensive income	5.19.	**1,369**	**(6,937)**	**1,785**	**(8,078)**
Total comprehensive income for the year after tax		**37,231**	**111,452**	**82,519**	**98,520**
Attributable to owners of the parent		37,231	111,452	79,032	95,725
Attributable to non-controlling interests		-	-	3,487	2,795

The notes are an integral part of these financial statements.

Statement of financial position

in EUR thousand

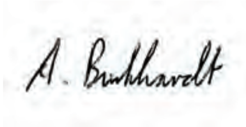
	Notes	NLB d.d. 31.12.2015	NLB d.d. 31.12.2014	NLB Group 31.12.2015	NLB Group 31.12.2014
Cash, cash balances at central banks and other demand deposits at banks	5.1.	496,806	434,438	1,161,983	1,127,527
Trading assets	5.2.	267,880	138,808	267,413	138,218
Financial assets designated at fair value through profit or loss	5.3.	4,913	4,702	7,595	6,510
Available-for-sale financial assets	5.4.a)	1,248,359	1,182,748	1,737,191	1,672,952
Derivatives - hedge accounting	5.5.	1,083	2,966	1,083	2,966
Loans and advances					
- debt securities	5.6.a)	394,579	706,785	394,579	706,785
- loans and advances to banks	5.6.b)	345,207	159,300	431,775	271,340
- loans and advances to customers	5.6.c)	4,826,139	4,993,040	6,693,621	6,708,332
- other financial assets	5.6.d)	48,944	47,836	69,521	71,769
Held-to-maturity financial assets	5.7.	565,535	711,648	565,535	711,648
Fair value changes of the hedged items in portfolio hedge of interest rate risk		741	912	741	912
Non-current assets classified as held for sale	5.8.	1,776	2,580	4,629	5,643
Property and equipment	5.9.	94,570	97,330	207,730	215,175
Investment property	5.10.	8,613	1,458	93,513	41,472
Intangible assets	5.11.	29,627	33,743	39,327	42,751
Investments in subsidiaries	5.12.a)	346,001	345,585	-	-
Investments in associates and joint ventures	5.12.b)	7,094	7,127	39,696	37,525
Current income tax assets		-	-	929	1,898
Deferred income tax assets	5.18.	9,139	6,738	9,400	5,947
Other assets	5.13.	9,779	7,983	95,354	140,119
Total assets		**8,706,785**	**8,885,727**	**11,821,615**	**11,909,489**
Trading liabilities	5.15.	29,909	43,764	29,920	43,758
Financial liabilities designated at fair value through profit or loss	5.3.	4,912	4,701	4,912	4,701
Derivatives - hedge accounting	5.5.	33,842	43,985	33,842	43,985
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	5.16.a)	96,736	91,115	57,982	62,334
- borrowings from banks and central banks	5.16.b)	519,926	643,578	571,029	714,722
- due to customers	5.16.a)	6,293,339	6,294,925	9,020,666	8,943,832
- borrowings from other customers	5.16.b)	16,168	33,511	100,267	136,660
- debt securities in issue	5.16.c)	304,962	359,853	304,962	359,853
- subordinated liabilities	5.16.d)	-	-	27,340	17,328
- other financial liabilities	5.16.e)	47,346	46,223	75,307	71,886
Provisions	5.17.	105,137	114,565	122,639	126,974
Current income tax liabilities		6,681	324	7,514	1,780
Deferred income tax liabilities	5.18.	-	-	313	315
Other liabilities	5.20.	5,676	4,263	14,539	12,066
Total liabilities		**7,464,634**	**7,680,807**	**10,371,232**	**10,540,194**
Equity and reserves attributable to owners of the parent					
Share capital	5.21.	200,000	200,000	200,000	200,000
Share premium	5.22.	871,378	871,378	871,378	871,378
Accumulated other comprehensive income	5.22.	31,841	38,491	23,603	36,485
Profit reserves	5.22.	13,522	13,522	13,522	13,522
Retained earnings	5.22.	125,410	81,529	314,307	221,676
		1,242,151	**1,204,920**	**1,422,810**	**1,343,061**
Non-controlling interests		-	-	27,573	26,234
Total equity		**1,242,151**	**1,204,920**	**1,450,383**	**1,369,295**
Total liabilities and equity		**8,706,785**	**8,885,727**	**11,821,615**	**11,909,489**

The notes are an integral part of these financial statements.

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

Archibald Kremser
Member of the Management Board

Andreas Burkhardt
Member of the Management Board



Blaž Brodnjak
Deputy President
of the Management Board

Ljubljana, 7 April 2016

Statement of changes in equity

in EUR thousand

NLB d.d.	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Total equity
Balance at 1 January 2014	200,000	871,378	8,568	13,522	-	1,093,468
- Net profit for the year	-	-	-	-	81,529	81,529
- Other comprehensive income	-	-	29,923	-	-	29,923
Total comprehensive loss after tax	-	-	29,923	-	81,529	111,452
Balance at 31 December 2014	**200,000**	**871,378**	**38,491**	**13,522**	**81,529**	**1,204,920**
- Net profit for the year	-	-	-	-	43,881	43,881
- Other comprehensive income	-	-	(6,650)	-	-	(6,650)
Total comprehensive income after tax	-	-	(6,650)	-	43,881	37,231
Balance at 31 December 2015	**200,000**	**871,378**	**31,841**	**13,522**	**125,410**	**1,242,151**

in EUR thousand

NLB Group	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance at 1 January 2014	200,000	871,378	3,096	13,522	159,391	1,247,387	23,610	1,270,997
- Net profit for the year	-	-	-	-	62,336	62,336	2,732	65,068
- Other comprehensive income	-	-	33,389	-	-	33,389	63	33,452
Total comprehensive loss after tax	-	-	33,389	-	62,336	95,725	2,795	98,520
Dividends paid	-	-	-	-	-	-	(183)	(183)
Transactions with non-controlling interests	-	-	-	-	(51)	(51)	12	(39)
Balance at 31 December 2014	**200,000**	**871,378**	**36,485**	**13,522**	**221,676**	**1,343,061**	**26,234**	**1,369,295**
- Net profit for the year	-	-	-	-	91,914	91,914	3,464	95,378
- Other comprehensive income	-	-	(12,882)	-	-	(12,882)	23	(12,859)
Total comprehensive income after tax	-	-	(12,882)	-	91,914	79,032	3,487	82,519
Dividends paid	-	-	-	-	-	-	(1,048)	(1,048)
Transactions with non-controlling interests	-	-	-	-	717	717	(1,100)	(383)
Balance at 31 December 2015	**200,000**	**871,378**	**23,603**	**13,522**	**314,307**	**1,422,810**	**27,573**	**1,450,383**

Most of the effect on equity attributable to the owners of the parent in item transactions with non-controlling interests in 2015 is the effect of an increase in the equity of NLB Banka Sarajevo and NLB Banka Podgorica in the amount of EUR 736 thousand. Changes in ownership interest are presented in note 3. and note 5.12.a).

The notes are an integral part of these financial statements.

Statement of cash flows

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	294,113	349,133	467,091	508,281
Interest paid	(72,613)	(127,912)	(121,143)	(196,799)
Dividends received	1,264	1,695	1,346	1,714
Fee and commission receipts	126,371	128,230	194,133	191,505
Fee and commission payments	(30,993)	(29,563)	(56,972)	(51,689)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	10,886	37,301	10,964	37,623
Realised losses from financial assets and financial liabilities not at fair value through profit or loss	(234)	(187)	(234)	(187)
Net (losses)/gains from financial assets and liabilities held for trading	(28,335)	(2,516)	(23,110)	2,739
Payments to employees and suppliers	(174,051)	(176,232)	(271,456)	(274,080)
Other income	14,136	17,885	31,129	31,958
Other expenses	(16,487)	(17,629)	(20,676)	(28,798)
Income tax paid	(678)	-	(4,980)	(2,204)
Cash flows from operating activities before changes in operating assets and liabilities	**123,379**	**180,205**	**206,092**	**220,063**
(Increases)/decreases in operating assets	**(34,116)**	**369,209**	**(143,429)**	**139,620**
Net increase in trading assets	(135,235)	(47,565)	(135,235)	(47,565)
Net (increase)/decrease in financial assets designated at fair value through profit or loss	-	-	(880)	2,548
Net (increase)/decrease in available-for-sale financial assets	(88,304)	3,241	(45,544)	(1,342)
Net decrease in loans and advances	189,680	414,263	33,155	174,502
Net (increase)/decrease in other assets	(257)	(730)	5,075	11,477
Decreases in operating liabilities	**(208,931)**	**(765,942)**	**(200,359)**	**(637,868)**
Net decrease in deposits and borrowings measured at amortised cost	(155,700)	(1,054,832)	(146,993)	(926,886)
Net (decrease)/increase in securities measured at amortised cost	(53,469)	288,979	(53,469)	288,979
Net increase/(decrease) in other liabilities	238	(89)	103	39
Net cash used in operating activities	**(119,668)**	**(216,528)**	**(137,696)**	**(278,185)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts from investing activities	**188,913**	**240,095**	**178,923**	**237,276**
Proceeds from sale of property and equipment and investment property	68	545	3,718	2,303
Proceeds from sale of subsidiaries	-	250	-	-
Proceeds from dividends from subsidiaries and associates	13,747	4,683	35	-
Proceeds from non-current assets held for sale	98	626	170	982
Proceeds from disposals of held-to-maturity financial assets	175,000	233,991	175,000	233,991
Payments from investing activities	**(70,863)**	**(124,252)**	**(51,377)**	**(97,605)**
Purchase of property and equipment and investment property	(5,672)	(3,381)	(11,404)	(10,793)
Purchase of intangible assets	(5,577)	(6,422)	(7,685)	(7,696)
Purchase of subsidiaries and increase in subsidiaries' equity	(27,730)	(35,333)	(404)	-
Purchase of held-to-maturity financial assets	(31,884)	(79,116)	(31,884)	(79,116)
Net cash flows used in investing activities	**118,050**	**115,843**	**127,546**	**139,671**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from financing activities	**-**	**-**	**9,900**	**-**
Issue of subordinated debt	-	-	9,900	-
Payments from financing activities	**-**	**-**	**(977)**	**(4,753)**
Dividends paid	-	-	(977)	(108)
Repayments of subordinated debt	-	-	-	(4,570)
Other payments related to financing activities	-	-	-	(75)
Net cash from financing activities	**-**	**-**	**8,923**	**(4,753)**
Effects of exchange rate changes on cash and cash equivalents	8,226	6,816	10,246	5,346
Net decrease in cash and cash equivalents	**(1,618)**	**(100,685)**	**(1,227)**	**(143,267)**
Cash and cash equivalents at beginning of year	**519,223**	**613,092**	**1,292,984**	**1,430,905**
Cash and cash equivalents at end of year	**525,831**	**519,223**	**1,302,003**	**1,292,984**

The notes are an integral part of these financial statements.

Statement of cash flows

in EUR thousand

		NLB d.d.		NLB Group	
	Notes	2015	2014	2015	2014
Cash and cash equivalents comprise:					
Cash, cash balances at central banks and other demand deposits at banks	5.1.	496,806	434,438	1,161,983	1,127,527
Loans and advances to banks with original maturity up to 3 months	5.6.	24,450	84,785	64,137	129,936
Trading assets with original maturity up to 3 months	5.2.	4,575	-	4,575	-
Available for sale financial assets with original maturity up to 3 months	5.4.	-	-	71,308	35,521
Total		**525,831**	**519,223**	**1,302,003**	**1,292,984**

Notes to the financial statements

1. General information

Nova Ljubljanska banka d.d. Ljubljana (hereinafter: NLB d.d.) is a joint-stock entity providing universal banking services. NLB Group consists of NLB d.d. and subsidiaries in 11 countries.

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

The ultimate controlling party of NLB d.d. is the Republic of Slovenia which was the sole shareholder as at 31 December 2015 and 31 December 2014.

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

2. Summary of significant accounting policies

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

2.1. Statement of compliance

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

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

2.2. Basis of presenting the financial statements

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

The preparation of financial statements in accordance with the IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and activities, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised. Critical accounting estimates and judgements in applying accounting policies are disclosed in note 2.33.

2.3. Comparative amounts

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed in comparative amounts. Where IAS 8 applies, comparative figures have been adjusted to conform to changes in presentation in the current year. In 2015 the scheme of the income statement changed, and the data for 2014 were adjusted. Before the change, dividend income from associates, joint ventures and subsidiaries was included in the item Dividend income, and gains less losses from disposal of subsidiaries were included in the item Gains less losses on derecognition of assets whereas, after the change, they are both included in the item Gains less losses from capital investments in subsidiaries, associates and joint ventures. Consequently, proceeds from dividends from subsidiaries, associates and joint ventures are presented as cash flows from investing activities in the statement of cash flows. The changes only affect the presentation of the financial statements.

2.4. Consolidation

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

NLB d.d. controls an entity when all three elements of control are met:
- it has power over the entity;
- it is exposed or has rights to variable returns from its involvement with the entity; and
- it has the ability to use its power over the entity to affect the amount of the entity's returns.

NLB d.d. reassess whether it controls an entity if facts and circumstances indicate there are changes to one or more of the three elements of control. If the loss of control of a subsidiary occurs, the subsidiary is no longer consolidated from the date that control ceases.

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

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

NLB Group treats transactions with non-controlling interests as transactions with equity owners of NLB Group. For purchases of subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on sales to non-controlling interests are recorded in equity. For sales to non-controlling interests, the differences between any proceeds received and the relevant share of non-controlling interests are also recorded in equity. All effects are presented in the item Equity attributable to non-controlling interest.

2.5. Investments in subsidiaries, associates and joint ventures

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

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

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

NLB Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When NLB Group's share of losses in an associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other unsecured receivables, NLB Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate and joint venture. NLB Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised (note 5.12.b).

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

2.6. Goodwill and bargain purchases

Goodwill is measured as the excess of the aggregate of the consideration measured at fair value and transferred to the acquiree, the amount of any non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date over the net amounts of the identifiable assets acquired and the liabilities assumed. Any negative amount, a gain on a bargain purchase, is recognised in profit or loss after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

The consideration transferred is measured at the fair value of the assets transferred, equity interest issued and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition-related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity and all other transaction costs associated with the acquisition are expensed.

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

2.7. A combination of entities or businesses under common control

A merger of entities within NLB Group is a business combination involving entities under common control. For such mergers, members of NLB Group apply merger accounting principles and use the carrying amounts of merged entities as reported in the consolidated financial statements. No goodwill is recognised on mergers of NLB Group entities.

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

2.8. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

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

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

NLB Group entities

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate on the reporting date;
- income and expenses for each income statement are translated at average exchange rates; and
- components of equity are translated at the historical rate.

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

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

2.9. Interest income and expenses

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

2.10. Fee and commission income

Fees and commissions are generally recognised when the service has been provided. Fees and commissions mainly consist of fees received from credit cards and ATMs, customer transaction accounts, payment services and commissions from guarantees. Fees and commissions that are integral to the effective interest rate of financial assets and liabilities are presented within interest income or expenses.

2.11. Dividend income

Dividends are recognised in the income statement when NLB Group's right to receive payment is established and an inflow of economic benefits is probable. Dividend income from subsidiaries, associates and joint ventures is included in the item Gains less losses from capital investments in subsidiaries, associates and joint ventures, while other dividend income is included in the item Dividend income. In the consolidated financial statement, dividends received from associates and joint ventures reduce the carrying value of the investment.

2.12. Financial instruments

a) Classification

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

Financial instruments at fair value through profit or loss

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

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

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

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

Loans and advances

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

Group, upon initial recognition, classifies as available for sale; or (c) those for which NLB Group may not recover substantially all of its initial investment for reasons other than a deterioration in creditworthiness.

Held-to-maturity financial assets
Held-to-maturity financial assets are non-derivative financial instruments that are traded on an active market with fixed or determinable payments and a fixed maturity that NLB Group has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity financial asset if NLB Group has the right to require the issuer to repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity.

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

b) Measurement and recognition
Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

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

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

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Gains and losses from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative amount previously included in other comprehensive income is recycled in the income statement. Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement.

Loans and held-to-maturity financial assets are carried at amortised cost.

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

If the transaction price on a non-active market is different than the fair value from other observable current market transactions in the same instrument or is based on a valuation technique whose variables only include data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement (»day one gains or losses«).

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

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

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

f) Fair value measurement principles
The fair value of financial instruments traded on active markets is based on the price that would be received to sell the assets or transfer liability (exit price) being measured at the reporting date, excluding transaction costs. If there is no active market, the fair value of the instruments is estimated using discounted cash flow techniques or pricing models.

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

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

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. NLB

Group designates certain derivatives as either:
- hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge);
- hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction (cash flow hedge); or
- hedges of a net investment in a foreign operation (net investment hedge).

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

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

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

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

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

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

When a hedging instrument expires or is sold, or when a hedge no longer meets hedge accounting criteria, any cumulative gain or loss existing in other comprehensive income and previously accumulated in equity at that time remains in other comprehensive income and in equity and is recognised in profit or loss only when the forecasted transaction is ultimately recognised in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

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

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

2.13. Impairment of financial assets

a) Assets carried at amortised cost
NLB Group assesses impairments of financial assets separately for all individually significant assets where there is objective evidence of impairment. All other financial assets are impaired collectively. According to the Regulation on credit risk loss assessment of the Bank of Slovenia, a financial asset or off-balance sheet liability is individually significant if Total exposure to a customer exceeds 0.5% of a bank's capital. In 2015, all exposures to banks, all exposures to other legal entities exceeding EUR 20 thousand and all exposures to individuals exceeding EUR 100 thousand were deemed individually significant assets requiring individual assessment. If NLB Group determines that no objective evidence exists for an individually assessed financial asset, the asset is included in a group of related financial assets with similar credit risk characteristics and collectively assessed for impairment.

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

The criteria NLB Group uses to determine whether objective evidence of an impairment loss exists include:
- delays in the payment of contractual interest or principal;
- a breach of other contractual covenants or conditions;
- difficulties in the financial condition of the borrower;
- restructuring of a borrower's financial liabilities, whereby a material loss is recognised;
- initiation of bankruptcy or insolvency proceedings; and
- other arrangements having an adverse effect on the bank's or company's position.

If there is objective evidence that an impairment loss on loans and advances or held-to-maturity financial assets has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through an allowance account and the amount of the loss is recognised in the income statement. With regard to impairments for customers in default, where the payment of existing liabilities is only possible through the redemption of collateral, expected payment from collateral is taken into account. This value is calculated from the appraised market value of the collateral and the discount used as defined in the Collateral Manual. Off-balance sheet liabilities are also assessed individually and, where necessary, related provisions are recognised as liabilities.

For the purpose of the collective assessment of impairment, NLB Group uses transition matrices which illustrate the expected transition of customers between internal rating categories. The probability of transition is assessed on the basis of past years' experience, i.e. annual transition matrices for different types or segments of customers. These data may be adopted for projected future trends as historical experience does not necessarily reflect actual economic movements. Exposures to individuals are further analysed with regard to the type of product. Based on the expected transition of customers to D and E credit-rating categories and an assessment of the average repayment rate for D- and E-rated customers (treated as customers in default), NLB Group recognises collective impairments.

If the amount of impairment decreases subsequently due to an event occurring after the impairment was recognised (e.g. repayment in the collection process exceeds the assessed expected payment from collateral), the reversal of the loss is recognised as a reduction in the allowance for loan impairment.

NLB Group writes off financial assets measured at amortised cost if during the collection process it assesses that the assets in question will not be repaid and that the conditions for derecognition have been met.

b) Assets classified as available for sale

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

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

The following factors are considered in determining impairment losses on debt instruments:
• default or delinquency in interest or principal payments;
• liquidity difficulties of the issuer;
• a breach of contract covenants or conditions;
• bankruptcy of the issuer;
• deterioration of economic and market conditions; and
• deterioration in the credit rating of the issuer below the acceptable level.

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

2.14. Forborne loans

A forborne loan (or restructured financial asset) arises as a result of a debtor's inability to repay a debt under the originally agreed terms, either by modifying the terms of the original contract (via an annex) or by signing a new contract (refinancing) under which the contracting parties agree the partial or Total repayment of the original debt. If receivables due from the client have the status of restructuring, the debtor must be classified in the rating group C, D or E.

The definitions of forborne loans closely follow definitions that were developed by the European Banking Authority (EBA). These definitions aim to achieve comprehensive coverage of exposures to which forbearance measures have been extended.

Accounting treatment of forborne loans depends on the type of restructuring. When NLB Group is embarking on a forborne loan via modified terms of repayment proceeding from extending the deadline for the repayment of the principal and/or interest and/or a forbearance of the repayment of the principal and/or interest or a reduction in the interest rate and/or other expenses, it adjusts the carrying amount of the forborne loan on the basis of the discounted value of the estimated future cash flows under the modified terms, and recognises the resulting effect in profit or loss as an impairment. In the event of the reduction of a claim against the debtor via the reduction in the amount of the claims as a result of a contractually agreed debt waiver and ownership restructuring or debt to equity swap, NLB Group derecognises the claim in the part relating to the write-down or the contractually agreed debt waiver. The new estimate of the future cash flows for the residual claim, not yet written down, is based on an updated estimate of the probability of loss. NLB Group takes into account the debtor's modified position, the economic expectations and the collateral of the forborne loan. When NLB Group is embarking on the forborne loan by taking possession of other assets (property, plant and equipment, securities and other financial assets), including investments in the equity of debtors obtained via debt-to-equity swaps, it recognises the acquired assets in the statement of financial position at fair value, recognising the difference between the disclosed fair value of the asset and the carrying amount of the eliminated claim in profit or loss.

Forborne exposures may be identified in both the performing and non-performing parts of the portfolio. Where the forborne loan is classified in the non-performing part of the portfolio, it can be reclassified to the performing part if forbearance does not lead to a recognition of impairment or non-performance, one year has passed since the forbearance has been introduced and after the introduction of forbearance there have been no overdue amounts or doubts concerning the repayment of the entire exposure, under the terms and conditions after the forbearance. The absence of doubt is confirmed by analysis of the financial situation of the debtor.

The forborne status is withdrawn when:

- an analysis of the debtor's financial position shows that the conditions to deem the exposure a non-performing exposure are no longer met;
- at least a 2 year probation period has passed since the forborne exposure was deemed performing;
- regular payments of the principal or interest were made, in a substantial Total amount, during at least half the probation period; and
- no exposure to the debtor is more than 30 days in default at the end of the probation period.

2.15. Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are initially recognised in the financial statements at their fair value and classified in the appropriate category according to their purpose and are sold as soon as practical in order to reduce exposure (note 7.1.n). After initial recognition, repossessed assets are measured and accounted for in accordance with the policies applicable to the relevant asset categories. Repossessed assets mainly represent items of real estate that NLB Group classifies within investment properties measured in accordance with IAS 40 Investment property (note 2.20.), and other assets, measured in accordance with IAS 2 Inventories.

Real estate obtained from the foreclosure of loans and receivables within other assets are initially recognised at fair value less costs to sell (realisable value) wherein only the direct costs of sales can be taken into account. At subsequent measurement the realisable value is verified at least annually. Valuations of the fair value of real estate are performed by certified real-estate appraisers. The real estate is impaired when the carrying value exceeds the realisable value. The effect of impairment is presented as the impairment of other assets and the reversal of impairment as income from the reversal of the impairment of other assets.

2.16. Offsetting

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

2.17. Sale and repurchase agreements

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

2.18. Property and equipment

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

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

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

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

in %

NLB d.d. and NLB Group	
Buildings	2 - 5
Leasehold improvements	5- 20
Computers	14.3 - 50
Furniture and equipment	10 - 33.3
Motor vehicles	12.5 - 25

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, on each reporting date. Gains and losses on the disposal of items of property and equipment are determined as the difference between the sale proceeds and their carrying amount, and are recognised in the income statement.

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

2.19. Intangible assets

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

Amortisation is calculated on a straight-line basis at rates designed to write down the cost of an intangible asset over its estimated useful life. The core banking system is amortised over a period of ten years and other software over a period of three to five years.

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

2.20. Investment properties

Investment properties include buildings held for leasing and not occupied by NLB Group or to increase the value of a long-term investment. Investment properties are stated at fair value determined by a certified appraiser. Fair value is based on current market prices. Any gain or loss arising from a change in fair value is recognised in the income statement.

2.21. Non-current assets and disposal groups classified as held for sale

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

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

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

2.22. Accounting for leases

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

NLB Group as a lessee

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

Finance leases are recognised as an asset and liability 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 NLB Group's policy over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that NLB Group will obtain ownership by the end of the lease term. Lease payments are apportioned between interest expenses and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability.

NLB Group as a lessor

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

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

Sale-and-leaseback transactions

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

2.23. Cash and cash equivalents

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

2.24. Borrowings with characteristics of debt

Loans and deposits received and issued debt securities are initially recognised at fair value, which is typically equal to historical cost less transaction costs. Borrowings are subsequently measured at amortised cost. The difference between the value at initial recognition and the final value is recognised in the income statement as interest expense, applying the effective interest rate.

Repurchased own debt is disclosed as a reduction in liabilities in the statement of financial position. The difference between the book value and the price at which own debt was repurchased is disclosed in the income statement.

2.25. Other issued financial instruments with characteristics of equity

Upon initial recognition, other issued financial instruments are classified in part or in full as equity instruments if the contractual characteristics of the instruments are such that NLB Group must classify them as equity instruments in accordance with IAS 32 Financial Instruments: Disclosure and Presentation. An issued financial instrument is only considered an equity instrument if that instrument does not represent a contractual obligation for payment.

Issued financial instruments with characteristics of equity are recognised in equity in the statement of financial position. Transaction costs incurred for issuing such instruments are deducted from equity reserves. The corresponding interest is recognised directly in profit reserves.

The carrying value of an issued financial instrument with characteristics of equity is presented in the statement of changes in equity in the item Other equity instruments.

2.26. Provisions

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

2.27. Contingent liabilities and commitments

Financial and non-financial guarantees

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

The issued guarantees covering non-financial obligations of the clients represent the obligation of the Bank (guarantor) to pay if the client fails to perform certain works in accordance with the terms of the commercial contract.

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

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

Documentary letters of credit

Documentary (and standby) letters of credit constitute a written and irrevocable commitment of the issuing (opening) bank on behalf of the issuer (importer) to pay the beneficiary (exporter) the value set out in the documents by a defined deadline:

- if the letter of credit is payable on sight; and
- if the letter of credit is payable for deferred payment, the bank will pay according to the contractual agreement when and if the beneficiary (exporter) presents the bank with documents that are in line with the conditions and deadlines set out in the letter of credit.

A commitment may also take the form of a letter of credit confirmation, which is usually done at the request or authorisation of the issuing (opening) bank and constitutes a firm commitment by the confirming bank, in addition to that of the issuing bank, which independently assumes a commitment to the beneficiary under certain conditions.

Other contingent liabilities and commitments

Other contingent liabilities and commitments represent commitments to extend credit, uncovered letters of credit and other commitments.

2.28. Taxes

Income tax expense comprises current and deferred tax.

Current corporate income tax in NLB Group is calculated on taxable profits at the applicable tax rate in the respective jurisdiction. The corporate income tax rate for 2015 in Slovenia was 17% (2014: 17%).

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

Deferred tax assets are recognised if it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

Deferred tax related to the fair value re-measurement of available-for-sale investments, cash flow hedges and actuarial gains and losses on defined benefit pension plans is charged or credited directly to other comprehensive income.

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

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

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

2014 was the last year for which Slovenian banks were required to pay balance-sheet tax. Tax expense is recognised in other operating expenses (note 4.8.).

A tax on financial services, which imposes a tax on fees paid for prescribed financial services rendered, is paid in Slovenia. The tax rate is 8.5% (2014: 6.5%) and the tax is paid monthly. Given that the tax on financial services is classified as a sales tax, it reduces accrued revenues in the financial statements.

2.29. Fiduciary activities

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

Based on the requirements of Slovenian legislation, NLB Group has additionally disclosed in note 5.26. assets and liabilities on accounts used to manage financial assets from fiduciary activities, i.e. information related to the receipt, processing and execution of orders and related custody activities.

2.30. Employee benefits

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

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Actuarial assumptions				
Discount factor	1.7%	1.9%	1.7% - 7.0%	1.9% - 8.7%
Wage growth based on inflation, promotions and wage growth based on past years of service	3.0%	2.0%	2.0% - 3.0%	0.5% - 4.5%
Other assumptions				
Number of employees eligible for benefits	2,915	3,008	5,658	5,703

Sensitivity analysis of significant actuarial presumptions

	NLB d.d.				NLB Group			
	Discount rate		Future salary increases		Discount rate		Future salary increases	
31.12.2015	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.
Impact on employee benefits provisions - post-employment benefits (in %)	(5.4)	5.9	5.8	(5.4)	(5.3)	5.7	5.6	(5.2)

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

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

Service costs are included in the income statement in the item administrative expenses as defined benefit costs, while interest expenses on the defined benefit liability are recognised in the item interest and similar expenses. These interest expenses represent the change during the period in the defined benefit liability that arises from the passage of time. Actuarial gains and losses from the effect of changes in actuarial assumptions and experience adjustments (differences between the realised and expected payments) are recognised in other comprehensive income under the item Actuarial gains/(losses) on defined benefit pensions plans and will not be recycled to the income statement.

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

2.31. Share capital

Dividends on ordinary shares

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

Treasury shares

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

Share issue costs

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

2.32. Segment reporting

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

All transactions between business segments are conducted as part of the normal course of business. Interest income is reallocated between sub-segments of the Bank (NLB d.d.) on the basis of multiple transfer prices (fund transfer prices – FTP). The amount of net interest income arising from transactions between segments is disclosed in the item Intersegment net interest income. Net income from external customers corresponds to the consolidated net income of NLB Group. Income taxes are not allocated to segments (note 8.1.).

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

2.33. Critical accounting estimates and judgments in applying accounting policies

NLB Group's financial statements are influenced by accounting policies, assumptions, estimates and management's judgment. NLB Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with the IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuing basis, and are based on past experience and other factors, including expectations with regard to future events.

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

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

Stress testing for credit risk using transition matrices and a decrease in the market value of real-estate collateral
Stress testing is structured to take into account a probable scenario and a stress scenario in the testing of each stress situation. It is assumed that the risk in the probable scenario is covered by regulatory capital, while the stress scenario assumes a deteriorating stress exceeding expectations. The difference between the two scenarios is the amount of additionally required impairments that must be created by the Bank in the event of their realisation.

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

As a result of the stress scenario, NLB d.d. will require additional impairments of EUR 52.3 million (2014: EUR 53.3 million), while the loan loss impairments to gross loan ratio will increase by 0.78 percentage points (2014: 0.74 percentage points). For NLB Group, the same stress scenario results in an increase in impairments of EUR 72.0 million (2014: EUR 69.9 million) and an increase in the coverage of the credit portfolio by impairments by 0.73 percentage points (2014: 0.66 percentage points).

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

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

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

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

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

If all the declines in fair value below cost had been considered significant or prolonged, NLB d.d. would have incurred additional impairment losses of EUR 15 thousand (2014: EUR 0), while NLB Group would have incurred additional impairment losses of EUR 221 thousand (2014: EUR 360 thousand) from the reclassification of the negative valuation from the statement of comprehensive income to the income statement for the current year.

d) Held-to-maturity financial assets
NLB Group classifies non-derivative financial assets with fixed or determinable payments and a fixed maturity as held-to-maturity financial assets. Before making this classification, NLB Group assesses its intention and ability to hold such investments to maturity. If NLB Group is unable to hold these investments until maturity, it must reclassify the entire group as available-for-sale financial assets. The investments would therefore be measured at fair value, resulting in an increase in the value of investments of EUR 59,442 thousand (31 December 2014: an increase by EUR 63,617 thousand) and corresponding other comprehensive income.

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

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

- Future cash flows from individual investments present the estimated cash flow for periods for which adopted plans are available. For core members, estimated cash flows are based on a five-year business plan. For non-core members, estimated cash flows are based on a period in line with the strategy of divestment. The business plans of individual entities are based on an assessment of future economic conditions that will impact an individual member's business and the quality of the credit portfolio.
- The growth rate in cash flows for the period following the adopted business plan is between 1% and 1.5%.
- A target capital adequacy ratio of an individual bank is between 13% and 17%.
- The discount rate derived from the capital asset pricing model and used to discount future cash flows is based on the cost of equity allocated to an individual investment. The discount rate reflects the impact of a range of financial and economic variables, including the risk-free rate and risk premium. The value of variables used is subject to fluctuations outside management's control. A pre-tax discount rate is between 10.31% and 18.94% (31 December 2014: between 11.03% and 20.22%).

For strategic NLB Group members in 2015 and 2014 there were no indications of impairment for equity investments.

In 2015, NLB d.d. impaired equity investments in non-core members which are in the process of divestment in the amount of EUR 50.3 million, of this EUR 19.1 million refers to the immediate impairment of recapitalisation to cover the operating losses. If the discount rate in the discounted cash flows model differs by +/- 1 percentage point, the net present value in use of the equity investments would be lower in case of the increased discount rate by a maximum of EUR 0.8 million and in case of a decreased discount rate the net present value in use of equity investments would be higher by a maximum of EUR 0.8 million. If the forecasted cash flows in the discounted cash flows model differ by +/- 10%, the estimated value in use of the equity investments would be higher in case of increased forecasted cash flows by a maximum of EUR 3.7 million and, in case of decreased forecasted cash flows, the value in use of equity investments would be lower by a maximum of EUR 3.7 million.

f) Goodwill

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

NLB Group performed a test for the impairment of goodwill at the end of the year for all subsidiaries. The review of the impairment of goodwill is based on the same facts and assumptions as the review of impairment of investments in subsidiaries, associates and joint ventures (note 2.33.e).

g) Taxes

NLB Group operates in countries governed by different laws. The deferred tax assets recognised as at 31 December 2015 are based on profit forecasts and take the expected manner of recovery of the assets into account, i.e. whether the value will be recovered through use, sale or liquidation. Changes in assumptions regarding the likely manner of recovering assets could lead to the recognition of currently unrecognised deferred tax assets or derecognition of previously created deferred tax assets. NLB Group will adjust deferred tax assets accordingly in the event of changes to assumptions regarding future operations (notes 4.13. and 5.18.).

h) Classification of issued financial instruments as debt or equity

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

2.34. Implementation of the new and revised International Financial Reporting Standards

During the current year, NLB Group adopted all new and revised standards and interpretations issued by the International Accounting Standards Board (hereinafter: the IASB) and the International Financial Reporting Interpretations Committee (hereinafter: the IFRIC) and endorsed by the EU that are effective for annual accounting periods beginning on 1 January 2015.

Accounting standards and amendments to existing standards effective for annual periods beginning on 1 January 2015 that were endorsed by the EU and adopted by NLB Group

- IFRIC 21 (new interpretation) – Levies (effective for annual periods beginning on or after 17 June 2014). IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. For NLB Group, this interpretation is mainly relevant in relation to the recognition of expenses for a Single Resolution Fund (note 4.8.)
- Annual Improvements to the IFRS 2011–2013 Cycle. The improvements comprise a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 January 2015. The amendment to IFRS 3 – Business Combinations relates to a change in the terminology in IFRS 11 – Joint Arrangements. The amendment clarifies that all joint arrangements, not only joint ventures, are beyond the scope of IFRS 3. The amendment to IFRS 13 – Fair Value Measurement clarifies that the scope of the portfolio exception includes

all contracts accounted for within the scope of IAS 39 – Financial Instruments: Recognition and Measurement and IFRS 9 Financial instruments. The amendment to IAS 40 – Investment Property clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and an investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other. The amendments do not have a significant impact on NLB Group's consolidated financial statements.

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

- IAS 19 (amendment) – Employee Benefits (effective for annual periods beginning on or after 1 February 2015). The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service. The amendment will not have an impact on NLB Group's consolidated financial statements.
- Annual Improvements to IFRSs 2010–2012 Cycle. The improvements comprise a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 February 2015. The amendment to IFRS 2 – Share-based Payment includes the definitions of vesting conditions and market conditions and adds definitions for performance conditions and service conditions. The amendment to IFRS 3 – Business Combinations clarifies that a contingent consideration classified as an asset or liability shall be measured at fair value through profit and loss, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 and IFRS 9 or not. The amendment to IFRS 8 – Operating Segments requires the disclosure of judgments made by management in applying aggregation criteria to operating segments and a reconciliation of the total of the reportable segments' assets if the segment assets are reported regularly to the chief operating decision-maker. The amendment to IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets clarifies that when an item of property, plant and equipment or intangible asset is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount. The amendment to IAS 24 – Related Party Disclosures clarifies that an entity providing key management personnel services to the reporting entity is a related party of the reporting entity. The amendments will not have a significant impact on NLB Group's consolidated financial statements.
- Annual Improvements to IFRSs 2012–2014 Cycle. The improvements comprise a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 January 2016. The amendment to IFRS 5 Non-current assets held for sale and discontinued operations clarifies that when the asset or disposal group is reclassified from held for sale to held for distribution, or vice versa, the change of the original plan of disposal or distribution is not needed. The amendments to IFRS 7 Financial instruments: Disclosures clarify whether a servicing contract for a transferred financial asset leads to continuing involvement and remove the requirement of disclosing offsetting financial assets and liabilities in condensed interim financial statements. The amendment to IAS 19 Employee benefits requires usage of market yields on government bonds for the discount rate for a post-employment benefit obligation in currency in which the post-employment benefit obligation is denominated if for the currency there is no deep market of highly quality corporate bonds. The amendment to IAS 34 Interim financial reporting clarifies that interim disclosures must be included in interim financial statements or cross-referenced between interim financial statements and other parts of interim reports (management commentary or risk report). The amendments will not have a significant impact on NLB Group's consolidated financial statements.
- IAS 27 (amendment) - Equity Method in Separate Financial Statements is effective from annual periods beginning on or after 1 January 2016. The amendments include the option for an entity to account for its investments in subsidiaries, joint ventures and associates using the equity method in its separate financial statements.
- IAS 16 and IAS 38 (amendment) – Clarification of Acceptable Methods of Depreciation and Amortisation is effective from annual periods beginning on or after 1 January 2016. The amendment clarifies that a revenue-based method should not generally be used as a basis for the depreciation of property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendment will not have an impact on NLB Group's consolidated financial statements.
- IFRS 11 (amendment) – Accounting for Acquisition of Interests in Joint Operations is effective from annual periods beginning on or after 1 January 2016. The amendment requires that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured upon the acquisition of an additional interest in the same joint operation while joint control is retained. The amendment will not have an impact on NLB Group's consolidated financial statements.
- IAS 1 (amendment) - Disclosure Initiative is effective from annual periods beginning on or after 1 January 2016. The amendments further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The narrow-focus amendments to IAS clarify, rather than significantly change, the existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income arising from equity accounted Investments. NLB Group is evaluating the impact of the standard on the presentation of NLB Group's consolidated financial statements.

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

- **IFRS 9 Financial instruments**
  In July 2014, the IASB issued IFRS 9 to replace IAS 39, »Financial Instruments: Recognition and Measurement«. IFRS 9 introduces a new approach to financial asset classification and measurement, a new more forward-looking expected loss model and amends the requirements for hedge accounting. IFRS 9 is mandatorily effective for annual periods beginning on or after 1 January 2018, with early application permitted. IFRS 9 has not yet been endorsed by the European Union. The endorsement of IFRS 9 is expected in the second half of 2016.

  Classification and measurement of financial assets and liabilities
  IFRS 9 introduces a new classification model for financial assets. It requires that financial assets are classified according to the business model for managing the financial assets and their contractual cash flow characteristics. Instruments will be measured either at amortised cost, the newly established measurement category fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). Those financial assets that would be measured at amortised cost or at fair value through other comprehensive income (FVTOCI), but where their contractual cash flows do not present only the payments of principal and interest, should be measured at fair value through profit or loss. This might result in a higher volume of financial assets measured at fair value through profit or loss and consequently greater volatility in NLB Group's financial statements. No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss.

  Impairment of financial assets
  The impairment rules under IFRS 9 will apply to financial assets that are measured at amortised cost or FVOCI and off-balance sheet lending commitments such as loan commitments and financial guarantees. Impairment will move from a model whereby credit losses are recognised when a »trigger« event occurs under IAS 39 to an expected credit loss model (a »three-stage« model- ECL model) for impairment based on changes in credit quality since initial recognition. Implementation of the new impairment requirement will require tracking and determining significant changes in credit risk through the lifetime of financial assets considering reasonable and supportable information available.

  Implementation of IFRS 9 in NLB Group
  Implementation of the IFRS 9 will have a significant impact on a variety of business units of the Bank. It will impact the models, processes, systems, data product offer, client segmentation and other. Taking into account the dimensions of the IFRS 9 requirements and its impact on the overall banking system, implementation of the standard is organised on NLB Group level as a Project. The Project includes representatives from all relevant functions (Finance, Risk, Operation, Front office, IT etc.), a Project Steering Committee has been nominated and the overall programme governance and roadmap set up, as well as internal monitoring of progress of the implementation.

  In the third quarter of 2015, NLB Group initiated activities for the standard implementation such as gap analyses, an impact assessment on financial statements, systems and processes, reviewing the current product portfolio in view of contractual cash flow characteristics, existing risk parameters, existing risk management systems and methodologies.
- IFRS 14 (new standard) - Regulatory Deferral Accounts is effective for annual periods beginning on or after 1 January 2016. The standard allows an entity whose activities are subject to rate-regulation to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Existing IFRS preparers are prohibited from adopting this standard.
- IFRS 10 and IAS 28 (amendment) - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture is effective from annual periods beginning on or after 1 January 2016. The amendments address a conflict between the requirements of IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. NLB Group is evaluating the impact of the amendment on NLB Group's consolidated financial statements.
- IFRS 15 (new standard) – Revenue from Contracts with Customers is effective from annual periods beginning on or after 1 January 2018. IFRS 15 replaces all existing revenue requirements in the IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. The standard specifies the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. NLB Group is evaluating the impact of the standard on NLB Group's consolidated financial statements.
- IFRS 10, IFRS 12 and IAS 28 (amendment) - Investment Entities: Applying the Consolidation Exception is effective from annual periods beginning on or after 1 January 2016. The amendments address issues arising in practice in the application of the investment entities consolidation exception. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments also clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. NLB Group is evaluating the impact of the standard on NLB Group's consolidated financial statements.

3. Changes in subsidiary holdings

Changes in 2015

Capital changes:

- An increase in share capital in the form of cash contributions in the amount of EUR 7,669 thousand in NLB Banka, Sarajevo due to stricter regulatory requirements for capital adequacy. Ownership interest increased from 96.30% to 97.34%.
- On the basis of an option contract, NLB d.d. acquired shares of NLB Banka, Podgorica and thereby increased its ownership from 98.00% to 99.36%. The increase in the capital investment was recognised in the amount of EUR 364 thousand. NLB d.d. has no voting rights regarding the newly acquired shares.
- NLB Leasing, Ljubljana increased its ownership interest in Optima Leasing, Zagreb from 99.97% to 100%. Consideration was paid in the amount of EUR 40 thousand.

Other changes:

- REAM d.o.o., Zagreb, REAM d.o.o., Belgrade, REAM d.o.o., Podgorica, PRO-Avenija d.o.o., Ljubljana and SR-RE d.o.o., Belgrade were established and will manage certain real estate in NLB Group. NLB d.d.'s ownership is 100%.
- LHB Trade d.o.o., Zagreb was liquidated. In accordance with a court order, the company was removed from the court register.
- NLB Group became a 100% owner of Tara Hotel d.o.o., Budva upon realisation of the collateral.
- NLB Banka, Belgrade sold its 100% ownership in Convest d.o.o., Novi Sad.

Changes in 2014

Capital changes:

- NLB d.d. increased its ownership interest in NLB Banka, Podgorica in the amount of EUR 15,000 thousand from 97.40% to 98.00%.
- A decrease in share capital in the amount of EUR 640 thousand was registered in Plan, Banja Luka.

Other changes:

- Relevant activities of the entities ICJ – v stečaju, Domžale and Conet – v stečaju, Belgrade are subject to the bankruptcy manager and therefore NLB d.d. no longer has control over these entities and they are not included in the consolidated financial statements according to full consolidation.
- As at 5 June 2014 a simplified decrease with a simultaneous increase in share capital was registered in Adria Bank, Wien. Due to covering the loss from 2013, the share capital at first decreased to 0; NLB d.d. did not participate in the increase in share capital.
- PRO-REM d.o.o., Ljubljana was established. NLB d.d.'s ownership in PRO-REM d.o.o., Ljubljana is 100%.
- NLB d.d. and NLB Banka, Banja Luka sold their 88.14% ownership in Plan d.o.o., Banja Luka.
- Based on the decision of the Bank of Slovenia on extraordinary measures, all qualified liabilities of Banka Celje were terminated and therefore NLB d.d. no longer has a capital investment in the bank.

4. Notes to the income statement

4.1. Interest income and expenses

Analysis by type of assets and liabilities

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Interest and similar income				
Loans and advances to customers	211,250	253,581	372,604	404,236
Held-to-maturity financial assets	21,656	29,861	21,656	29,861
Available-for-sale financial assets	19,692	26,221	33,232	43,527
Financial assets held for trading	11,792	15,574	11,663	15,440
Loans and advances to banks and central banks	2,437	3,870	1,302	1,227
Derivatives - hedge accounting	1,487	2,279	1,487	2,279
Deposits with banks and central banks	642	839	1,215	1,593
Other assets	44	-	44	-
Total	**269,000**	**332,225**	**443,203**	**498,163**
Interest and similar expenses				
Due to customers	29,426	61,112	65,425	115,746
Debt securities in issue	10,454	7,058	10,454	7,038
Financial liabilities held for trading	8,420	12,412	8,420	12,412
Derivatives - hedge accounting	5,952	7,077	5,952	7,077
Borrowings from banks and central banks	5,546	15,515	7,501	19,204
Provisions for defined employee benefits (note 2.29. and 5.17.c)	550	653	751	887
Subordinated liabilities	-	-	1,548	1,460
Borrowings from other customers	109	563	2,271	3,653
Deposits from banks and central banks	39	74	105	161
Other financial liabilities	497	418	574	519
Total	**60,993**	**104,882**	**103,001**	**168,157**
Net interest	**208,007**	**227,343**	**340,202**	**330,006**

In 2015, interest income on individually impaired loans amounted to EUR 28,783 thousand for NLB d.d. (2014: EUR 40,165 thousand) and to EUR 47,853 thousand (2014: EUR 59,023 thousand) for NLB Group.

4.2. Dividend income

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Available-for-sale financial assets	1,264	1,691	1,346	1,774
Financial assets held for trading	-	4	-	4
Total	**1,264**	**1,695**	**1,346**	**1,778**

4.3. Fee and commission income and expenses

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

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Fee and commission income				
Fee and commission income relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	44,139	44,346	59,427	58,090
Customer transaction accounts	31,638	32,786	39,668	40,076
Other fee and commission income				
Payments	28,278	28,898	54,274	54,214
Guarantees	8,687	9,785	13,322	14,743
Investment funds	4,235	2,762	13,534	10,574
Agency of insurance products	2,873	2,884	2,873	2,884
Other services	3,187	2,848	5,501	5,009
Total	**123,037**	**124,309**	**188,599**	**185,590**
Fee and commission expenses				
Fee and commission expenses relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	24,457	23,659	35,415	32,912
Other fee and commission expenses				
Insurance for holders of personal accounts and golden cards	1,449	1,485	1,757	1,639
Payments	788	777	4,970	4,640
Guarantees	541	275	592	362
Investment banking	263	239	941	741
Deposit insurance	-	-	8,259	8,395
Other services	1,020	1,171	2,545	2,327
Total	**28,518**	**27,606**	**54,479**	**51,016**
Net activity fee and commission income	**94,519**	**96,703**	**134,120**	**134,574**

Income from other services includes fees from deposit valuables, administrative services and safe custody and other agency services.

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

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Fee and commission income related to fiduciary activities				
Receipt, processing and execution of orders	859	1,044	781	1,054
Management of financial instruments portfolio	-	224	1,527	1,397
Investment advice	-	2	-	2
Initial or subsequent underwriting and/or placing of financial instruments without a firm commitment basis	444	528	444	528
Custody and similar services	4,003	3,831	3,791	3,704
Management of clients' account of non-materialized securities	553	550	553	550
Safekeeping of clients' financial instruments	-	3	5	8
Advice to companies on capital structure, business strategy and related matters and advice and services relating to mergers and acquisitions of companies	-	8	10	8
Total	**5,859**	**6,190**	**7,111**	**7,251**
Fee and commission expenses related to fiduciary activities				
Fee and commission related to Central Securities Clearing Corporation and similar organizations	2,267	2,100	2,368	2,134
Fee and commission related to stock exchange and similar organizations	43	55	52	62
Total	**2,310**	**2,155**	**2,420**	**2,196**
Net fee income related to fiduciary activities	**3,549**	**4,035**	**4,691**	**5,055**
Total fee and commission income	**128,896**	**130,499**	**195,710**	**192,841**
Total fee and commission expenses	**30,828**	**29,761**	**56,899**	**53,212**
Total a) and b)	**98,068**	**100,738**	**138,811**	**139,629**

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

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Available-for-sale financial assets				
- gains	*10,886*	*37,301*	*10,964*	*37,531*
- losses	*(21)*	*(18)*	*(125)*	*(23)*
Financial liabilities measured at amortised cost				
- gains	*54*	*-*	*54*	*-*
- losses	*(234)*	*(187)*	*(234)*	*(187)*
Loans and receivables				
- gains	*-*	*-*	*-*	*92*
Total	**10,685**	**37,096**	**10,659**	**37,413**

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

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Equity instruments				
- gains	*-*	*7,197*	*-*	*7,197*
- losses	*(12)*	*(7,184)*	*(12)*	*(7,184)*
Foreign exchange trading				
- gains	*25,935*	*12,556*	*34,009*	*19,718*
- losses	*(21,850)*	*(8,929)*	*(23,355)*	*(9,798)*
Debt instruments				
- gains	*2,005*	*3,164*	*2,008*	*3,166*
- losses	*(3,223)*	*(2,251)*	*(3,223)*	*(2,251)*
Derivatives				
- currency	*(6,844)*	*1,177*	*(7,083)*	*1,171*
- interest rate	*(4,428)*	*(6,247)*	*(4,334)*	*(6,342)*
- cross currency interest rate	*(16,794)*	*(1,803)*	*(16,794)*	*(1,803)*
- securities	*(93)*	*(254)*	*(93)*	*(254)*
Total	**(25,304)**	**(2,574)**	**(18,877)**	**3,620**

NLB Group uses currency derivatives to hedge its currency exposure. Therefore, their effects, which represent the majority of derivatives' valuation in 2015, need to be considered in relation to the foreign exchange difference in the income statements.

NLB Group had an unintended economically open position in CHF related to capital needs initiated at the level of a Swiss-based, non-core subsidiary. In January 2015, the FX rate unexpectedly significantly appreciated (by about 15%), which resulted in the recognition of approximately EUR 13 million in negative effects. Upon the identification, NLB Group immediately closed the open position (note 7.2.1.a).

4.6. Foreign exchange translation gains less losses

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Financial assets and liabilities not classified as at fair value through profit or loss	22,579	176	11,153	(1,672)
Financial assets designated at fair value through profit or loss	753	108	752	108
Other	(81)	(114)	(74)	(212)
Total	**23,251**	**170**	**11,831**	**(1,776)**

4.7. Other operating income

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Income from non-banking services	11,061	12,129	15,657	16,907
- IT services	*6,013*	*6,305*	*6,013*	*6,305*
- cash transportation	*3,823*	*4,094*	*3,823*	*4,094*
- operating leases of movable property	*508*	*533*	*3,477*	*3,466*
- other	*717*	*1,197*	*2,344*	*3,042*
Sale of clients' assets management activity to NLB Skladi	-	2,300	-	-
Rental income from investment property	86	82	6,399	5,109
Revaluation of investment property to fair value (note 5.10.)	171	-	1,342	67
Other operating income	1,916	4,503	3,931	7,460
Total	**13,234**	**19,014**	**27,329**	**29,543**

4.8. Other operating expenses

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Expenses related to issued service guarantees	6,376	6,881	6,376	6,881
Single Resolution Fund	4,340	-	4,340	-
Balance sheet tax	-	6,087	-	6,087
Other taxes and compulsory public levies	1,001	1,010	2,327	2,673
Membership fees and similar fees	740	611	1,397	1,501
Revaluation of investment property to fair value (note 5.10.)	52	-	8,262	3,895
Other operating expenses	2,624	1,214	4,122	2,931
Total	**15,133**	**15,803**	**26,824**	**23,968**

In accordance with the Decision of the Bank of Slovenia, NLB d.d. paid a prior contribution into the Single Resolution Fund scheme for 2015 in the amount of EUR 4,340 thousand. The amount of the contribution corresponds to the share of NLB d.d. in relation to the total liabilities of all banks, the risk profile of NLB d.d. and its size.

4.9. Administrative expenses

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Employee costs				
- gross salaries, compensations and other short-term benefits	86,800	87,741	138,283	138,511
- defined contribution scheme	6,570	6,787	11,124	11,326
- social security contributions	5,592	5,872	9,093	9,624
- defined benefit expenses (note 5.17.c)	2,813	2,021	4,683	3,453
- post-employment benefits	*312*	*(454)*	*319*	*(578)*
- other employee benefits	*2,501*	*2,475*	*4,364*	*4,031*
Total	**101,775**	**102,421**	**163,183**	**162,914**
Other general and administrative expenses				
- other services	27,144	28,544	38,961	41,058
- maintenance	12,271	11,971	16,124	15,499
- intellectual services	9,689	9,889	16,635	15,979
- materials	5,729	4,297	11,031	9,715
- assets quality review (AQR)	-	3,529	-	3,529
- rents	2,876	2,962	7,790	8,031
- property	*1,193*	*1,439*	*5,398*	*6,104*
- software	*1,403*	*1,249*	*1,773*	*1,433*
- movable property	*280*	*274*	*619*	*494*
- advertising	2,700	1,941	5,288	4,427
- insurance	1,578	1,646	3,321	3,504
- education, scholarships and tuition fees	1,124	908	1,420	1,158
- travel costs	637	651	1,449	1,345
- other costs	290	189	782	568
Total	**64,038**	**66,527**	**102,801**	**104,813**
Total administrative expenses	**165,813**	**168,948**	**265,984**	**267,727**
Number of employees	3,028	3,093	6,372	6,448

Costs of other services include asset protection costs, asset management costs, archiving services, postal services and communication costs.

In 2015, NLB d.d. paid EUR 208 thousand (2014: EUR 216 thousand) and NLB Group EUR 716 thousand (2014: EUR 805 thousand) to a statutory auditor for auditing the annual report. In addition, NLB d.d. and NLB Group paid the following expenses to the statutory auditor:

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Other audit services	7	73	29	73
Tax and other consulting	-	-	88	5
Other non-audit services	-	-	24	23
Total	**7**	**73**	**141**	**101**

4.10. Depreciation and amortisation

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Amortisation of intangible assets (note 5.11.)	12,400	14,206	14,334	16,006
Depreciation of property and equipment (note 5.9.)	9,010	10,150	17,522	19,770
Total	**21,410**	**24,356**	**31,856**	**35,776**

4.11. Provisions for other liabilities and charges

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Guarantees and commitments (note 5.17.b)	(11,219)	35,943	(10,847)	26,828
Restructuring provisions (note 5.17.e)	(15)	-	4	1,171
Provisions for premiums from National Housing Savings Scheme (note 5.17.d)	(106)	300	(106)	300
Provisions for legal issues (note 5.17.f)	3,409	584	7,475	2,156
Other provisions (note 5.17.g)	2,778	(6,077)	2,778	(6,077)
Total	**(5,153)**	**30,750**	**(696)**	**24,378**

4.12. Impairment charge

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Impairment of financial assets				
Available-for-sale financial assets (note 5.4.b)	2,617	836	4,659	960
Loans and advances to banks (note 5.14.b)	67	(9,945)	2,557	(5,132)
Loans to government (note 5.14.b)	1,359	(281)	1,285	4,213
Loans to financial organizations (note 5.14.b)	15,446	(5,195)	7,780	(5,662)
Loans to individuals (note 5.14.a)	10,583	7,679	14,766	9,079
Granted overdrafts	*4,675*	*3,241*	*4,889*	*3,573*
Loans for houses and flats	*2,440*	*1,839*	*3,241*	*(284)*
Consumer loans	*2,305*	*1,067*	*3,016*	*3,103*
Other loans	*1,163*	*1,532*	*3,620*	*2,687*
Loans to other customers (note 5.14.b)	10,114	53,653	29,120	88,184
Loans to large corporate customers	*(29,283)*	*24,430*	*(6,598)*	*39,294*
Loans to small and medium size enterprises	*39,397*	*29,223*	*35,718*	*48,890*
Other financial assets (note 5.14.d)	1,721	2,394	6,220	2,383
Total	**41,907**	**49,141**	**66,387**	**94,025**
Impairment of investments in subsidiaries, associates and JV				
Investments in subsidiaries	50,271	13,085	-	-
Investments in associates and joint ventures	33	(177)	-	-
Total	**50,304**	**12,908**	**-**	**-**
Impairment of other assets				
Property and equipment (note 5.9.)	344	27	1,122	6,576
Intangible assets (note 5.11.)	-	-	-	184
Other assets	559	245	16,292	16,276
Total	**903**	**272**	**17,414**	**23,036**
Total impairment	**93,114**	**62,321**	**83,801**	**117,061**

In 2015, NLB d.d. impaired equity investments in the non-core subsidiaries that are in the process of divestment in a total amount of EUR 50,304 thousand. Of that, EUR 19,062 thousand relates to immediate impairments of the recapitalisations for covering the operating losses. The funds from the capital increase were used to repay the loan obligations to NLB d.d. Due to a release of the loan loss impairments, the net effect of impairments on profit or loss was EUR 8,960 thousand lower. Part of the recapitalisations of the non-core subsidiaries for covering the operating losses was realised with a swap of debt to equity. The effects of impairments were disclosed in previous years as impairments of loans to financial organisations, whereas in 2015 the majority of these loans were written off (note 5.14.b).

Impairments of investments in subsidiaries, associates and joint ventures are included in the segment Non-core markets and activities.

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

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Dividends from investments in subsidiaries, associates and joint ventures	13,747	4,683	-	-
Gains less losses on derecognition of subsidiaries	-	-	(173)	(234)
Share of net gains less losses of associates and joint ventures accounted for using the equity method (note 5.12.c)	-	-	4,485	3,106
Total	**13,747**	**4,683**	**4,312**	**2,872**

4.14. Income tax

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Current income tax	8,260	1,503	12,767	4,918
Deferred tax (note 5.18.)	(292)	(282)	(1,387)	(787)
Total	**7,968**	**1,221**	**11,380**	**4,131**

Income tax differs from the amount of tax determined by applying the Slovenian statutory tax rate as follows:

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Profit before tax	51,849	82,750	106,758	69,199
Tax calculated at prescribed rate of 17%	8,814	14,067	18,149	11,764
Income not assessable for tax purposes	(2,929)	(2,786)	(2,781)	(1,516)
Expenses not deductible for tax purposes	734	3,256	3,885	3,922
Effect of unrecognised deferred tax assets on impairment of subsidiaries and associates	4,557	(4,547)	(25,276)	(4,745)
Tax allowances	(1,040)	(382)	(1,456)	(563)
Effect of unrecognised deferred tax assets on tax losses	-	-	6,477	5,207
Effects of different tax rates in other countries	-	-	(2,965)	(1,701)
Changes in recognition and measurement of deferred taxes	73	8,958	32,827	(3,840)
Withholding tax suffered in other countries for which no tax credit was available in Slovenia	771	959	771	959
Adjustment to tax in respect of prior periods	(210)	(900)	(210)	(900)
Other	201	(87)	201	(87)
Adjustment of deferred tax assets	(3,003)	(17,317)	(18,242)	(4,369)
Total	**7,968**	**1,221**	**11,380**	**4,131**

Tax rates within NLB Group range from 9% to 30%. A tax rate of 17% was applied in Slovenia in 2014 and 2015.

The majority of non-taxable income relates to dividends and income deemed to be dividends. NLB d.d. excluded EUR 16,968 thousand in dividend income and income deemed to be dividends from its tax base in 2015 (2014: EUR 13,329 thousand).

NLB d.d. recognised deferred tax assets accrued on the basis of temporary differences in an amount that, given future profit projections, is expected to be reversed in the foreseeable future (i.e. within 5 years), given future profit projections.

Deferred tax assets were not recognised on temporary differences arising from the impairment of investments in subsidiaries, where it is not probable that the temporary difference will reverse in the foreseeable future amounting in NLB d.d. to EUR 542,989 thousand as at 31 December 2015 (31 December 2014: EUR 515,413 thousand).

NLB Group did not recognise deferred tax assets for tax losses where there is uncertainty about whether the tax losses can be utilised because it is not probable that future taxable profits will be available against which the deferred tax assets can be utilised and where the utilisation of unused tax losses is limited to 5 years.

Since March 2015, the Financial Administration of the Republic of Slovenia has been carrying out a tax inspection of corporate income tax for the period from 1 Januar 2009 to 31 December 2014.

5. Notes to the statement of financial position

5.1. Cash, cash balances at central banks and other demand deposits at banks

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Cash	128,682	106,146	228,156	196,835
Balances and obligatory reserves with central banks	155,160	117,696	527,156	508,630
Demand deposits at banks	212,964	210,596	406,671	422,062
Total	**496,806**	**434,438**	**1,161,983**	**1,127,527**

Slovenian banks are required to maintain a compulsory reserve with the Bank of Slovenia relative to the volume and structure of their customer deposits. Other banks in NLB Group maintain a compulsory reserve in accordance with local legislation. NLB d.d. and other banks in NLB Group fulfil their compulsory reserve deposit requirements.

5.2. Trading assets

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Derivatives, excluding hedging instruments				
Swap contracts	27,322	34,895	26,855	34,299
- currency swaps	*191*	*220*	*191*	*220*
- interest rate swaps	*26,888*	*34,437*	*26,421*	*33,841*
- currency interest rate swaps	*243*	*238*	*243*	*238*
Options	151	119	151	119
- currency options	*37*	*-*	*37*	*-*
- securities options	*114*	*119*	*114*	*119*
Forward contracts	3,035	5,632	3,035	5,638
- currency forward	*3,035*	*5,632*	*3,035*	*5,638*
Total derivatives	**30,508**	**40,646**	**30,041**	**40,056**
Securities				
Bonds	43,555	57,876	43,555	57,876
- Republic of Slovenia	*39,460*	*40,421*	*39,460*	*40,421*
- banks	*-*	*9,652*	*-*	*9,652*
- other issuers	*4,095*	*7,803*	*4,095*	*7,803*
Shares	10	22	10	22
Treasury bills - Republic of Slovenia	42,636	40,264	42,636	40,264
Commercial papers - foreign banks	151,171	-	151,171	-
Total securities	**237,372**	**98,162**	**237,372**	**98,162**
Total	**267,880**	**138,808**	**267,413**	**138,218**
- quoted securities	85,208	95,186	85,208	95,186
of these equity instruments	*10*	*22*	*10*	*22*
of these debt instruments	*85,198*	*95,164*	*85,198*	*95,164*
- unquoted securities	152,164	2,976	152,164	2,976
of these equity instruments	*-*	*-*	*-*	*-*
of these debt instruments	*152,164*	*2,976*	*152,164*	*2,976*

The notional amounts of derivative financial instruments are disclosed in note 5.25.b.

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

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

in EUR thousand

NLB d.d. and NLB Group	Carrying amount	Fair value
the date of reclassification		69,766
as at 31 December 2009	72,030	65,278
as at 31 December 2010	75,928	67,000
as at 31 December 2011	84,429	55,922
as at 31 December 2012	86,501	53,958
as at 31 December 2013	80,218	55,260
as at 31 December 2014	87,667	72,986
as at 31 December 2015	85,009	76,258

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

in EUR thousand

NLB d.d. and NLB Group	Interest income in period						
	2015	2014	2013	2012	2011	2010	2009
Financial assets held for trading reclassified to loans and receivables	2,053	2,103	2,153	2,449	3,446	4,471	2,836

in EUR thousand

NLB d.d. and NLB Group	Gains/(losses) that would have been recognised if the assets had not been reclassified						
	2015	2014	2013	2012	2011	2010	2009
Financial assets held for trading reclassified to loans and receivables	3,272	17,726	1,302	(52)	(11,078)	1,722	(4,647)

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

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

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Private equity fund	4,913	4,702	4,913	4,702
Other investments	-	-	2,682	1,808
Total	**4,913**	**4,702**	**7,595**	**6,510**

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

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Structured deposit	4,912	4,701	4,912	4,701
Total	**4,912**	**4,701**	**4,912**	**4,701**

In NLB d.d. financial assets in the amount of EUR 4,913 thousand (31 December 2014: EUR 4,702 thousand) are designated at fair value through profit or loss to reduce the accounting mismatch that would otherwise arise. Financial liability, designated at fair value through profit or loss in the amount of EUR 4,912 thousand (31 December 2014: EUR 4,701 thousand) is the structured deposit from customers from which the returns depend on the returns from private equity funds, classified as financial assets, measured at fair value through profit or loss.

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

5.4. Available-for-sale financial assets

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

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Bonds	999,781	999,148	1,350,942	1,317,574
- governments	*699,609*	*754,263*	*1,050,770*	*1,072,689*
- Republic of Slovenia	*354,406*	*450,279*	*401,405*	*530,611*
- other EU members	*340,628*	*303,984*	*343,295*	*335,840*
- non-EU members	*4,575*	-	*306,070*	*206,238*
- banks	*284,141*	*227,600*	*284,141*	*227,600*
- other issuers	*16,031*	*17,285*	*16,031*	*17,285*
Cash certificates	-	-	77,939	35,521
Shares	25,893	29,815	30,943	32,861
National Resolution Fund	44,519	-	44,519	-
Treasury bills	26,998	74,812	81,680	208,023
- Republic of Slovenia	*24,997*	*74,812*	*24,997*	*74,812*
- other EU members	*2,001*	-	*2,001*	-
- non-EU members	-	-	*54,682*	*133,211*
Commercial bills	151,168	78,973	151,168	78,973
Total	**1,248,359**	**1,182,748**	**1,737,191**	**1,672,952**
- quoted securities	1,045,797	1,097,850	1,263,070	1,332,758
of these equity instruments	*19,018*	*23,890*	*21,334*	*25,608*
of these debt instruments	*1,026,779*	*1,073,960*	*1,241,736*	*1,307,150*
- unquoted securities	202,562	84,898	474,121	340,194
of these equity instruments	*51,394*	*5,925*	*54,128*	*7,253*
of these debt instruments	*151,168*	*78,973*	*419,993*	*332,941*

In March 2015, NLB d.d. paid its financial obligation in the amount of EUR 44.5 million to the National Resolution Fund, funded and controlled by the Bank of Slovenia in accordance with the Bank Resolution Authority and Fund Act (ZOSRB).

b) Movements of available-for-sale financial assets

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Balance at 1 January	1,182,748	1,155,412	1,672,952	1,675,117
Effects of translation of foreign operations to presentation currency	-	-	(54)	(4,305)
Additions	437,390	718,196	1,661,860	2,221,432
Disposals and maturity	(375,407)	(757,781)	(1,612,917)	(2,305,725)
Interest income (note 4.1.)	19,692	26,221	33,232	43,527
Exchange differences on monetary assets	1,554	888	1,867	3,697
Changes in fair values	(15,001)	40,648	(15,004)	40,169
Impairment (note 4.12.)	(2,617)	(836)	(4,659)	(960)
- impairment of equity securities	*(2,746)*	*(2,558)*	*(4,788)*	*(2,682)*
- impairment of debt securities	*129*	*1,722*	*129*	*1,722*
Disposal of subsidiary	-	-	(86)	-
Balance at 31 December	**1,248,359**	**1,182,748**	**1,737,191**	**1,672,952**

As at 31 December 2015, the value of equity instruments obtained by NLB d.d. taking possession of collateral held as security and recognised in the statement of financial position is EUR 18,977 thousand (31 December 2014: EUR 28,052 thousand) and by NLB Group it amounted to EUR 21,277 thousand (31 December 2014: EUR 28,052 thousand) (note 7.1.n).

By selling equity securities available for sale, NLB d.d. realised a net gain in the amount of EUR 748 thousand (2014: EUR 22,722 thousand), and NLB Group a net gain in the amount of EUR 731 thousand (2014: EUR 22,917 thousand). This gain is included in Gains less losses from financial assets and liabilities not classified at fair value through profit or loss (note 4.4.).

c) Accumulated other comprehensive income related to available-for-sale financial assets

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Balance at 1 January	45,103	10,690	57,750	17,520
Effects of translation of foreign operations to presentation currency	-	-	(19)	(4)
Net (losses)/gains from changes in fair value	(314)	77,908	(2,297)	77,522
Losses transferred to net profit on disposal or impairment	(8,248)	(36,447)	(6,180)	(36,548)
Deferred income tax (note 5.18.)	1,455	(7,048)	1,413	(6,987)
Share of other comprehensive income of associates and joint ventures	-	-	(2,346)	6,247
Balance at 31 December	**37,996**	**45,103**	**48,321**	**57,750**
- debt securities	27,950	34,084	36,984	45,419
- equity securities	10,046	11,019	11,337	12,331

5.5. Derivatives for hedging purposes

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

NLB Group entities use various derivatives such as interest rate swaps (IRS) and currency interest rate swaps (CIRS) to close open positions in an individual maturity bucket. Micro and macro fair value hedges are used for that purpose, i.e. the swapping of a fixed interest rate on a hedged item for a variable interest rate. Micro cash flow hedges are also used, i.e. the swapping of a variable interest rate on a hedged item for a fixed interest rate. All cash flow hedges were made on liability items, while fair value hedges were used on both liability and asset items.

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

Hedge accounting rules were not applied in economic hedges using CIRS. Thus, the effects of valuation are disclosed in the income statement in the line Gains less losses from financial assets and liabilities held for trading.

a) Fair value hedge

in EUR thousand

NLB d.d. and NLB Group	Notional amount	Fair value	
		Asset	Liability
Interest rate swap			
31.12.2015	159,259	1,083	31,065
31.12.2014	210,551	2,966	40,699

In 2015 net gains on hedging instruments amounted to EUR 7,698 thousand in NLB d.d. and NLB Group (2014: net losses to EUR 11,582 thousand in NLB d.d. and NLB Group), net losses on hedged items in NLB d.d. and in NLB Group were EUR 7,467 thousand (2014: net gains to EUR 10,600 thousand).

b) Cash flow hedge

in EUR thousand

NLB d.d. and NLB Group	Notional amount	Fair value	
		Asset	Liability
Interest rate swap			
31.12.2015	12,964	-	2,777
31.12.2014	13,798	-	3,286
Total a) and b)			
31.12.2015	**172,223**	**1,083**	**33,842**
31.12.2014	**224,349**	**2,966**	**43,985**

Future cash flows

in EUR thousand

NLB d.d. and NLB Group	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
31.12.2015				
- Outflow	(166)	(407)	(1,772)	(889)
- Inflow	-	1	81	263
31.12.2014				
- Outflow	(173)	(420)	(1,997)	(1,201)
- Inflow	5	8	135	303

c) Accumulated other comprehensive income related to cash flow hedging

in EUR thousand

NLB d.d. and NLB Group	2015	2014
Balance at 1 January	(2,666)	(2,122)
Net losses on hedging instruments	(78)	(1,334)
Transfer to income statement	587	679
Deferred income tax (note 5.18.)	(86)	111
Balance at 31 December	**(2,243)**	**(2,666)**

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

5.6. Loans and advances

Analysis by type of loans and advances

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Debt securities	394,579	706,785	394,579	706,785
Loans to banks	345,207	159,300	431,775	271,340
Loans and advances to customers	4,826,139	4,993,040	6,693,621	6,708,332
Other financial assets	48,944	47,836	69,521	71,769
Total	**5,614,869**	**5,906,961**	**7,589,496**	**7,758,226**

a) Debt securities

Analysis of debt securities by sector

in EUR thousand

NLB d.d. and NLB Group	31.12.2015	31.12.2014
Government	309,570	619,118
Companies	85,009	87,667
Total	**394,579**	**706,785**

b) Loans and advances to banks

Analysis by type of loans and advances

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Loans	29,391	42,308	3,825	30,611
Time deposits	315,016	116,719	427,195	264,496
Purchased receivables	997	955	997	955
	345,404	159,982	432,017	296,062
Allowance for impairment (note 5.14.b)	(197)	(682)	(242)	(24,722)
Total	**345,207**	**159,300**	**431,775**	**271,340**

c) Loans and advances to customers

Analysis by type of loans and advances

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Loans	5,266,143	5,724,194	7,254,266	7,557,867
Finance lease receivables	-	-	253,205	333,824
Overdrafts	183,406	195,739	320,514	322,243
Credit card business	59,820	60,152	111,673	111,847
Called guarantees	11,463	11,312	16,773	20,830
Reverse sale and repurchase agreements	25	25	25	25
	5,520,857	5,991,422	7,956,456	8,346,636
Allowance for impairment (note 5.14.)	(694,718)	(998,382)	(1,262,835)	(1,638,304)
Total	**4,826,139**	**4,993,040**	**6,693,621**	**6,708,332**

NLB Group obtained securities received under repurchase agreements as collateral (it became the legal owner of the said securities), while the borrower is entitled to the associated coupon interest and dividends. In 2015 and 2014, NLB Group did not sell or pledge any of the securities it had received as collateral during the financial years presented. The fair value of these securities as at 31 December 2015 amounted to EUR 1,447 thousand (31 December 2014: EUR 1,575 thousand).

Analysis of loans and advances by sector

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Government	578,184	387,378	688,474	515,315
Financial organizations	391,911	548,731	139,852	154,132
Companies	1,966,361	2,172,931	2,957,304	3,235,583
Individuals	1,889,683	1,884,000	2,907,991	2,803,302
Total	**4,826,139**	**4,993,040**	**6,693,621**	**6,708,332**

Finance leases

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

in EUR thousand

NLB Group	31.12.2015	31.12.2014
The gross investment in finance leases by maturity		
- not later than 1 year	121,065	185,102
- later than 1 year and not later than 5 years	137,575	156,025
- later than 5 years	19,011	28,848
	277,651	**369,975**
Unearned future finance income on finance leases	(24,446)	(36,151)
Net investment in finance leases	**253,205**	**333,824**
- present value of minimum lease payments	253,205	333,824
The net investment in finance leases by maturity		
- not later than 1 year	111,965	174,053
- later than 1 year and not later than 5 years	124,104	133,837
- later than 5 years	17,136	25,934
Total	**253,205**	**333,824**

Finance and operating lease transactions are carried out by NLB Group through specialised subsidiaries that offer car leasing, real-estate leasing, leasing of commercial and production equipment and others.

The majority of the lease agreements entered into by NLB Group as lessor contracts are finance lease agreements (operating leases account for less than 10% of all lease agreements). The majority of agreements are concluded for a non-cancellable period of between 48 and 60 months, with an unguaranteed residual value representing a purchase option typically between 1% and 2% of the gross investment.

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

As at 31 December 2015 the allowance for unrecoverable finance lease receivables included in the allowance for loan impairment amounted to EUR 75,386 thousand (31 December 2014: EUR 132,216 thousand).

d) Other financial assets

Analysis by type of other financial assets

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Receivables from purchase agreements for equity securities	16,920	29,554	16,920	29,554
Receivables in the course of collection	13,033	12,998	15,416	14,819
Credit card receivables	8,346	8,823	11,739	12,269
Fees and commissions due	5,384	5,701	7,548	7,747
Debtors	1,213	1,582	20,415	20,825
Prepayments	-	-	4,289	8,040
Other financial assets	9,171	6,699	20,272	21,195
	54,067	65,357	96,599	114,449
Allowance for impairment (note 5.14.d)	(5,123)	(17,521)	(27,078)	(42,680)
Total	**48,944**	**47,836**	**69,521**	**71,769**

Receivables in the course of collection are temporary balances which will be transferred to the appropriate item in the days following their occurrence.

Other financial assets include receivables from pension funds for prior pension payments, receivables from insurance companies, deposit facilities, claims and enforcement procedures, paid duties and legal costs.

Analysis of other financial assets by sector

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Banks	3,565	3,675	9,170	8,182
Government	1,748	1,848	12,181	11,195
Financial organizations	5,470	859	1,923	1,362
Companies	23,424	26,997	30,242	35,300
Individuals	14,737	14,457	16,005	15,730
Total	**48,944**	**47,836**	**69,521**	**71,769**

e) Movement of called non-financial guarantees

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Balance at 1 January	5,648	4,922	8,494	9,776
Effects of translation of foreign operations to presentation currency	-	-	1	(139)
Called guarantees	7,881	1,368	8,663	3,770
Paid guarantees	(7,210)	(575)	(9,999)	(4,846)
Write offs	(1,481)	(67)	(1,481)	(67)
Balance at 31 December	**4,838**	**5,648**	**5,678**	**8,494**

Fee income from all issued non-financial guarantees amounted to EUR 5,192 thousand (2014: EUR 6,164 thousand) at NLB d.d. and to EUR 5,665 thousand (2014: EUR 6,611 thousand) in NLB Group.

5.7. Held-to-maturity financial assets

a) Analysis by type of held-to-maturity financial assets

in EUR thousand

NLB d.d. and NLB Group	31.12.2015	31.12.2014
Bonds	545,561	691,765
- governments	532,235	624,051
- Republic of Slovenia	*363,566*	*389,605*
- other EU members	*168,669*	*234,446*
- banks	13,326	67,714
Treasury bills of Republic of Slovenia	19,974	19,883
Total	**565,535**	**711,648**
- quoted	565,535	711,648

b) Movements of held-to-maturity financial assets

in EUR thousand

NLB d.d. and NLB Group	2015	2014
Balance at 1 January	711,648	864,259
Additions	32,224	79,977
Decreases	(199,926)	(262,547)
Interest income (note 4.1.)	21,656	29,861
Change of interest income due to reclassification of available-for-sale to held-to-maturity financial assets	(67)	98
Balance at 31 December	**565,535**	**711,648**

5.8. Non-current assets classified as held for sale

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Balance at 1 January	2,580	2,327	5,643	17,582
Effects of translation of foreign operations to presentation currency	-	-	(14)	(92)
Additions	-	-	-	25
Transfer from property and equipment (note 5.9.)	-	2,550	-	2,550
Transfers into other assets	(140)	-	(140)	-
Disposals	(98)	(515)	(167)	(11,489)
Valuation	(566)	(1,782)	(693)	(2,933)
Balance at 31 December	**1,776**	**2,580**	**4,629**	**5,643**

In 2015 and 2014, NLB Group did not recognise any repossessed assets as non-current assets classified as held for sale.

5.9. Property and equipment

in EUR thousand

2015	NLB d.d. Land & Buildings	NLB d.d. Computers	NLB d.d. Other equipment	NLB d.d. Total	NLB Group Land & Buildings	NLB Group Computers	NLB Group Other equipment	NLB Group Total
Cost								
Balance at 1 January 2015	205,866	53,270	65,269	324,405	334,570	74,658	125,725	534,953
Effects of translation of foreign operations to presentation currency	-	-	-	-	(88)	13	82	7
Additions	2,272	2,882	4,789	9,943	2,810	4,618	14,098	21,526
Disposals	(65)	(4,873)	(4,751)	(9,689)	(1,186)	(5,983)	(16,130)	(23,299)
Transfer to investment property (note 5.10.)	(5,770)	-	-	(5,770)	(6,788)	-	-	(6,788)
Disposal of subsidiary (note 3.)	-	-	-	-	(222)	(21)	-	(243)
Balance at 31 December 2015	**202,303**	**51,279**	**65,307**	**318,889**	**329,096**	**73,285**	**123,775**	**526,156**
Depreciation and impairment								
Balance at 1 January 2015	119,872	47,217	59,986	227,075	148,823	64,679	106,276	319,778
Effects of translation of foreign operations to presentation currency	-	-	-	-	(42)	12	70	40
Disposals	(49)	(4,849)	(4,635)	(9,533)	(977)	(5,923)	(10,332)	(17,232)
Depreciation (note 4.10.)	5,294	2,691	1,025	9,010	7,739	4,396	5,387	17,522
Impairment (note 4.12.)	344	-	-	344	1,122	-	-	1,122
Transfer to investment property (note 5.10.)	(2,577)	-	-	(2,577)	(2,758)	-	-	(2,758)
Disposal of subsidiary (note 3.)	-	-	-	-	(30)	(16)	-	(46)
Balance at 31 December 2015	**122,884**	**45,059**	**56,376**	**224,319**	**153,877**	**63,148**	**101,401**	**318,426**
Net carrying value								
Balance at 31 December 2015	**79,419**	**6,220**	**8,931**	**94,570**	**175,219**	**10,137**	**22,374**	**207,730**
Balance at 1 January 2015	**85,994**	**6,053**	**5,283**	**97,330**	**185,747**	**9,979**	**19,449**	**215,175**

in EUR thousand

2014	NLB d.d. Land & Buildings	NLB d.d. Computers	NLB d.d. Other equipment	NLB d.d. Total	NLB Group Land & Buildings	NLB Group Computers	NLB Group Other equipment	NLB Group Total
Cost								
Balance at 1 January 2014	211,975	65,030	66,982	343,987	341,616	85,779	131,901	559,296
Effects of translation of foreign operations to presentation currency	-	-	-	-	(1,677)	(174)	(335)	(2,186)
Additions	566	1,561	553	2,680	2,965	3,221	4,033	10,219
Disposals	(3,211)	(13,321)	(2,266)	(18,798)	(4,380)	(14,151)	(9,856)	(28,387)
Transfer to investment property (note 5.10.)	-	-	-	-	(199)	-	-	(199)
Transfer to non-current assets held for sale (note 5.8.)	(3,464)	-	-	(3,464)	(3,464)	-	-	(3,464)
Disposal of subsidiary (note 3.)	-	-	-	-	(291)	(17)	(18)	(326)
Balance at 31 December 2014	**205,866**	**53,270**	**65,269**	**324,405**	**334,570**	**74,658**	**125,725**	**534,953**
Depreciation and impairment								
Balance at 1 January 2014	117,487	57,146	60,905	235,538	138,816	73,946	107,956	320,718
Effects of translation of foreign operations to presentation currency	-	-	-	-	(416)	(136)	(261)	(813)
Disposals	(2,205)	(13,284)	(2,237)	(17,726)	(3,347)	(14,075)	(8,042)	(25,464)
Depreciation (note 4.10.)	5,477	3,355	1,318	10,150	8,174	4,961	6,635	19,770
Impairment (note 4.12.)	27	-	-	27	6,576	-	-	6,576
Transfer to investment property (note 5.10.)	-	-	-	-	(66)	-	-	(66)
Transfer to non-current assets held for sale (note 5.8.)	(914)	-	-	(914)	(914)	-	-	(914)
Disposal of subsidiary (note 3.)	-	-	-	-	-	(17)	(12)	(29)
Balance at 31 December 2014	**119,872**	**47,217**	**59,986**	**227,075**	**148,823**	**64,679**	**106,276**	**319,778**
Net carrying amount								
Balance at 31 December 2014	**85,994**	**6,053**	**5,283**	**97,330**	**185,747**	**9,979**	**19,449**	**215,175**
Balance at 1 January 2014	**94,488**	**7,884**	**6,077**	**108,449**	**202,800**	**11,833**	**23,945**	**238,578**

Assets leased under finance leases in NLB Group as at 31 December 2015 amounted to EUR 21 thousand for motor vehicles (31 December 2014: EUR 57 thousand). NLB d.d. had no assets held under finance leases as at 31 December 2015 and 31 December 2014.

The value of assets received by taking possession of collateral and included in property and equipment by NLB d.d. amounted to EUR 7 thousand (31 December 2014: EUR 7 thousand) and by NLB Group it amounted to EUR 1,839 thousand (31 December 2014: EUR 267 thousand) (note 7.1.n).

The net carrying value of assets leased out by NLB Group under operating leases was EUR 5,250 thousand as at 31 December 2015 (31 December 2014: EUR 7,265 thousand). 62.8% of assets leased out relates to motor vehicles (31 December 2014: 60.5%).

5.10. Investment property

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Balance at 1 January	1,458	1,458	41,472	34,844
Effects of translation of foreign operations to presentation currency	-	-	8	(29)
Acquisition of subsidiaries	-	-	22,290	-
Additions	3,843	-	6,295	6,270
Disposals	-	-	(478)	(68)
Transfer (to)/from property and equipment (note 5.9.)	3,193	-	4,030	133
Transfer from/(to) other assets	-	-	26,816	4,150
Net valuation to fair value (note 4.7. and 4.8.)	119	-	(6,920)	(3,828)
Balance at 31 December	**8,613**	**1,458**	**93,513**	**41,472**

In 2015 NLB Group became a 100% owner of the subsidiary Tara Hotel d.o.o., Budva with realisation of the collateral. All assets of the newly acquired subsidiary represent investment property.

The value of assets received by taking possession of collateral and included in investment property by NLB d.d. amounted to EUR 3,750 thousand (31 December 2014: EUR 0). The value of assets received by taking possession of collateral and included in investment property by NLB Group amounted to EUR 57,599 thousand (31 December 2014: EUR 8,291 thousand), which includes EUR 26,816 thousand of repossessed assets transferred in 2015 from other assets (notes 5.13. and 7.1.n).

NLB Group has no interests in properties held under operating leases that were classified and accounted for as investment property. NLB Group incurred operating expenses arising from investment properties leased to others in the amount of EUR 58 thousand (2014: EUR 50 thousand), and operating expenses arising from investment properties not leased to others in the amount of EUR 23 thousand (2014: EUR 23 thousand).

NLB d.d. earned rental income arising from investment properties in the amount of EUR 86 thousand (2014: EUR 82 thousand) and NLB Group in the amount of EUR 6,399 thousand (2014: EUR 5,109 thousand).

5.11. Intangible assets

in EUR thousand

	NLB d.d.	NLB Group		
2015	Software licenses	Software licenses	Goodwill	Total
Cost				
Balance at 1 January 2015	188,851	210,137	32,336	242,473
Effects of translation of foreign operations to presentation currency	-	(9)	-	(9)
Additions	10,149	12,809	-	12,809
Disposals	(1,293)	(1,293)	-	(1,293)
Write offs	(4,627)	(4,921)	-	(4,921)
Balance at 31 December 2015	**193,080**	**216,723**	**32,336**	**249,059**
Amortisation and impairment				
Balance at 1 January 2015	155,108	170,915	28,807	199,722
Effects of translation of foreign operations to presentation currency	-	(7)	-	(7)
Amortisation (note 4.10.)	12,400	14,334	-	14,334
Write offs	(4,055)	(4,317)	-	(4,317)
Balance at 31 December 2015	**163,453**	**180,925**	**28,807**	**209,732**
Net carrying value				
Balance at 31 December 2015	**29,627**	**35,798**	**3,529**	**39,327**
Balance at 1 January 2015	**33,743**	**39,222**	**3,529**	**42,751**

in EUR thousand

2014	NLB d.d. Software licenses	NLB Group Software licenses	Goodwill	Total
Cost				
Balance at 1 January 2014	185,878	206,086	32,520	238,606
Effects of translation of foreign operations to presentation currency	-	(198)	-	(198)
Additions	3,069	4,389	-	4,389
Write offs	(96)	(140)	-	(140)
Disposal of subsidiary	-	-	(184)	(184)
Balance at 31 December 2014	**188,851**	**210,137**	**32,336**	**242,473**
Amortisation and impairment				
Balance at 1 January 2014	140,902	155,072	28,807	183,879
Effects of translation of foreign operations to presentation currency	-	(143)	-	(143)
Amortisation (note 4.10.)	14,206	16,006	-	16,006
Impairments (note 4.12.)	-	-	184	184
Write offs	-	(20)	-	(20)
Disposal of subsidiary	-	-	(184)	(184)
Balance at 31 December 2014	**155,108**	**170,915**	**28,807**	**199,722**
Net carrying value				
Balance at 31 December 2014	**33,743**	**39,222**	**3,529**	**42,751**
Balance at 1 January 2014	**44,976**	**51,014**	**3,713**	**54,727**

In 2015, NLB Group did not record an impairment of goodwill (2014: EUR 184 thousand included in the segment Core foreign markets).

Information regarding the impairment testing of goodwill is disclosed in note 2.33.f.

5.12. Investments in subsidiaries, associates and joint ventures

a) Analysis by type of investment in subsidiaries

in EUR thousand

NLB d.d.	31.12.2015	31.12.2014
Banks	267,071	259,039
Other financial organizations	26,595	23,012
Enterprises	52,335	63,534
Total	**346,001**	**345,585**

In 2015 NLB Group lost control in the subsidiary LHB Trade, Zagreb and sold the subsidiary Convest, Novi Sad. A loss in the amount of EUR 183 thousand was recognised and is included in the item Gains less losses from capital investments in subsidiaries, associates and joint ventures (2014: a loss in the amount of EUR 234 thousand due to lost control in the subsidiaries Conet – v stečaju, Belgrade and Plan, Banja Luka).

Data on subsidiaries as included in the consolidated financial statements of NLB Group as at 31 December 2015:

in EUR thousand

	Nature of Business	Country of Incorporation	Equity as at 31 December 2015	Profit/ (loss) for the period 2015	NLB d.d.'s share-holding %	NLB d.d.'s voting rights%	NLB Group's share-holding %	NLB Group's voting rights %
Core members								
NLB Tutunska Banka a.d., Skopje	Banking	Republic of Macedonia	113,977	13,129	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	68,624	6,240	99.36	98.00	99.36	98.00
NLB Banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	68,058	9,863	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Republic of Kosovo	59,725	8,242	81.21	81.21	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	55,313	4,182	97.34	97.35	97.34	97.35
NLB Banka a.d., Belgrade	Banking	Republic of Serbia	44,478	1,157	99.997	99.997	99.997	99.997
NLB Srbija d.o.o., Belgrade	Real estate	Republic of Serbia	27,891	822	100	100	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	7,112	2,455	100	100	100	100
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	6,015	789	51	51	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	933	416	100	100	100	100
Non-core members								
NLB Leasing d.o.o., Ljubljana	Finance	Republic of Slovenia	14,402	(3,672)	100	100	100	100
NLB Leasing Sofija E.o.o.d., Sofia	Finance	Republic of Bulgaria	(85)	(77)	-	-	100	100
Optima Leasing d.o.o., Zagreb	Finance	Republic of Croatia	856	(3,806)	-	-	100	100
NLB Leasing Podgorica d.o.o., Podgorica	Finance	Republic of Montenegro	1,106	(825)	100	100	100	100
NLB Leasing d.o.o., Belgrade	Finance	Republic of Serbia	3,063	(2,599)	100	100	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	(575)	(3,271)	100	100	100	100
NLB Lizing d.o.o.e.l., Skopje	Finance	Republic of Macedonia	567	(1,470)	100	100	100	100
Tara Hotel d.o.o. Budva	Real estate	Republic of Montenegro	22,845	555	12.71	12.71	100	100
PRO-REM d.o.o., Ljubljana	Real estate	Republic of Slovenia	11,273	(14,583)	100	100	100	100
OL Nekretnine d.o.o., Zagreb	Real estate	Republic of Croatia	817	(126)	-	-	100	100
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	126	(66)	100	100	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	126	(71)	100	100	100	100
REAM d.o.o., Belgrade	Real estate	Republic of Serbia	112	(130)	100	100	100	100
SR-RE d.o.o., Belgrade	Real estate	Republic of Serbia	3	(4)	100	100	100	100
PRO-Avenija d.o.o., Ljubljana	Real estate	Republic of Slovenia	8,609	(1,385)	100	100	100	100
NLB Propria d.o.o., Ljubljana	Real estate	Republic of Slovenia	741	(120)	100	100	100	100
FIN-DO d.o.o., Domžale	Real estate	Republic of Slovenia	126	(814)	100	100	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	49	(2,062)	100	100	100	100
NLB InterFinanz AG, Zürich	Finance	Switzerland	12,734	(5,030)	100	100	100	100
NLB InterFinanz Praha s.r.o., Prague	Finance	Czech Republic	(119)	(65)	-	-	100	100
NLB InterFinanz d.o.o., Belgrade	Finance	Republic of Serbia	41	4	-	-	100	100
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	506	24	100	100	100	100
LHB AG, Frankfurt	Finance	Republic of Germany	2,841	243	100	100	100	100
NLB Factoring a.s. - »v likvidaci«, Ostrava	Finance	Czech Republic	374	(1,649)	100	100	100	100

Data on subsidiaries as included in the consolidated financial statements of NLB Group as at 31 December 2014:

in EUR thousand

	Nature of Business	Country of Incorporation	Equity as at 31 December 2014	Profit/ (loss) for the period 2014	NLB d.d.'s share-holding %	NLB d.d.'s voting rights %	NLB Group's share-holding %	NLB Group's voting rights %
Core members								
NLB Tutunska Banka a.d., Skopje	Banking	Republic of Macedonia	108,379	11,149	86.97	86.97	86.97	86.97
NLB Banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	63,936	7,646	99.85	99.85	99.85	99.85
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	63,213	4,351	98.00	98.00	98.00	98.00
NLB Banka sh.a., Prishtina	Banking	Republic of Kosovo	51,454	5,435	81.21	81.21	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	43,916	2,729	96.30	96.32	96.30	96.32
NLB Banka a.d., Belgrade	Banking	Republic of Serbia	42,565	(18,324)	99.997	99.997	99.997	99.997
Convest d.o.o., Novi Sad	Finance	Republic of Serbia	331	(2)	-	-	100	100
NLB Srbija d.o.o., Belgrade	Real estate	Republic of Serbia	27,214	(2,056)	100	100	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	5,699	1,604	100	100	100	100
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	5,918	691	51	51	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	517	(1,010)	100	100	100	100
Non-core members								
NLB Leasing d.o.o., Ljubljana	Finance	Republic of Slovenia	14,629	(5,187)	100	100	100	100
NLB Leasing Sofija E.o.o.d., Sofia	Finance	Republic of Bulgaria	(9)	(465)	-	-	100	100
Optima Leasing d.o.o., Zagreb	Finance	Republic of Croatia	996	(993)	-	-	99.97	99.97
NLB Leasing Podgorica d.o.o., Podgorica	Finance	Republic of Montenegro	431	(2,305)	100	100	100	100
NLB Leasing d.o.o., Belgrade	Finance	Republic of Serbia	2,710	(4,728)	100	100	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	(2,304)	(3,048)	100	100	100	100
NLB Lizing d.o.o.e.l., Skopje	Finance	Republic of Macedonia	2,045	(384)	100	100	100	100
PRO-REM d.o.o., Ljubljana	Real estate	Republic of Slovenia	24,280	(10,728)	100	100	100	100
OL Nekretnine d.o.o., Zagreb	Real estate	Republic of Croatia	(658)	(1,596)	-	-	100	100
NLB Propria d.o.o., Ljubljana	Real estate	Republic of Slovenia	11,112	171	100	100	100	100
FIN-DO d.o.o., Domžale	Real estate	Republic of Slovenia	141	14	100	100	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	2,039	(18)	100	100	100	100
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	486	(9)	100	100	100	100
NLB InterFinanz AG, Zürich	Finance	Switzerland	(108,018)	(7,855)	100	100	100	100
NLB InterFinanz Praha s.r.o., Prague	Finance	Czech Republic	(49)	(117)	-	-	100	100
NLB InterFinanz d.o.o., Belgrade	Finance	Republic of Serbia	38	(3)	-	-	100	100
LHB AG, Frankfurt	Finance	Republic of Germany	2,598	(1,396)	100	100	100	100
LHB Trade d.o.o. - v likvidaciji, Zagreb	Trade	Republic of Croatia	19	(123)	-	-	100	100
NLB Factoring a.s. - »v likvidaci«, Ostrava	Finance	Czech Republic	(4,290)	(2,401)	100	100	100	100

Changes in ownership interest in subsidiaries of NLB Group in 2015 and 2014 are presented in note 3, significant effects of changes in ownership interests are presented in the statement of changes in equity in the item Equity attributable to non-controlling interest.

Data on subsidiaries with significant non-controlling interests, before intercompany eliminations:

in EUR thousand

	2015		2014	
	NLB Tutunska Banka, Skopje	NLB Banka Prishtina	NLB Tutunska Banka, Skopje	NLB Banka Prishtina
Non-controlling interest in equity in %	13.03	18.79	13.03	18.79
Non-controlling interest's voting rights in %	13.03	18.79	13.03	18.79
Income statement and statement of comprehensive income				
Revenues	76,394	32,117	73,817	31,977
Profit/(loss) for the year	**13,129**	**8,242**	**11,149**	**5,435**
Atributable to non-controlling interest	1,711	1,549	1,453	1,021
Other comprehensive income	118	28	34	106
Total comprehensive income	**13,247**	**8,270**	**11,183**	**5,541**
Atributable to non-controlling interest	1,726	1,554	1,457	1,041
Statement of financial position				
Current assets	574,807	276,495	560,521	310,208
Non-current assets	544,871	188,197	485,265	153,293
Current liabilities	787,045	333,350	695,222	346,654
Non-current liabilities	218,656	71,617	242,185	65,393
Equity	**113,977**	**59,725**	**108,379**	**51,454**
Atributable to non-controlling interest	14,851	11,222	14,122	9,668

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

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	**31.12.2014**	**31.12.2015**	**31.12.2014**
Other financial organizations	6,600	6,600	39,402	37,239
Enterprises	494	527	294	286
Total	**7,094**	**7,127**	**39,696**	**37,525**

NLB Group's associates

			2015		2014	
	Nature of Business	**Country of Incorporation**	**Shareholding %**	**Voting rights %**	**Shareholding %**	**Voting rights %**
Bankart d.o.o., Ljubljana	Card processing	Republic of Slovenia	39.44	39.44	39.44	39.44
Skupna pokojninska družba d.d., Ljubljana	Insurance	Republic of Slovenia	28.13	28.13	28.13	28.13
Kreditni biro SISBON, d.o.o., Ljubljana	Credit bureau	Republic of Slovenia	29.68	29.68	29.68	29.68
ARG - Nepremičnine d.o.o., Horjul	Real estate	Republic of Slovenia	75.00	75.00	75.00	75.00

By contractual agreement, NLB d.d. has a significant influence in ARG-Nepremičnine, Horjul and therefore the entity is accounted as an associate.

Carrying amount of interests in associates included in the consolidated financial statements of NLB Group:

in EUR thousand

	2015	2014
Carrying amount of the NLB Group's interest	**11,825**	**10,980**
NLB Group's share of:		
- Profit for the year	935	305
- Other comprehensive income	(54)	266
- Total comprehensive income	**881**	**571**

In 2015 NLB Group did not recognise a share of profit of an associate in amount of EUR 56 thousand (31 December 2014: unrecognised profit EUR 123 thousand) as it still has the cumulative unrecognised share of losses of an associate that as at 31 December 2015 amounted to EUR 2,450 thousand (31 December 2014: EUR 2,506 thousand).

NLB Group's joint ventures

			2015	2014
	Nature of Business	Country of Incorporation	Voting rights %	Voting rights %
NLB Vita d.d., Ljubljana	Insurance	Republic of Slovenia	50	50
Prvi Faktor Group, Ljubljana	Finance	Republic of Slovenia	50	50

Data on material joint ventures as included in the consolidated financial statements of NLB Group:

in EUR thousand

NLB Vita d.d., Ljubljana	2015	2014
Revenues	72,903	63,337
Interest income	6,800	6,180
Interest expense	(2)	(2)
Depreciation and amortisation	(253)	(233)
Income tax	(1,365)	(1,071)
Profit for the year	**7,089**	**5,603**
Other comprehensive income	(4,450)	11,740
Total comprehensive income	**2,639**	**17,343**
NLB Group's share of:		
- Profit for the year	3,545	2,802
- Other comprehensive income	(2,225)	5,870

in EUR thousand

	31.12.2015	31.12.2014
Total assets	370,586	343,766
Cash and cash equivalents	915	270
Total liabilities	314,847	290,676
Financial liabilities	2,921	2,884
Equity	**55,739**	**53,090**
NLB Group's ownership interest in joint venture	27,870	26,545
Carrying amount of the NLB Group's interest in joint venture	**27,870**	**26,545**

c) Movements of investments in associates and joint ventures

in EUR thousand

NLB Group	2015	2014
Balance at 1 January	37,525	28,284
Share of results before tax	5,299	3,781
Share of tax	(814)	(675)
Net gains/(losses) not recognised in the income statement	(2,279)	6,136
Dividends received	(35)	-
Other	-	(1)
Balance at 31 December	**39,696**	**37,525**

5.13. Other assets

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Deferred expenses	3,392	2,686	5,133	4,790
Claim for taxes and other dues	1,385	2,596	2,453	3,379
Assets, received as collateral (note 7.1.n)	3,371	1,561	75,652	116,606
Prepayments	1,241	871	1,619	2,707
Inventories	390	269	10,497	12,637
Total	**9,779**	**7,983**	**95,354**	**140,119**

In 2015, NLB Group transferred certain repossessed assets in the amount of EUR 26,816 thousand from other assets to investment property (note 5.10.).

Assets received as collateral and inventories consist of real estate, motor vehicles and equipment.

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

a) Impairment of loans and advances to individuals

in EUR thousand

NLB d.d.	Granted overdrafts	Loans for houses and flats	Consumer loans	Other loans	Total
Balance at 1 January 2014	16,003	30,145	25,314	3,412	74,874
Impairment (note 4.12.)	3,241	1,839	1,067	1,532	7,679
Write offs	(3,300)	(508)	(3,849)	(385)	(8,042)
Repayments of written-off receivables	119	9	57	12	197
Exchange differences	-	56	-	42	98
Balance at 31 December 2014	**16,063**	**31,541**	**22,589**	**4,613**	**74,806**
Impairment (note 4.12.)	4,675	2,440	2,305	1,163	10,583
Write offs	(5,778)	(790)	(7,087)	(4,126)	(17,781)
Exchange differences	-	241	1	326	568
Balance at 31 December 2015	**14,960**	**33,432**	**17,808**	**1,976**	**68,176**

in EUR thousand

NLB Group	Granted overdrafts	Loans for houses and flats	Consumer loans	Other loans	Total
Balance at 1 January 2014	19,183	47,895	60,702	31,148	158,928
Effects of translation of foreign operations to presentation currency	(58)	(107)	(148)	135	(178)
Impairment (note 4.12.)	3,573	(284)	3,103	2,687	9,079
Write offs	(3,352)	(513)	(4,572)	(5,496)	(13,933)
Repayments of written-off receivables	119	9	57	359	544
Exchange differences	3	191	23	16	233
Other	-	-	(14)	-	(14)
Balance at 31 December 2014	**19,468**	**47,191**	**59,151**	**28,849**	**154,659**
Effects of translation of foreign operations to presentation currency	(2)	3	(2)	915	914
Impairment (note 4.12.)	4,889	3,241	3,016	3,620	14,766
Write offs	(5,799)	(1,421)	(8,896)	(12,112)	(28,228)
Repayments of written-off receivables	-	-	139	487	626
Exchange differences	-	337	3	(216)	124
Other	-	-	(10)	(32)	(42)
Balance at 31 December 2015	**18,556**	**49,351**	**53,401**	**21,511**	**142,819**

b) Impairment of loans and advances to legal entities

in EUR thousand

NLB d.d.	Loans and advances to government	Loans and advances to banks	Loans and advances to financial organizations	Loans and advances to large corporate customers	Loans and advances to small and medium size enterprises	Total
Balance at 1 January 2014	6,060	10,550	197,106	307,788	488,473	1,009,977
Impairment (note 4.12.)	(281)	(9,945)	(5,195)	24,430	29,223	38,232
Write offs	-	-	(27,818)	(23,401)	(75,153)	(126,372)
Repayments of written-off receivables	-	-	2	523	625	1,150
Exchange differences	-	77	118	(682)	(815)	(1,302)
Other	-	-	-	-	2,573	2,573
Balance at 31 December 2014	**5,779**	**682**	**164,213**	**308,658**	**444,926**	**924,258**
Impairment (note 4.12.)	1,359	67	15,446	(29,283)	39,397	26,986
Write offs	(371)	(737)	(126,379)	(80,757)	(123,313)	(331,557)
Repayments of written-off receivables	32	130	-	774	1,402	2,338
Exchange differences	-	55	2,951	608	1,100	4,714
Balance at 31 December 2015	**6,799**	**197**	**56,231**	**200,000**	**363,512**	**626,739**

In 2015 a major part of write offs of loans and advances to financial organisations is a result of debt equity swaps, which were done with the aim of covering the operating losses of non-core subsidiaries.

in EUR thousand

NLB Group	Loans and advances to government	Loans and advances to banks	Loans and advances to financial organizations	Loans and advances to large corporate customers	Loans and advances to small and medium size enterprises	Total
Balance at 1 January 2014	15,629	28,617	67,445	482,292	1,039,974	1,633,957
Effects of translation of foreign operations to presentation currency	4	419	1	194	(2,080)	(1,462)
Impairment (note 4.12.)	4,213	(5,132)	(5,662)	39,294	48,890	81,603
Write offs	(906)	(12)	(23,314)	(37,435)	(148,231)	(209,898)
Repayments of written-off receivables	-	-	3	991	630	1,624
Exchange differences	(24)	830	8	(962)	644	496
Other	-	-	-	-	2,047	2,047
Balance at 31 December 2014	**18,916**	**24,722**	**38,481**	**484,374**	**941,874**	**1,508,367**
Effects of translation of foreign operations to presentation currency	14	2,932	1	8,712	10,943	22,602
Impairment (note 4.12.)	1,285	2,557	7,780	(6,598)	35,718	40,742
Write offs	(371)	(28,957)	(754)	(151,230)	(264,221)	(445,533)
Repayments of written-off receivables	32	130	-	774	4,795	5,731
Exchange differences	1	(1,142)	1	(6,808)	(3,546)	(11,494)
Other	(5)	-	(126)	-	(26)	(157)
Balance at 31 December 2015	**19,872**	**242**	**45,383**	**329,224**	**725,537**	**1,120,258**

c) Impairment of debt securities

in EUR thousand

NLB d.d. and NLB Group	
Balance at 1 January 2014	3,750
Write offs	(3,750)
Balance at 31 December 2014	**-**

d) Impairment of other financial assets

in EUR thousand

	NLB d.d.	NLB Group
Balance at 1 January 2014	37,644	66,084
Effects of translation of foreign operations to presentation currency	-	(196)
Disposal of subsidiaries	-	(8)
Impairment (note 4.12.)	2,394	2,383
Write offs	(12,836)	(16,051)
Exchange differences	1	146
Repayments of written-off receivables	5	9
Derecogniton of financial assets	(9,687)	(9,687)
Balance at 31 December 2014	**17,521**	**42,680**
Effects of translation of foreign operations to presentation currency	-	31
Impairment (note 4.12.)	1,721	6,220
Write offs	(14,271)	(22,158)
Exchange differences	-	137
Repayments of written-off receivables	152	168
Balance at 31 December 2015	**5,123**	**27,078**

5.15. Trading liabilities

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	**31.12.2014**	**31.12.2015**	**31.12.2014**
Derivatives, excluding hedges				
Swap contracts	26,929	34,015	26,929	34,009
- currency swaps	*169*	*270*	*169*	*264*
- interest rate swaps	*24,460*	*31,979*	*24,460*	*31,979*
- currency interest rate swaps	*2,300*	*1,766*	*2,300*	*1,766*
Options	47	4,190	47	4,190
- currency options	*37*	*-*	*37*	*-*
- interest rate options	*10*	*19*	*10*	*19*
- securities options	*-*	*4,171*	*-*	*4,171*
Forward contracts	2,933	5,559	2,944	5,559
- currency forward	*2,933*	*5,559*	*2,944*	*5,559*
Total	**29,909**	**43,764**	**29,920**	**43,758**

The notional amounts of derivative financial instruments are disclosed in note 5.25.b.

5.16. Financial liabilities, measured at amortised cost

Analysis by type of financial liabilities, measured at amortised cost

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Deposits from banks and central banks	96,736	91,115	57,982	62,334
Borrowings from banks and central banks	519,926	643,578	571,029	714,722
Due to customers	6,293,339	6,294,925	9,020,666	8,943,832
Borrowings from other customers	16,168	33,511	100,267	136,660
Debt securities in issue	304,962	359,853	304,962	359,853
Subordinated liabilities	-	-	27,340	17,328
Other financial liabilities	47,346	46,223	75,307	71,886
Total	**7,278,477**	**7,469,205**	**10,157,553**	**10,306,615**

a) Deposits from banks and amounts due to customers

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Deposits on demand				
- banks and central banks	95,962	87,742	55,599	57,138
- other customers	4,092,767	3,253,716	5,544,323	4,471,316
- governments	*79,848*	*30,075*	*180,746*	*123,105*
- financial organizations	*45,127*	*26,939*	*72,282*	*58,321*
- companies	*993,058*	*781,821*	*1,542,725*	*1,259,056*
- individuals	*2,974,734*	*2,414,881*	*3,748,570*	*3,030,834*
Other deposits				
- banks and central banks	774	3,373	2,383	5,196
- other customers	2,200,572	3,041,209	3,476,343	4,472,516
- governments	*172,290*	*441,548*	*182,804*	*457,207*
- financial organizations	*74,616*	*114,877*	*109,122*	*146,744*
- companies	*303,226*	*388,599*	*444,365*	*567,154*
- individuals	*1,650,440*	*2,096,185*	*2,740,052*	*3,301,411*
Total	**6,390,075**	**6,386,040**	**9,078,648**	**9,006,166**

b) Borrowings from banks and other customers

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Loans				
- banks and central banks	519,926	643,578	571,029	714,722
- other customers	16,168	33,511	100,267	136,660
- governments	*10,009*	*10,012*	*29,982*	*30,400*
- financial organizations	-	*20,181*	*61,335*	*99,940*
- companies	*6,159*	*3,318*	*8,950*	*6,320*
Total	**536,094**	**677,089**	**671,296**	**851,382**

As at 31 December 2015, NLB d.d. and NLB Group had EUR 345,762 thousand in undrawn borrowings (31 December 2014: EUR 41,118 thousand).

c) Debt securities in issue

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Carrying amount of issued securities				
- traded on active markets	304,962	359,853	304,962	359,853
Bonds (in %)				
- fixed rated	100.00	100.00	100.00	100.00
	100.00	**100.00**	**100.00**	**100.00**

In 2014 NLB d.d. issued a three-year unsecured bond with a nominal value of EUR 300 million and annual coupon of 2.875% on international capital markets. The bond, which as at 31 December 2015 has international ratings B+/BB- by the rating agencies Fitch and Standard & Poor's, is listed on the Luxembourg Stock Exchange.

d) Subordinated liabilities

in EUR thousand

NLB Group				31.12.2015		31.12.2014	
	Currency	Due date	Interest rate	Carrying amount	Nominal value	Carrying amount	Nominal value
Subordinated loans							
	EUR	30.6.2018	6 months EURIBOR + 6.3% p.a.	12,219	12,000	12,174	12,000
	EUR	30.6.2020	6 months EURIBOR + 7.7% p.a.	5,176	5,000	5,154	5,000
	EUR	26.6.2025	6 months EURIBOR + 7.5% p.a.	9,945	10,000	-	-
Total				**27,340**	**27,000**	**17,328**	**17,000**

In 2015 NLB Group received a new subordinated loan with the following basic criteria:

- it is neither secured nor covered by collateral or guarantee by the bank or a related entity;
- it contains a subordination clause stating that, in the case of the bankruptcy or liquidation of the Bank, this instrument will be paid before settling the liabilities to the Bank's shareholders and the bearers of hybrid instruments, and after settling the liabilities to other creditors;
- the instrument is available for covering losses in the case of the Bank's bankruptcy and liquidation; and
- the payment of interest is not allowed when this may seriously jeopardise the Bank's profitable position.

e) Other financial liabilities

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Debit or credit card payables	14,231	14,024	15,502	15,322
Suppliers	11,371	8,065	14,515	10,787
Accrued salaries	6,913	7,110	8,274	8,430
Items in the course of payment	4,580	6,941	13,835	18,178
Accrued expenses	4,615	5,733	12,695	11,643
Fees and commissions due	1,305	1,389	1,341	1,424
Other financial liabilities	4,331	2,961	9,145	6,102
Total	**47,346**	**46,223**	**75,307**	**71,886**

Other financial liabilities mainly include liabilities to insurance companies, liabilities to employees, received warranties and temporary accounts.

5.17. Provisions

a) Analysis by type of provisions

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Provisions for financial guarantees (note 5.25.a)	44,583	46,023	47,737	48,733
Provisions for non-financial guarantees (note 5.25.a)	29,863	31,568	31,034	32,876
Provisions for other credit commitments (note 5.25.a)	3,197	11,212	3,228	11,190
Employee benefit provisions	16,559	15,741	21,265	18,995
Provisions for premiums from National Housing Savings Scheme	54	733	54	733
Restructuring provisions	3,429	5,824	3,477	5,871
Provisions for legal issues	5,075	1,666	13,465	6,774
Other provisions	2,377	1,798	2,379	1,802
Total	**105,137**	**114,565**	**122,639**	**126,974**

Provisions for legal issues are recognised based on expectations regarding the probable outcome of legal disputes.

As at 31 December 2015, NLB d.d. was involved in 21 (31 December 2014: 24) legal disputes with material monetary claims against NLB d.d. The total amount of these claims, excluding accrued interest, was EUR 419,277 thousand (31 December 2014: EUR 386,420 thousand). As at 31 December 2015, NLB Group was involved in 45 (31 December 2014: 46) legal disputes with material claims against group members in the total amount of EUR 627,917 thousand, excluding accrued interest (31 December 2014: EUR 560,086 thousand).

The biggest amount within material monetary claims relates to civil claims filed by Privredna banka Zagreb (the PBZ) and Zagrebačka banka (the ZaBa) against NLB d.d., referring to the old savings of savers of the LB Branch Zagreb, which were transferred to Croatian banks in the principal amount of EUR 171,324,231.29. Due to the fact the proceedings have been pending for such a long time, the penalty interest already exceeds the principal amount. Based on numerous process and content-related reasons, NLB d.d. has all along objected to these claims. Two key reasons NLB d.d. is no longer liable for the old foreign currency savings are that it was only founded on the basis of the Constitutional Act on 27 July 1994 (at the time the savings were deposited with the LB Branch Zagreb, NLB d.d. did not exist yet), and NLB d.d. did not assume any of its obligations. Moreover, this is a former Yugoslavia succession matter as the governments of the Republic of Slovenia and the Republic of Croatia agreed in a Memorandum of Understanding signed in 2013 to find a solution to the transferred foreign currency savings of Ljubljanska banka in Croatia (LB) on the basis of the Agreement on Succession Issues and that the Republic of Croatia would stay all the proceedings commenced by the PBZ and the ZaBa in relation to the transferred foreign currency savings until the issue has been finally resolved. Nevertheless, in May 2015 the Court of Appeal, the County Court of Zagreb, ruled in one claim to reject the complaints raised by the LB and NLB d.d. and awarded that the plaintiff PBZ be paid the principal value of EUR 254.76 and costs of the proceedings totalling HRK 15,781.25, both with accompanying accrued penalty interest. NLB d.d. then filed a constitutional appeal against the aforementioned final judgement as it found the court decision contrary to the legislation in force as well as the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia. In another similar case, the court of first instance decided in December 2015 that NLB d.d and LB d.d. were required to pay jointly and severally to the plaintiff PBZ EUR 222,426.39 with interest charged from 1/1/1992 and legal costs of HRK 253,293.37. NLB d.d. is considering all options available to protect its interests in the belief that, in accordance with the Constitutional Act, the obligation in question is not the obligation of NLB d.d. Conversely, in another case, a claim filed by the PBZ (the principal value of EUR 788.59 with interest) was rejected in connection with NLB d.d., along with their appeal before the court of appeal. Later in the proceedings, the Supreme Court of the Republic of Croatia rejected the revision of the PBZ as inadmissible, and the case became final in favour of NLB d.d. Provisions for these claims are not formed since NLB d.d. believes there are no legal grounds for them.

NLB d.d. and some other members of NLB Group are also involved in litigation brought by two plaintiffs, with the proceedings starting in 2012 and with a value of EUR 32.3 million. The court at first instance ruled in favour of the plaintiffs; however, all the defendants appealed. According to NLB Group, there are more legal arguments (procedural and substantive) on the part of the defendants in the appeal proceedings, because several irregularities and incorrect implementation of the law occurred during the proceedings at first instance. Therefore, provisions have not been formed.

b) Movements in provisions for guarantees and commitments

Financial guarantees

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Balance at 1 January	46,023	11,303	48,733	18,112
Effects of translation of foreign operations to presentation currency	-	-	(3)	(49)
Additional provisions/provisions released (note 4.10.)	(1,445)	36,480	(1,000)	32,361
Utilised during year	-	(1,763)	-	(1,763)
Exchange differences	5	3	7	72
Balance at 31 December	**44,583**	**46,023**	**47,737**	**48,733**

Non-financial guarantees

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Balance at 1 January	31,568	36,270	32,876	38,075
Effects of translation of foreign operations to presentation currency	-	-	(1)	(25)
Additional provisions/provisions released (note 4.10.)	(1,727)	(4,720)	(1,865)	(5,220)
Exchange differences	22	18	24	46
Balance at 31 December	**29,863**	**31,568**	**31,034**	**32,876**

Other credit commitments

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Balance at 1 January	11,212	6,952	11,190	11,424
Effects of translation of foreign operations to presentation currency	-	-	(1)	1
Additional provisions/provisions released (note 4.10.)	(8,047)	4,183	(7,982)	(313)
Exchange differences	32	77	21	78
Balance at 31 December	**3,197**	**11,212**	**3,228**	**11,190**

c) Movements in employee benefit provisions

Post-employment benefits

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Balance at 1 January	10,925	7,071	12,275	8,903
Effects of translation of foreign operations to presentation currency	-	-	(2)	(13)
Additional provisions (note 4.9.)	334	300	543	453
Provisions released (note 4.9.)	(22)	(754)	(224)	(1,031)
Interest expenses (note 4.1.)	431	508	576	684
Utilised during year (payments)	(588)	(146)	(938)	(377)
Actuarial gains and losses	706	3,946	1,975	3,656
Balance at 31 December	**11,786**	**10,925**	**14,205**	**12,275**

Other employee benefits

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Balance at 1 January	4,816	4,771	6,720	6,522
Effects of translation of foreign operations to presentation currency	-	-	(1)	(10)
Additional provisions (note 4.9.)	2,509	3,005	4,379	4,576
Provisions released (note 4.9.)	(8)	(530)	(15)	(545)
Interest expenses (note 4.1.)	119	145	175	203
Utilised during year	(2,663)	(2,575)	(4,198)	(4,026)
Balance at 31 December	**4,773**	**4,816**	**7,060**	**6,720**

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

d) Movements in provisions for premiums from the National Housing Savings Scheme

in EUR thousand

NLB d.d. and NLB Group	2015	2014
Balance at 1 January	733	877
Additional provisions (note 4.11.)	-	300
Provisions released (note 4.11.)	(106)	-
Utilised during year	(573)	(444)
Balance at 31 December	**54**	**733**

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

e) Movements in restructuring provisions

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Balance at 1 January	5,824	10,866	5,871	11,803
Additional provisions (note 4.11.)	-	-	19	1,342
Provisions released (note 4.11.)	(15)	-	(15)	(171)
Utilised during year	(2,380)	(5,042)	(2,398)	(7,103)
Balance at 31 December	**3,429**	**5,824**	**3,477**	**5,871**

Cash flows associated with restructuring provisions are expected in the next year.

f) Movements in provisions for legal issues

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Balance at 1 January	1,666	1,094	6,774	5,327
Effects of translation of foreign operations to presentation currency	-	-	(21)	(137)
Additional provisions (note 4.11.)	3,409	669	8,176	4,575
Provisions released (note 4.11.)	-	(85)	(701)	(2,419)
Utilised during year	(2)	(9)	(765)	(569)
Exchange differences	2	(3)	2	(3)
Balance at 31 December	**5,075**	**1,666**	**13,465**	**6,774**

g) Movements in other provisions

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Balance at 1 January	1,798	7,876	1,802	7,880
Additional provisions (note 4.11.)	2,928	-	2,928	-
Provisions released (note 4.11.)	(150)	(6,077)	(150)	(6,077)
Utilised during year	(2,199)	(1)	(2,201)	(1)
Balance at 31 December	**2,377**	**1,798**	**2,379**	**1,802**

5.18. Deferred income tax

a) Analysis by type of deferred income taxes

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Deferred income tax assets				
Valuation of financial instruments and capital investments	59,534	53,819	59,683	53,865
Impairment provisions	3,673	3,874	4,219	32,452
Employee benefit provisions	2,246	1,718	2,385	1,906
Depreciation and valuation of non-financial assets	182	295	1,130	1,364
Dividends	-	7	-	7
Tax losses	232,371	241,296	229,229	224,062
Tax reliefs	-	-	-	28
Reduction of deferred tax assets	(278,020)	(281,023)	(275,098)	(293,340)
Total deferred income tax assets	**19,986**	**19,986**	**21,548**	**20,344**
Deferred income tax liabilities				
Valuation of financial instruments	10,608	13,003	11,249	13,500
Depreciation and valuation of non-financial assets	239	245	1,056	1,109
Impairment provisions	-	-	129	64
Other	-	-	27	39
Total deferred income tax liabilities	**10,847**	**13,248**	**12,461**	**14,712**
Net deferred income tax assets	**9,139**	**6,738**	**9,400**	**5,947**
Net deferred income tax liabilities	**-**	**-**	**(313)**	**(315)**
Included in the income statement for the current year	**292**	**283**	**1,387**	**787**
- valuation of financial instruments and capital investments	6,741	(13,144)	6,742	(13,144)
- impairment provisions	(201)	(40)	(28,299)	7,874
- employee benefit provisions	(212)	(690)	(261)	(677)
- depreciation and valuation of non-financial assets	(107)	(164)	(181)	10
- tax losses	(8,925)	(1,507)	5,167	3,971
- dividends	(7)	-	(7)	-
- tax credits	-	(1,489)	(28)	(1,481)
- adjustment of deferred tax assets	3,003	17,317	18,242	4,273
- other	-	-	12	(39)
Included in other comprehensive income for the current year	**2,109**	**(6,937)**	**2,067**	**(6,876)**
- valuation of available-for-sale financial assets	1,455	(7,048)	1,413	(6,987)
- cash flow hedges	(86)	111	(86)	111
- actuarial assumptions and experience	740	-	740	-

Slovenian law does not set limits or deadlines by which uncovered tax losses must be utilised.

If NLB d.d. were in accordance with IAS 12 to record deferred tax assets on all deductible temporary differences, the amount of deferred tax assets would be EUR 298,006 thousand (31 December 2014: EUR 301,009 thousand). NLB d.d. reduced the deferred taxes it estimates will not be eliminated in the foreseeable future (i.e. within 5 years), given future profit projections. The reduction amounted to EUR 278,020 thousand (31 December 2014: EUR 281,023 thousand).

b) Movements in deferred income taxes

Deferred income tax assets

in EUR thousand

NLB d.d.	Employee benefit provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment provisions	Tax losses	Tax reliefs	Reduction of deferred tax assets	Dividends	Total
Balance at 1 January 2014	2,408	67,233	472	3,914	242,803	1,489	(298,340)	7	19,986
(Charged)/credited to profit and loss	(690)	(13,226)	(177)	(40)	(1,507)	(1,489)	17,317	-	188
Charged to other comprehensive income	-	(188)	-	-	-	-	-	-	(188)
Balance at 31 December 2014	**1,718**	**53,819**	**295**	**3,874**	**241,296**	**-**	**(281,023)**	**7**	**19,986**
Credited/(charged) to profit and loss	(212)	6,657	(113)	(201)	(8,925)	-	3,003	(7)	202
Credited/(charged) to other comprehensive income	740	(942)	-	-	-	-	-	-	(202)
Balance at 31 December 2015	**2,246**	**59,534**	**182**	**3,673**	**232,371**	**-**	**(278,020)**	**-**	**19,986**

in EUR thousand

NLB Group	Employee benefit provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment provisions	Tax losses	Tax reliefs	Reduction of deferred tax assets	Dividends	Total
Balance at 1 January 2014	2,587	67,265	1,040	24,555	220,091	1,509	(297,613)	7	19,441
Effects of translation of foreign operations to presentation currency	(4)	2	(21)	(2)	-	-	-	-	(25)
Credited/(charged) to profit and loss	(677)	(13,226)	345	7,899	3,971	(1,481)	4,273	-	1,104
Charged to other comprehensive income	-	(176)	-	-	-	-	-	-	(176)
Balance at 31 December 2014	**1,906**	**53,865**	**1,364**	**32,452**	**224,062**	**28**	**(293,340)**	**7**	**20,344**
Effects of translation of foreign operations to presentation currency	-	-	-	1	-	-	-	-	1
Credited/(charged) to profit and loss	(261)	6,660	(234)	(28,234)	5,167	(28)	18,242	(7)	1,305
Credited/(charged) to other comprehensive income	740	(842)	-	-	-	-	-	-	(102)
Balance at 31 December 2015	**2,385**	**59,683**	**1,130**	**4,219**	**229,229**	**-**	**(275,098)**	**-**	**21,548**

Deferred income tax liabilities

in EUR thousand

NLB d.d.	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Total
Balance at 1 January 2014	6,336	258	6,594
Credited to profit and loss	(82)	(13)	(95)
Charged to other comprehensive income	6,749	-	6,749
Balance at 31 December 2014	**13,003**	**245**	**13,248**
Credited to profit and loss	(84)	(6)	(90)
Credited to other comprehensive income	(2,311)	-	(2,311)
Balance at 31 December 2015	**10,608**	**239**	**10,847**

in EUR thousand

NLB Group	Impairment provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Other	Total
Balance at 1 January 2014	40	6,890	789	-	7,719
Effects of translation of foreign operations to presentation currency	(1)	(8)	(15)	-	(24)
Charged/(credited) to profit and loss	25	(82)	335	39	317
Charged to other comprehensive income	-	6,700	-	-	6,700
Balance at 31 December 2014	**64**	**13,500**	**1,109**	**39**	**14,712**
Charged/(credited) to profit and loss	65	(82)	(53)	(12)	(82)
Credited to other comprehensive income	-	(2,169)	-	-	(2,169)
Balance at 31 December 2015	**129**	**11,249**	**1,056**	**27**	**12,461**

5.19. Income tax relating to components of other comprehensive income

in EUR thousand

	NLB d.d.			NLB Group		
2015	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Actuarial gains and lossess	(706)	740	34	(1,975)	740	(1,235)
Available-for-sale financial assets	(8,562)	1,455	(7,107)	(8,496)	1,413	(7,083)
Cash flow hedge	509	(86)	423	509	(86)	423
Share of associates and joint ventures	-	-	-	(2,735)	456	(2,279)
Total	**(8,759)**	**2,109**	**(6,650)**	**(12,697)**	**2,523**	**(10,174)**

in EUR thousand

	NLB d.d.			NLB Group		
2014	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Actuarial gains and lossess	(3,946)	-	(3,946)	(3,656)	-	(3,656)
Available-for-sale financial assets	41,461	(7,048)	34,413	40,970	(6,987)	33,983
Cash flow hedge	(655)	111	(544)	(655)	111	(544)
Share of associates and joint ventures	-	-	-	7,338	(1,202)	6,136
Total	**36,860**	**(6,937)**	**29,923**	**43,997**	**(8,078)**	**35,919**

NLB d.d. recognised deferred income tax assets for actuarial gains and losses in 2015 after the change of the Corporate Income Tax Act which allows a tax deduction for actuarial losses recorded in other comprehensive income.

5.20. Other liabilities

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Taxes payable	3,817	3,397	4,982	4,300
Deferred income	1,693	832	7,579	3,772
Payments received in advance	166	34	1,978	3,994
Total	**5,676**	**4,263**	**14,539**	**12,066**

5.21. Share capital

The share capital of NLB d.d. amounts to EUR 200,000 thousand and did not change during 2015. As at 31 December 2015 and 31 December 2014, the Republic of Slovenia was the only shareholder of NLB d.d. NLB Group does not own treasury shares.

The book value of a NLB d.d. share as at 31 December 2015 was EUR 62.1 (31 December 2014: EUR 60.2) and on a consolidated level it was EUR 71.1 (31 December 2014: EUR 67.2). It is calculated as the ratio of net assets' book value without other equity instruments issued and the number of shares.

Distributable profit as at 31 December 2015 amounts to EUR 125,410 thousand (31 December 2014: EUR 81,529 thousand) and consists of net profit for 2015 in the amount of EUR 43,881 thousand and retained earnings from 2014 in the amount of EUR 81,529 thousand. Its allocation will be subject to a decision by the Bank's Annual General Meeting.

In 2015 and 2014, NLB d.d. did not pay a dividend for previous years.

5.22. Accumulated other comprehensive income and reserves

a) Reserves

The share premium account as at 31 December 2015 and 31 December 2014 comprises paid-up premiums in the amount of EUR 822,173 thousand and the revaluation of share capital from previous years in the amount of EUR 49,205 thousand.

As at 31 December 2015 and 31 December 2014 profit reserves in the amount of EUR 13,522 thousand relate entirely to legal reserves in accordance with the Companies Act.

In 2015, NLB d.d. recorded a net profit of EUR 43,881 thousand which is included in the retained earnings as at 31 December 2015.

b) Accumulated other comprehensive income

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Cash flow hedging	(2,243)	(2,666)	(2,243)	(2,666)
Available-for-sale financial assets - equity securities	10,046	11,019	11,342	12,327
Available-for-sale financial assets - debt securities	27,950	34,084	36,982	45,416
Actuarial defined benefit pension plans	(3,912)	(3,946)	(4,935)	(3,767)
Foreign currency translation	-	-	(18,297)	(15,579)
Hedge of a net investment in a foreign operation	-	-	754	754
Total	**31,841**	**38,491**	**23,603**	**36,485**

5.23. Capital adequacy ratios

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Paid up capital instruments	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Retained earnings - from previous years	81,529	-	207,004	148,234
Profit or loss eligible - from current year	-	81,529	39,599	58,111
Accumulated other comprehensive income	2,815	(1,519)	(4,090)	(4,663)
Other reserves	13,522	13,522	13,522	13,522
Minority interest	-	-	-	-
Prudential filters: Cash flow hedge reserve	897	533	897	533
Prudential filters: Value adjustments due to the requirements for prudent valuation	(2,649)	(3,049)	(3,134)	(3,535)
(-) Goodwill	-	-	(3,529)	(3,529)
(-) Other intangible assets	(29,627)	(33,743)	(35,745)	(39,171)
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	(2,886)	(1,094)	(2,755)	(802)
(-) Investments in CET1 instruments of financial sector - significant share	-	-	-	-
Common Equity Tier 1 Capital (CET1)	**1,134,979**	**1,127,557**	**1,283,147**	**1,240,078**
Additional Tier 1 capital	-	-	-	-
Tier 1 capital	**1,134,979**	**1,127,557**	**1,283,147**	**1,240,078**
Tier 2 capital	-	-	-	-
Total capital (own funds)	**1,134,979**	**1,127,557**	**1,283,147**	**1,240,078**
RWA for credit risk	4,353,619	4,292,627	6,849,633	5,875,105
RWA for market risks	68,988	26,963	137,351	141,001
RWA for credit valuation adjustment risk	9,313	8,338	9,313	8,338
RWA for operational risk	596,127	634,290	930,688	1,013,538
Total risk exposure amount (RWA)	**5,028,047**	**4,962,218**	**7,926,985**	**7,037,982**
Common Equity Tier 1 Ratio	22.6%	22.7%	16.2%	17.6%
Tier 1 Ratio	22.6%	22.7%	16.2%	17.6%
Total Capital Ratio	22.6%	22.7%	16.2%	17.6%

European capital legislation, comprising the CRR regulation and CRD IV directive is based on the Basel III guidelines. Legislation defines three capital ratios reflecting a different quality of capital:

- Common Equity Tier 1 ratio (ratio between common or CET1 capital and weighted risk exposure amount or RWA), which must not fall below 4.5%;
- Tier 1 capital ratio (Tier 1 capital to RWA), which must not fall below 6%; and
- Total capital ratio (Total capital to RWA), which must not fall below 8%.

NLB d.d. and NLB Group fulfil all regulatory requirements regarding the minimum level of capital adequacy ratios, prescribed by both the legislation and the supervisory authorities.

The capital of the Bank and the Group in 2015 consists only of the highest quality CET1 capital (no subordinated instruments that could be classified as capital of a lower category). Therefore, all three achieved ratios are equal.

In the scope of regulatory risks, which include credit risk, operational risk and market risk, NLB Group uses the standardised approach for credit and market risks while the calculation of capital requirement for operational risks is made according to the basic indicator approach. The same approaches are used for calculating the capital requirements for NLB d.d. on a standalone basis, except for the calculation of the capital requirement for operational risks where the standardised approach is used.

In preparation of the internal capital adequacy assessment, NLB d.d. and bank members of NLB Group identify risks not included in the calculation under the regulatory approach (Pilar 1) which have a significant impact on their operation. The scope of additional credit risks also includes the concentration risk – to individual clients and groups of related parties, at the level of activity – and collateral concentration risk. NLB Group calculates the capital requirement for non-financial risks (which include capital risk, profitability risk, strategic risk, divestment risk and reputation risk) if it assesses that an individual risk is crucial for NLB Group. In addition, the non-regulatory risks include the effects of stress scenarios for credit (deterioration of the credit-rating structure, decrease in real-estate market prices), currency, liquidity, interest rate risk in the banking book, credit spread risks, and market risks arising from securities.

More detailed information on capital adequacy is disclosed in the chapter Risk and capital management.

5.24. Foreign branches

NLB d.d. has a branch in Trieste which is in the process of being wound down. Its key figures are as follows:

in EUR thousand

	2015	2014
Interest and fee income	155	478
Net loss for the year	(583)	(1,750)

	31.12.2015	31.12.2014
Total assets (in thousand EUR)	7,158	21,818
Number of employees	-	18

5.25. Off-balance sheet liabilities

a) Contractual amounts of off-balance sheet financial instruments

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Short-term guarantees	97,543	112,844	190,705	209,806
- financial	*50,844*	*44,871*	*124,080*	*120,868*
- non-financial	*46,699*	*67,973*	*66,625*	*88,938*
Long-term guarantees	489,163	580,742	599,865	689,997
- financial	*162,973*	*201,593*	*233,706*	*274,826*
- non-financial	*326,190*	*379,149*	*366,159*	*415,171*
Commitments to extend credit	923,755	1,012,334	1,101,241	1,101,684
Letters of credit	3,567	1,411	19,402	12,604
Other	117	832	7,289	6,040
	1,514,145	1,708,163	1,918,502	2,020,131
Provisions (note 5.17.b)	(77,643)	(88,803)	(81,999)	(92,799)
Total	**1,436,502**	**1,619,360**	**1,836,503**	**1,927,332**

b) Analysis of derivative financial instruments by notional amounts

in EUR thousand

	NLB d.d.				NLB Group			
	31.12.2015		31.12.2014		31.12.2015		31.12.2014	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Swaps	90,258	1,026,002	170,418	1,418,074	90,258	1,023,123	170,058	1,414,521
- currency swaps	*90,258*	*3,312*	*120,418*	*6,640*	*90,258*	*3,312*	*120,058*	*6,640*
- interest rate swaps	-	*1,000,689*	*50,000*	*1,289,636*	-	*997,810*	*50,000*	*1,286,083*
- currency interest rate swaps	-	*22,001*	-	*121,798*	-	*22,001*	-	*121,798*
Options	15,085	4,763	8,719	8,309	15,085	4,763	8,719	8,309
- currency options	*7,093*	-	-	-	*7,093*	-	-	-
- interest rate options	-	*4,763*	-	*8,309*	-	*4,763*	-	*8,309*
- securities options	*7,992*	-	*8,719*	-	*7,992*	-	*8,719*	-
Forward contracts	114,393	12,188	272,104	18,511	114,030	12,188	271,704	18,511
- currency forward	*114,393*	*12,188*	*272,104*	*18,511*	*114,030*	*12,188*	*271,704*	*18,511*
Futures	2,500	-	2,900	-	2,500	-	2,900	-
- currency futures	*2,500*	-	*2,900*	-	*2,500*	-	*2,900*	-
Total	**222,236**	**1,042,953**	**454,141**	**1,444,894**	**221,873**	**1,040,074**	**453,381**	**1,441,341**
	1,265,189		**1,899,035**		**1,261,947**		**1,894,722**	

The notional amounts of derivative financial instruments that qualify for hedge accounting at NLB d.d. and NLB Group amount to EUR 172,223 thousand (31 December 2014: EUR 224,349 thousand). Derivatives that qualify for hedge accounting are used to hedge interest rate risk.

The fair values of derivative financial instruments are disclosed in notes 5.2., 5.5. and 5.15.

c) Operating lease commitments

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

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Real estate				
Not later than one year	980	1,381	1,833	1,871
Later than one year and not later than five years	3,802	5,056	5,977	5,981
Later than five years	1,842	2,509	1,921	1,994
Other				
Not later than one year	251	282	399	405
Later than one year and not later than five years	454	750	1,085	1,241
Later than five years	-	27	-	27
Total	**7,329**	**10,005**	**11,215**	**11,519**

d) Operating lease income

Future minimum operating lease income:

in EUR thousand

NLB Group	2015	2014
Not later than one year	6,619	3,964
Later than one year and not later than five years	14,069	10,361
Later than five years	35,957	38,182
Total	**56,645**	**52,507**

e) Capital commitments

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Capital commitments for purchase of:				
- property and equipment	1,099	97	1,193	227
- intangible assets	2,285	165	2,408	304
Total	**3,384**	**262**	**3,601**	**531**

5.26. Funds managed on behalf of third parties

Funds managed on behalf of third parties are accounted separately from NLB Group's funds. Income and expenses arising with respect to these funds are charged to the respective fund, and no liability falls on NLB Group in connection with these transactions. NLB Group charges fees for its services.

Funds managed on behalf of third parties

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Fiduciary activities	10,167,040	10,129,307	11,056,208	10,863,919
Settlement and other services	1,079,281	2,903,176	1,110,667	2,941,190
Total	**11,246,321**	**13,032,483**	**12,166,875**	**13,805,109**

Fiduciary activities

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Assets				
Clearing or transaction account claims for client assets	**10,124,884**	**10,106,792**	**11,006,524**	**10,834,744**
- from financial instruments	10,117,536	10,087,226	10,999,108	10,814,913
- receipt, processing and execution of orders	808,071	1,062,190	1,261,293	1,444,719
- management of financial instruments portfolio	-	-	339,607	304,341
- custody services	9,309,465	9,025,036	9,398,208	9,065,853
- to Central Securities Clearing Corporation or bank settlement account for sold financial instrument	123	1,158	191	1,423
- to other settlement systems and institutions for bought financial instrument (debtors)	7,225	18,408	7,225	18,408
Clients' money	**42,156**	**22,515**	**49,684**	**29,175**
- at settlement account for client assets	13,187	7,667	20,715	14,327
- at bank transaction accounts	28,969	14,848	28,969	14,848
Liabilities				
Clearing or transaction liabilities for client assets	**10,167,040**	**10,129,307**	**11,056,208**	**10,863,919**
- to client from cash and financial instruments	10,152,750	10,121,117	11,041,371	10,855,043
- receipt, processing and execution of orders	810,629	1,063,051	1,263,851	1,445,580
- management of financial instruments portfolio	-	-	346,656	310,580
- custody services	9,342,121	9,058,066	9,430,864	9,098,883
- to Central Securities Clearing Corporation or bank settlement account for bought financial instrument	126	45	126	45
- to other settlement systems and institutions for bought financial instrument (creditors)	13,816	7,768	14,363	8,454
- to bank or settlement bank account for fees and costs etc.	348	377	348	377

Fee income for funds managed on behalf of third parties

in EUR thousand

	NLB d.d.		NLB Group	
	2015	2014	2015	2014
Fiduciary activities (note 4.3.b)	5,859	6,190	7,111	7,251
Settlement and other services	848	399	966	602
Total	**6,707**	**6,589**	**8,077**	**7,853**

6. Events after the reporting date

In February 2016, the Supervisory Board of NLB d.d. adopted a decision on the consensual early termination of office for Janko Medja, the CEO of the Bank. The General Meeting of Shareholders of NLB d.d. adopted a decision about an increase in the number of Supervisory Board members from seven to nine. Two previous members of the Supervisory Board of NLB d.d. were discharged and five new members were appointed.

7. Risk management

a) Risk management strategies and processes

Following the strategic goal of NLB Group to create sustainable, profitable business results, risk management is focussing on enhancing and comprehensively managing all relevant risk categories, embedding a sound and holistic understanding of risk management into the entire organisation, to proactively monitor and mitigate risks, and to ensure the prudent and economic use of its capital. Basic risk guidelines of NLB Group are defined by its risk appetite and its risk strategy, which are regularly revised and enhanced. The Strategy of NLB Group, the risk strategy guidelines and the key internal policies of NLB Group, which are approved by the Management Board and also discussed by the Supervisory Board, specify the strategic goals, risk appetite guidelines, approaches and methodologies for monitoring, measuring and managing all types of risk.

The management of credit risk, which is the most important risk category in NLB Group, concentrates on taking moderate risks and ensuring an optimal return given the risks assumed, while at the same time putting a key focus on resolving the non-performing part of its legacy portfolio. As regards liquidity risk, the activities are geared towards constantly ensuring an appropriate level of liquidity, both short- and long-term. Concerning market and operational risks, NLB Group follows the orientation that such risks must not significantly impact its operations. The tolerance for other risk types is low with a focus on minimising their possible impacts on NLB Group's entire operations.

The Bank is regularly monitoring its target Risk Profile, both for NLB d.d. and NLB Group. The usage of limits and potential deviations from limits and target values are reported regularly to the respective committees and/or the Management Board of the Bank, a comprehensive Risk Report is quarterly reviewed both by the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank. The banking subsidiaries within NLB Group have adapted a corresponding approach to monitor their target risk profiles.

The internal risk management policies of NLB Group members include aligned key risk management guidelines at the level of the Group, along with the requirements arising from the local regulations. The policies are approved by the members' managements and also discussed by their supervisory boards. They define in detail the approaches and methodologies for monitoring, measuring and managing all types of risks, with an emphasis on:
- monitoring the credit portfolio and minimising losses arising from credit risk, which considering its business model is the principal risk of NLB Group;
- ensuring a sufficient level of liquidity;
- minimising negative income effects arising from market risks; and
- minimising potential losses arising from operational risks.

The following documents are crucial for the purpose of managing risks at NLB Group level:
- Risk Appetite Statement,
- Risk Strategy of NLB Group,
- Risk Management Standards of NLB Group,
- Criteria and Procedures for Granting Loans in NLB Group Members,
- Loan Collateral Manual in NLB Group,
- Methodology of receivable impairment and provisioning for credit risks according to the International Financial Reporting Standards and the regulations of the Bank of Slovenia applying to NLB d.d. and NLB Group,
- Policy on Lending to Non-financial Companies of NLB d.d., and
- Minimum Standards for Financial Markets.

b) Risk management structure and organisation

Risk monitoring in NLB Group is centralised within the specialised Business-line Risk, encompassing several organisational units of NLB d.d. This business line is in charge of formulating and controlling the risk management policies, coordinating activities related to the harmonisation of risk management in NLB Group, monitoring NLB Group's exposure to all types of business risk, and preparation of external and internal reports. Moreover, the business line is also responsible for setting up on NLB Group level the methodology of credit rating classification and setting exposure limits and the methodology for appraising movable and immovable property. Credit ratings of materially important clients and the issuing of credit risk opinions (credit advice as part of the co-decision principle) are centralised via the Credit Committee of NLB d.d. All members of NLB Group which are included in the consolidated financial statements of NLB Group report their exposure to risks to the competent organisational units in NLB d.d. These report all the relevant information to the Assets and Liabilities Committee (ALCO) of NLB Group, the Management Board and the Risk Committee of the Supervisory Board, which adopt the required measures or decisions.

The primary responsibility for managing the risks assumed by NLB Group members within the framework of their business strategy lies with their managements, which are obliged to pursue the strategic goals and implement the planned business results as well as monitor and manage risks in accordance with the guidelines at NLB Group level. For this purpose, the members must adopt appropriate risk management policies. The supervisory board of a member gives approval to objectives and policies and within its competence monitors their implementation as well as assesses their effectiveness. The member's management or the management board and its committees may in accordance with their authorisations delegate certain tasks, particularly operating responsibilities in risk management, to lower management levels.

Risk monitoring in NLB Group members is centralised within an independent and/or separate organisational unit. The centralised monitoring of risks ensures the establishment of standardised and systemic approaches to risk management, and thus a comprehensive overview of events in the Group's and each member's statement of financial position. In compliance with the Risk Management Standards of NLB Group, this is organised in all members in such a manner that risk measurement and monitoring is separated from its management and/or business function, which is important due to the objectivity required when assessing business decisions. The organisational unit for managing risks is directly responsible to the Management Board or its committees (Credit Committee, ALCO and Operational Risk Committee), which report to the Supervisory Board (Risk Committee of the Supervisory Board or Board of Directors).

The organisation and delimitation of competencies in the risk management area are designed to prevent conflicts of interest and ensure a transparent and documented decision-making process, subject to an appropriate upward and downward flow of information.

c) Risk measurement and reporting systems

The measurement systems and the risk management principles are crucial elements of the risk management policies which, for the purpose of consolidated control, are aligned with all regulatory requirements of the Bank of Slovenia and the European Central Bank, taking into account the provisions of the Directive (CRD), Decision (CRR) and EBA guidelines. Referring to capital adequacy, NLB Group applies the standardised approach to credit and market risk and the basic approach to operational risks, with the exception of NLB d.d. which applies the standardised approach.

For the internal needs of measuring of exposure to credit, market, interest, operational and non-financial risks in NLB Group, besides the prescribed regulations internal methodologies and approaches are used, enabling the more detailed monitoring and management of risks. These are aligned with the Basel and EBA guidelines as well as the best methodological approaches in banking practice. A more detailed description of the methodologies for monitoring individual types of risks is provided in the following sections related to each individual risk separately.

In NLB Group, reporting complies with the internal guidelines which, in terms of the substance and frequency of reporting and, besides internal requirements, take into account the requirements of the Bank of Slovenia and the European Central Bank. At the individual level, members of NLB Group also comply with the requirements of the local regulations. Reporting is carried out in the form of standardised reports. This is enabled by risk management policies reasonably aligned with the methodologies for measuring and harmonising exposure to risks, appropriately established databases and the automation of report preparation at NLB Group level, which also ensures their quality and reduces the possibility of errors.

d) Main emphasis of risk management in 2015

NLB Group was further strengthening the robustness of its risk management system in all respective risk categories in order to manage them comprehensively and prudently. The most important risk in NLB Group, in line with strategic orientations, remains the credit risk category. NLB Group gives great emphasis to constantly improving the credit portfolio quality, where the new financing of corporate and retail clients represents one of the crucial steps. Lower indebtedness of the companies and their successful restructuring had a positive influence on the approval of new loans. In the retail segment, positive trends are shown in the larger trust and the related consumption, reduced unemployment rate and recovery of the real-estate market. In the area of granting new investments, the process of introducing improvements in the credit process and risk assumption culture continues. The emphasis is on the development of internal scoring models for individual client segments in order to consistently detect risks and achieve better responsiveness in relations with clients. NLB Group has set up a system for the early detection of a deterioration in a client's business, covering clients on the watch list or in intensive care. Their financial standing and execution of activities under the action plan are regularly monitored by a special committee. In addition, the activities of NLB Group are also focused on a further reduction of the volume of NPLs. In line with the EBA guidelines, in 2015 NLB Group disclosed positive effects arising from intensive care of clients facing problems in operations, primarily through restructuring measures. Positive results also arise from the proactive approaches to debt collection, sale of receivables, and acceptance and sale of received collateral.

The liquidity position of NLB d.d. and, consequently, NLB Group is high and remains stable, which is, among others, shown by comfortably reaching all regulatory indicators' limits. NLB Group also has sufficient liquidity reserves in the event of possible realisation of the liquidity stress scenarios. NLB Group maintains a conservative policy for market risks. There is also a large emphasis on the management of operational risks, where NLB Group follows the guideline that such risk may not considerably influence its operations. Moreover, NLB Group places great importance on regularly monitoring novelties in the regulations and good approaches in the banking practice and their implementation so as to further improve supervision over the assumption of risks and their management in practice.

7.1. Credit risk management

a) Introduction

In its operations, NLB Group is exposed to credit risk or the risk of losses due to the failure of a debtor to settle its liabilities to NLB Group. For that reason, it proactively and comprehensively monitors and assesses the aforementioned risk. In that process, NLB Group follows the International Financial Reporting Standards, regulations issued by the Bank of Slovenia and the EBA guidelines. This area is governed in greater detail by the internal methodologies and procedures set out in internal acts.

Through regular reviews of the business practices and the credit portfolios of NLB entities, NLB d.d. ensures that the credit risk management of those entities functions in accordance with NLB Group's risk management standards in order to ensure meaningfully uniform procedures at the consolidated level.

NLB Group manages credit risk at two levels:

- At the level of the individual customer/group of customers, where appropriate procedures are followed in various phases of the relationship with a customer prior to, during and after the conclusion of an agreement.
  Prior to concluding an agreement, a customer's performance, financial position and past cooperation with NLB d.d. are assessed. It is also important to secure high-quality collateral that does not affect a customer's credit rating. This is followed by various forms of monitoring a customer, in particular an assessment of its ability to generate sufficient cash flows for the regular settlement of its liabilities and contractual obligations. As regards the above-mentioned detection of risks, regular monitoring of clients within the Early Warning System (EWS) is important. For the purpose of objectively assessing a client's operation comprehensively, internal scoring models for particular client segments have been developed.
- At the level of the overall portfolio of NLB d.d. and NLB Group the quality of the credit portfolio, including on-balance and off-balance sheet exposures, is actively monitored and analysed in terms of client segmentation (depending on the client type and size), credit rating structure, arrears and/or volume of non-performing/past due and restructured receivables, coverage with impairments and provisions, collateral received, concentrations arising from a group of related clients and concentrations within an industry, currency exposure and other indicators of risks in the credit portfolio. Regular monitoring comprises an analysis of new deals and other changes or trends, with the emphasis on the early detection of increased risks and their optimisation in relation of profitability. NLB Group appropriately diversifies its portfolio to mitigate specific components of credit risk (i.e. the risk deriving from operations with a specific customer, sector, positions in financial instruments or other specific events). Increasing emphasis is also placed on stress tests that forecast the effects of negative movements in the portfolio on the level of impairments and provisions, and on capital adequacy within the second pillar. Capital requirements for credit risk at NLB Group level within the first pillar are calculated according to the standardised approach, while within the second pillar stress testing and concentration risk assessment are carried out.

NLB d.d. and other NLB Group members assess the level of credit risk losses on an individual basis for material claims, which are reviewed individually, and at the group level for the rest of the portfolio.

The primary aim of an individual review is to determine whether objective evidence of impairment exists. Such evidence includes information regarding significant financial problems encountered by a customer, regarding actual breaches of contractual obligations such as arrears in the settlement of liabilities, whether financial assets will be restructured for economic or legal reasons, and the likelihood that a customer will enter into bankruptcy or a financial reorganisation. Expected future cash flows (from ordinary operations and the possible redemption of collateral) are assessed following an individual review. If their discounted value differs from the book value of the financial asset in question, impairment must be recognised. If objective evidence of impairment does not exist, losses are assessed at the group level.

Collective impairments are made for the remainder of the portfolio, which is not assessed on an individual basis. To that end, the portfolio is broken down into groups of similar claims, and then further into sub-groups with respect to their credit rating. Here, impairments are created with respect to the probability of default (PD) and with respect to the average rate of default or loss given default (LGD) associated with non-performing claims. The probability of default is determined by transition matrices which illustrate the migration of customers between rating categories, using an unweighted moving average. The average rate of default or loss given default, which indicates how much we will lose on average when a claim becomes non-performing, is determined based on the amount of impairments created for non-performing loans as the non-weighted average of loss given a default. When creating collective provisions for commitments, on the basis of empirical data regarding the redemption of guarantees in the past, the probability of the redemption of guarantees is taken into account when creating collective provisions. Activities related to meeting the IFRS 9 requirements, which are planned to enter into force at the beginning of 2018, are underway (note 2.34.).

b) Main emphasis in 2015

In the process of constantly improving credit risk management NLB Group focuses on taking moderate risks and simultaneously ensuring an optimal return considering the risks assumed. To ensure long-term profitable operations, NLB Group endeavours for a gradual improvement in the quality of the credit portfolio with a new, sound portfolio, and simultaneously focuses on a proactive reduction of the volume of non-performing exposures.

The credit risk management efforts of NLB Group are aimed at further upgrading the existing credit process and further improving the risk management culture. The credit policy defines the guidelines leading towards prudent risk assumption in relation to the approval of new loans. The Bank continues to develop internal scoring models for individual client segments in the area of both corporate and retail clients. In connection with the early warning system (EWS), the latter can gradually considerably contribute to an improved assessment of credit risks, the greater stability of transitions to lower credit ratings and the earlier detection of problems. Additional control activities are carried out within a specialised unit, which improves the control activities within the credit function.

Regular monitoring and analysing of trends in the quality of individual segments of the investment portfolio, with a special focus on new transactions, enables the early detection of increased risks at the portfolio level as well as optimisation of the risks assumed with regard to profitability. Besides, the emphasis is also on regular monitoring, management and reporting on non-performing exposures (D- and E-rated clients). In accordance with the EBA requirements, the Bank also carries out detailed monitoring of forborne exposures and cured exposures.

In 2015, the quality of the credit portfolio, including on-balance and off-balance sheet exposures, of NLB d.d. and NLB Group improved. The latter results from the improvement in the structure of newly-approved transactions, positive effects of the successfully completed restructuring of clients in the corporate segment, and other measures and activities aimed at reducing the volume of non-performing exposures. Consequently, the credit portfolio at the level of NLB d.d. and NLB Group decreased. As regards the positive growth in the credit portfolio, NLB Tutunska banka stands out among the members.

The positive economic growth, more favourable macroeconomic indicators and lower indebtedness of companies exerted a favourable influence on the approval of new loans in this segment despite the fierce competition on the market. In the retail segment, positive movements have also been detected in housing and consumer loans as a result of the recovery of the real-estate market, the lower unemployment rate, the greater trust and related higher consumption. Within the investment portfolio of the Group, there was also an increase in short-term placements with central banks and interbank loans, which belong to the scope of investments for ensuring adequate liquidity of NLB Group.

In addition, NLB Group puts significant emphasis on activities aimed at further reducing non-performing exposures, either through intensive care of clients facing business problems, notably by restructuring and where appropriate partial write-off of liabilities, or through debt collection, seizure of collateral, sale of claims, active marketing of pledged assets and writing-off unrecoverable debt. Considerable stress was put on completing the procedures of financial and business restructuring, where NLB d.d. had a leading role in implementing the restructuring processes in the Slovenian banking industry. In 2015 positive effects were already visible in this area, although a large part will also be recorded in the coming period (in 2016 and 2017). In accordance with the EBA guidelines, the effects of the Bank's activities in restructuring have not yet been fully reflected in a decreased volume of NPLs because the restructured receivables and clients keep the NPL status at least for one year after they start regularly repaying their obligations arising from forborne receivables. Moreover, NLB Group has also adopted the NPL Management Strategy for 2015-2017, which is subject to yearly revision. In line with the Strategy, the Group met all the goals set for 2015.

At the end of 2015, the volume and share of non-performing loans (loans rated D and E) decreased as a result of different measures, such as successfully completed restructuring of clients, repayments received and write-offs of unrecoverable receivables. The highest shares of non-performing loans were recorded in the trade, manufacturing and construction sectors, while households still represent a low-risk client segment. The shares of non-performing loans were 16.8% and 19.9% for NLB d.d. and for NLB Group, respectively. In terms of net NPLs, the respective shares for NLB d.d. and NLB Group were 8.1% and 8.9%. The coverage of NPLs by individually established impairments has remained relatively high, 57.0% at NLB d.d. and 61.6% at NLB Group. In these financial statements the presentation of indicators related non-performing loans is based on the accounting information prepared in accordance with the IFRS, whereas in general (and as presented in the business part of this Annual report) NLB Group presents these indicators in accordance with the capital regulation requirements.

c) Internal rating system and authorisations

NLB d.d.	31.12.2015 Gross loans and advances (in EUR thousand)	Loans and advances (%)	Impairment provision (in EUR thousand)	Impairment provision (%)	31.12.2014 Gross loans and advances (in EUR thousand)	Loans and advances (%)	Impairment provision (in EUR thousand)	Impairment provision (%)
A	3,540,605	56.5	11,727	0.3	3,633,387	53.0	10,832	0.3
B	934,586	14.9	20,643	2.2	703,010	10.2	16,889	2.4
C	737,199	11.8	64,653	8.8	1,068,504	15.6	177,743	16.6
D and E	1,048,450	16.8	597,892	57.0	1,453,288	21.2	793,600	54.6
Total	**6,260,840**	**100.0**	**694,915**	**11.1**	**6,858,189**	**100.0**	**999,064**	**14.6**

*Other financial assets are not included.

NLB Group	31.12.2015 Gross loans and advances (in EUR thousand)	Loans and advances (%)	Impairment provision (in EUR thousand)	Impairment provision (%)	31.12.2014 Gross loans and advances (in EUR thousand)	Loans and advances (%)	Impairment provision (in EUR thousand)	Impairment provision (%)
A	4,816,101	54.8	22,773	0.5	4,951,243	53.0	22,204	0.5
B	1,564,895	17.8	54,140	3.5	1,173,722	12.6	51,468	4.4
C	650,739	7.4	106,585	16.4	771,214	8.2	110,452	14.3
D and E	1,751,317	19.9	1,079,579	61.6	2,453,304	26.2	1,478,902	60.3
Total	**8,783,052**	**100.0**	**1,263,077**	**14.4**	**9,349,483**	**100.0**	**1,663,026**	**17.8**

*Other financial assets are not included.

The basis for the client credit rating classification in NLB Group is an internally developed methodology. It is based on internal statistical analyses, good banking practices as well as regulations of the Bank of Slovenia (Decision of the Bank of Slovenia on the Assessment of Credit Risk Losses of Banks and Savings Banks) and requirements of the European Banking Authority (EBA). The rating methodology is used across the entire NLB Group. A uniform credit grade scale of 12 rating classes was implemented in 2015, while before other members of NLB Group were using a narrower credit grade scale. The rating methodology consists of 12 credit rating classes for classifying legal persons, whereby 9 of the credit rating classes represent a going concern, i.e. performing clients, and 3 of them non-performing clients, i.e. 'defaulters'.

Grade A (AAA-A) includes the best clients with a low degree of default probability which is characterised by high capital adequacy and a high coverage of financial liabilities with free cash flow. Grade B (BBB-B) includes clients with a low credit risk, one class lower than A-grade clients. The clients operate successfully, have a sufficient cash flow to settle their obligations, but some are more sensitive to changes in the industry or the economy. C (CCC-C) grade clients are exposed to a higher and above-average level of credit risk. The Bank reasonably restricts cooperation with such clients and decreases its exposure. For some of these clients, the specialised restructuring unit must participate in the process.

The D-, DF- and E-grades represent defaulters or clients with a high probability of default. Besides clients in insolvency proceedings and with arrears of over 90 days, this category includes clients where the Bank, based on past operations and future projections, assesses a high probability of default ("unlikely to pay"). D- and E-grade clients are ordinarily handled by the specialised units for restructuring or workout and legal support or by the specialised working groups.

Authorisations, procedures and the detailed rating methodology, as well as the setting of a maximum borrowing limit and the impairment of claims, are formalised in NLB Group's internal acts. A standard customer rating methodology, with the prescribed set and quality of input data and elements of a rating analysis, applies to all NLB Group entities. Here it should be noted that decisions regarding the limits and internal ratings of materially significant customers of NLB Group are harmonised and performed in line with the responsibility of centralised credit analysis function and NLB d.d. Credit Committee.

NLB d.d. regularly reviews the business practices and credit portfolios of NLB Group entities to make sure they are operating in accordance with the minimum risk management standards of NLB Group. This ensures appropriate standard processes for managing and reporting credit risks at the consolidated level.

d) Maximum exposure to credit risk

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Cash, cash balances at central banks and other demand deposits at banks	496,806	434,438	1,161,983	1,127,527
Debt securities classified as loans and receivables	394,579	706,785	394,579	706,785
Loans to government	578,184	387,378	688,474	515,315
Loans to banks	345,207	159,300	431,775	271,340
Loans to financial organizations	391,911	548,731	139,852	154,132
Loans to individuals	1,889,683	1,884,000	2,907,991	2,803,302
Granted overdrafts	*152,042*	*159,967*	*185,912*	*192,738*
Loans for houses and flats	*1,165,800*	*1,143,952*	*1,503,814*	*1,442,022*
Consumer loans	*471,889*	*472,792*	*962,884*	*910,752*
Other loans	*99,952*	*107,289*	*255,381*	*257,790*
Loans to other customers	1,966,361	2,172,931	2,957,304	3,235,583
Loans to large corporate customers	*1,263,055*	*1,418,494*	*1,645,169*	*1,819,363*
Loans to small and medium size enterprises	*703,306*	*754,437*	*1,312,135*	*1,416,220*
Other financial assets	48,944	47,836	69,521	71,769
Trading assets	267,870	138,786	267,403	138,196
Financial assets designated at fair value through profit or loss	-	-	753	885
Available-for-sale financial assets	1,177,947	1,152,933	1,661,729	1,640,091
Held-to-maturity financial assets	565,535	711,648	565,535	711,648
Derivatives - hedge accounting	1,083	2,966	1,083	2,966
Total net financial assets	**8,124,110**	**8,347,732**	**11,247,229**	**11,379,539**
Guarantees	586,706	693,586	790,570	899,803
Financial guarantees	*213,817*	*246,464*	*357,786*	*395,694*
Non-financial guarantees	*372,889*	*447,122*	*432,784*	*504,109*
Loan commitments	923,755	1,012,334	1,101,241	1,101,684
Other potential liabilities	3,684	2,243	26,691	18,644
Total contingent liabilities	**1,514,145**	**1,708,163**	**1,918,502**	**2,020,131**
Total maximum exposure to credit risk	**9,638,255**	**10,055,895**	**13,165,731**	**13,399,670**

Maximum exposure to credit risk is a presentation of NLB Group's exposure to credit risk separately by individual types of financial assets and conditional obligations. Exposures stated in the above table are shown for the balance sheet items in their net book value as reported in the statement of financial position, and for off-balance sheet items in the amount of their nominal value.

NLB d.d. has 86.6% (31 December 2014: 80.1%) of loans and advances that are neither past due nor impaired, 0.6% (31 December 2014: 0.9%) of loans and advances past due but not impaired, 12.4% (31 December 2014: 18.4%) of individually impaired loans and 0.4% (31 December 2014: 0.7%) of collectively impaired loans. NLB Group has 85.8% (31 December 2014: 81.4%) of loans and advances that are neither past due nor impaired, 5.4% (31 December 2014: 5.2%) of loans and advances past due but not impaired, 8.3% (31 December 2014: 12.7%) of individually impaired loans and 0.5% (31 December 2014: 0.7%) of collectively impaired loans.

The coverage of the credit portfolio by allowances for impairment in NLB d.d. in 2015 decreased (compared to 31 December 2014) to stand at 11.1% at the end of the year (31 December 2014: 14.7%). Moreover, 71.5% (31 December 2014: 63.2%) of the portfolio is considered to be a quality portfolio. The coverage of the portfolio by allowances for impairment at NLB Group level has also decreased and stood at 14.4% (31 December 2014: 17.8%) at the end of 2015. Further, 72.6% (31 December 2014: 65.5%) of the portfolio is considered as quality and includes A and B ratings.

e) Collateral from loans and advances

in EUR thousand

	NLB d.d.			
	Fully/over collateralised loans and advances		Loans and advances not or not fully covered with collateral	
31.12.2015	**Net value of loans and advances**	**Fair value of collateral**	**Net value of loans and advances**	**Fair value of collateral**
Debt securities	394,579	394,579	-	-
Loans to government	70,046	76,041	508,138	-
Loans to banks	-	-	345,207	153
Loans to financial organizations	28,274	74,746	363,637	6,791
Loans to individuals	1,411,275	2,342,930	478,408	67,162
Granted overdrafts	*-*	*-*	*152,042*	*-*
Loans for houses and flats	*1,013,194*	*1,895,187*	*152,606*	*63,388*
Consumer loans	*398,047*	*447,701*	*73,842*	*3,774*
Other loans	*34*	*42*	*99,918*	*-*
Loans to other customers	1,164,744	2,473,144	801,617	498,112
Loans to large corporate customers	*796,995*	*1,360,792*	*466,060*	*225,583*
Loans to small and medium size enterprises	*367,749*	*1,112,352*	*335,557*	*272,529*
Other financial assets	294	3,403	48,650	412
Total	**3,069,212**	**5,364,843**	**2,545,657**	**572,630**

in EUR thousand

	NLB d.d.			
	Fully/over collateralised loans and advances		Loans and advances not or not fully covered with collateral	
31.12.2014	**Net value of loans and advances**	**Fair value of collateral**	**Net value of loans and advances**	**Fair value of collateral**
Debt securities	706,785	706,785	-	-
Loans to government	70,010	78,509	317,368	40
Loans to banks	-	-	159,300	546
Loans to financial organizations	18,121	48,619	530,610	151
Loans to individuals	1,454,823	2,682,178	429,177	65,876
Granted overdrafts	*-*	*-*	*159,967*	*-*
Loans for houses and flats	*1,069,103*	*2,222,685*	*74,849*	*57,876*
Consumer loans	*385,544*	*458,837*	*87,248*	*5,678*
Other loans	*176*	*656*	*107,113*	*2,322*
Loans to other customers	1,361,344	3,083,389	811,587	449,908
Loans to large corporate customers	*899,357*	*1,631,434*	*519,137*	*238,250*
Loans to small and medium size enterprises	*461,987*	*1,451,955*	*292,450*	*211,658*
Other financial assets	292	3,181	47,544	363
Total	**3,611,375**	**6,602,661**	**2,295,586**	**516,884**

in EUR thousand

31.12.2015	NLB Group: Fully/over collateralised loans and advances		NLB Group: Loans and advances not or not fully covered with collateral	
	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Debt securities	394,579	394,579	-	-
Loans to government	106,460	175,914	582,014	7
Loans to banks	29	106	431,746	610
Loans to financial organizations	31,724	79,141	108,128	7,145
Loans to individuals	1,964,725	3,919,693	943,266	150,360
Granted overdrafts	-	-	*185,912*	-
Loans for houses and flats	*1,283,725*	*2,827,096*	*220,089*	*95,683*
Consumer loans	*623,828*	*970,322*	*339,056*	*16,820*
Other loans	*57,172*	*122,275*	*198,209*	*37,857*
Loans to other customers	1,874,743	5,130,963	1,082,561	683,433
Loans to large corporate customers	*1,081,843*	*2,455,629*	*563,326*	*304,934*
Loans to small and medium size enterprises	*792,900*	*2,675,334*	*519,235*	*378,499*
Other financial assets	2,965	38,713	66,556	417
Total	**4,375,225**	**9,739,109**	**3,214,271**	**841,972**

in EUR thousand

31.12.2014	NLB Group: Fully/over collateralised loans and advances		NLB Group: Loans and advances not or not fully covered with collateral	
	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Debt securities	706,785	706,785	-	-
Loans to government	100,077	157,351	415,238	42,207
Loans to banks	101	149	271,239	1,404
Loans to financial organizations	20,254	50,942	133,878	961
Loans to individuals	2,003,136	4,305,935	800,166	94,088
Granted overdrafts	-	-	*192,738*	-
Loans for houses and flats	*1,328,649*	*3,128,381*	*113,373*	*62,812*
Consumer loans	*611,567*	*1,044,552*	*299,185*	*7,550*
Other loans	*62,920*	*133,002*	*194,870*	*23,726*
Loans to other customers	2,165,561	6,162,405	1,070,022	623,350
Loans to large corporate customers	*1,220,761*	*2,814,455*	*598,602*	*269,283*
Loans to small and medium size enterprises	*944,800*	*3,347,950*	*471,420*	*354,067*
Other financial assets	1,897	5,540	69,872	409
Total	**4,997,811**	**11,389,107**	**2,760,415**	**762,419**

In July 2015, the Bank of Slovenia changed its Decree on the evaluation of credit losses from credit risk in banks where, among other things, it altered the definition of a suitable appraisal of real estate for collateral purposes and the calculation of provisions. Up until that moment, a suitable appraisal was an appraisal prepared by an independent real-estate appraiser. In the last version, it added that the appraisal should be either prepared in accordance with the International Valuation Standards (IVS) or based on sell/purchase contracts or court appraisals. When reviewing its portfolio of real-estate appraisals, the Bank noted that some of the older evaluations of real estate as collateral were not prepared in accordance with the new rules. Therefore, the Bank has acquired a larger number of new real-estate appraisals, prepared in accordance with the IVS, for corporate as well as physical clients. In the latter case, a number of real-estate appraisals were not prepared, but the decision was made not to take them into account anymore for reporting purposes. The collateral remains but, due to the fact that the appraisals are not prepared in accordance with the IVS, such appraisals are not taken into consideration.

f) Credit protection policy

NLB Group applies a single set of standards to retail and corporate loan collateral, as developed by the members through the collateral harmonisation project. The master document regulating loan collateral in NLB Group is the Loan Collateral Policy in NLB d.d. and NLB Group. The Policy has been adopted by the Management Board of NLB d.d. and by the supervisory bodies of respective members for other members of NLB Group. The Policy represents the basic orientations bank employees must take into account when signing, evaluating, monitoring and reporting collateral, with the aim of reducing credit risk.

NLB Group primarily accepts collateral complying with the Basel II requirements with the aim of improving credit risk management and consuming capital economically. In accordance with Basel II, collateral may consist of pledged deposits, government guarantees, bank guarantees, debt securities issued by central governments and central banks, bank debt securities and real-estate mortgages (the real estate must be located in the European Economic Area for the effect on capital to be recognised).

Loans made to companies and sole proprietors may be secured by other forms of collateral as well (for example, a lien on movable property, a pledge of an equity stake, collateral by pledged/assigned receivables etc.) if it is assessed that the collateral could generate a cash flow if it were needed as a secondary source of payment. In the case of a lower probability that such an item of collateral would generate a cash flow, a conservative approach is followed, namely, such collateral can be taken but for the reporting the value is zero.

g) The processes for valuing collateral

Pursuant to the law, NLB Group has set up a system for monitoring and reporting collateral at fair (market) value.

The market value of real estate or movable property used as collateral is obtained from valuation reports of licensed appraisers or, for low contract amounts, from sales agreements not older than one year. The market value of financial instruments held by NLB Group is obtained from the organised market – the stock exchange – for listed financial instruments or determined in accordance with the internal methodology for unlisted financial instruments (such collateral is used exceptionally and on a small scale in loans granted to companies and sole proprietors).

NLB d.d. has compiled a reference list of licensed appraisers. All appraisals must be made for the purpose of secured lending and in accordance with the International Valuation Standards (IVS). Appraisals related to retail loans are generally ordered only from appraisers with whom the Bank has a contract for real-estate valuations. For corporate loans, appraisals are usually submitted by clients. If a client submits an appraisal not made by an appraiser included on the Bank's reference list, the expert department employing licensed appraisers (certified appraisers in construction with licences granted by the Ministry of Justice, and certified real-estate value appraisers with licences granted by the Slovenian Institute of Auditors) will verify the appraisal. The expert department is also responsible for reviewing valuations of real estate serving as collateral for large loans.

Other NLB Group members obtain valuations from in-house appraisers and outsourced appraisers, all having the necessary licences. NLB Group has compiled a reference list of appraisers for valuations of real estate located outside Slovenia. Appraisals must be made in accordance with the IVS. For larger loans, real-estate evaluations must be reviewed by an internal licensed appraiser with knowledge of the local real-estate market.

When assuring collateral, NLB Group follows the internal regulations which define the minimum security or pledge ratios. NLB Group strives to obtain collateral with a higher value than the underlying exposure (depending on the borrower's rating, loan maturity etc.) with the aim of reducing negative consequences resulting from any major swings in market prices of the assets used as collateral. In the case of a reduced value of collateral and/or deteriorated debtor credit rating, additional collateral is sought as necessary and in accordance with the contractual provisions.

If real estate, movable property and financial instruments serve as collateral, the Bank's lien should be entered as top ranking. Exceptionally, where the value of the mortgaged real estate is large enough, the lien can be entered with a different priority order.

NLB Group monitors the value of collateral during the loan repayment period in accordance with the mandatory periods and internal instructions. For example, the value of collateral using mortgaged real estate is monitored annually by either preparing individual assessments or using the internal methodology for preparing an own value appraisal of real estate (which applies to Slovenia) based on public records and indexes of real-estate value published by the relevant government authorities (the Surveying and Mapping Authority in Slovenia).

h) The main types of collateral taken by the Bank

NLB Group accepts different forms of material and personal security as loan collateral.

Material loan collateral gives the right in case of the debtor (borrower) defaulting on their contractual obligations to sell specific property to recover claims, keep specific non-cash property or cash, or reduces or offsets the amount of exposure against the counterparty's debt to the Bank.

NLB Group accepts the following material types of loan collateral:
- asset-backed collateral:
  - collateral backed by business and residential real estate;
  - collateral backed by movable property;
  - cash receivable collateral;

- collateral by a pledge of financial assets (bank deposits or cash-like instruments, debt securities of different issuers, investment fund units, equity securities or convertible bonds, portfolios under management);
- pledge of an equity stake;
- pledge or assignment of receivables as collateral; and
- other material forms of loan collateral (life insurance policies pledged to the Bank etc.).

Personal loan collateral is a method for reducing credit risk whereby a third party undertakes to pay the debt in case of the primary debtor (borrower) defaulting.

NLB Group accepts the following types of personal loan collateral:
- joint and several guarantees by retail and corporate clients;
- bank guarantees;
- government guarantees (e.g. of the Republic of Slovenia);
- guarantees by national and regional development agencies; and
- insurance with an insurance company etc.

Loans are very often secured by a combination of collateral types.

The general recommendations on loan collateral are specified in the internal instructions and include the elements specified below. The decision on the type of collateral and the coverage of loan by collateral depends on the analysis of data on the debtor (the debtor's credit rating and creditworthiness) and loan maturity; the difference arises from whether the loan is granted to retail or a corporate client. Corporate clients (companies and sole proprietors) must submit bills of exchange with written authorities for the creditor to fill them in for every loan.

NLB d.d. has also created, in the area of real-estate loan collateral, an 'on-line' connection with the Surveying and Mapping Authority in Slovenia which allows direct and immediate verification of the existence of property.

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

i) Evaluation risk of collateral

Client/counterparty credit risk is the key decision parameter when approving exposures. Collateral is a secondary source of repayment, and therefore decisions on approvals of exposures should not primarily be based on the provided collateral. However, collateral is an important comfort element in the approval process and, depending on the credit rating of the client, a prerequisite. NLB Group has prescribed the minimum ratios between the value of collateral and the loan amount, depending on the type of collateral and the client rating. The ratios are based on experience, regulatory guidelines and are prescribed in the Collateral Manual.

Given current market circumstances, NLB Group pays particular attention to closely monitoring the fair value of collateral and to receive regular and independent revaluations by applying the International Valuation Standards. Through a detailed examination of all collateral received, NLB d.d. has ensured that only collateral is taken into account from which payment can be realistically expected if it is liquidated.

NLB Group has the largest concentration on collaterals arising from mortgages on real-estate, which is a comparatively reliable and quality type of collateral; however, among others due to the falling real-estate market prices in recent history, the Bank is closely monitoring the real-estate collateral values and, where required, is establishing higher amounts of impairments and provisions for non-performing loans secured by real estate, based on estimated discounts of the real-estate value (specified in the Collateral Manual) which are expected to be achieved in a sale (expected payment from collateral).

Collateral consisting of securities entails market risk, specifically the risk of changes in the prices of securities on capital markets. To limit such risks and restrict the possibility of the value of instruments received as collateral falling below approved limits, the Rules determine minimum pledge ratios for securing loans on the basis of pledged securities and equity shares in NLB d.d. Any deviation from the Rules is subject to the prior approval of the respective decision bodies of the Bank. The ratio between the loan amount and the securities' value is determined with regard to the securities' liquidity, maturity, correlation with changes in market indexes, i.e. by considering the key features reflecting the level of volatility of market prices and the ability to sell the securities at the market price. For certain types of securities, the ratio is also determined by considering the issuer's credit rating, which reflects the credit risk entailed in collateral using securities. In the case of adverse changes in the capital markets, the loan-to-collateral ratio may fall below the prescribed limit; in such a case, the debtor will be asked to provide additional securities or another type of collateral.

Collateral consisting of sureties of corporate clients, sureties of private individuals, and bank guarantees entail the credit risk of the provider of the collateral. NLB Group includes the amount of the guarantees received in the exposure limit of the guarantor, and guarantees are only taken into account as collateral if the guarantor has sufficient overall creditworthiness.

The Collateral Manual regulates which forms of collateral are acceptable, and which preconditions a type of collateral needs to fulfil to be able to be considered.

j) Net loans and advances neither past due nor impaired

in EUR thousand

	NLB d.d.					NLB Group				
31.12.2015	A	B	C	D and E	Total	A	B	C	D and E	Total
Debt securities	394,579	-	-	-	394,579	394,579	-	-	-	394,579
Loans to government	439,997	125,097	3,662	-	568,756	445,382	190,291	33,936	29	669,638
Loans to banks	202,097	141,694	-	-	343,791	300,464	126,084	-	-	426,548
Loans to financial organizations	23,629	189	99,422	48	123,288	27,101	1,889	75,339	48	104,377
Loans to individuals	1,781,889	5,230	19,333	-	1,806,452	2,575,773	14,822	25,400	61	2,616,056
Granted overdrafts	*141,486*	*309*	*2,538*	-	*144,333*	*157,312*	*466*	*2,599*	-	*160,377*
Loans for houses and flats	*1,100,006*	*4,402*	*14,893*	-	*1,119,301*	*1,364,783*	*6,508*	*16,569*	*3*	*1,387,863*
Consumer loans	*450,740*	*192*	*1,552*	-	*452,484*	*864,481*	*7,163*	*5,246*	*58*	*876,948*
Other loans	*89,657*	*327*	*350*	-	*90,334*	*189,197*	*685*	*986*	-	*190,868*
Loans to other customers	663,035	638,834	258,197	21,041	1,581,107	854,318	1,066,181	294,123	26,904	2,241,526
Loans to large corporate customers	*595,135*	*415,879*	*121,089*	*15,927*	*1,148,030*	*681,411*	*574,717*	*158,243*	*19,348*	*1,433,719*
Loans to small and medium size enterprises	*67,900*	*222,955*	*137,108*	*5,114*	*433,077*	*172,907*	*491,464*	*135,880*	*7,556*	*807,807*
Other financial assets	38,455	2,371	1,162	1	41,989	55,480	3,142	1,287	21	59,930
Total	**3,543,681**	**913,415**	**381,776**	**21,090**	**4,859,962**	**4,653,097**	**1,402,409**	**430,085**	**27,063**	**6,512,654**

in EUR thousand

	NLB d.d.					NLB Group				
31.12.2014	A	B	C	D and E	Total	A	B	C	D and E	Total
Debt securities	706,785	-	-	-	706,785	706,785	-	-	-	706,785
Loans to government	255,141	116,526	4,377	-	376,044	323,685	167,132	8,337	38	499,192
Loans to banks	120,923	36,699	1,673	-	159,295	262,894	1,197	1,673	-	265,764
Loans to financial organizations	24,807	442	45,778	-	71,027	33,142	3,187	6,953	-	43,282
Loans to individuals	1,772,009	6,142	16,474	-	1,794,625	2,487,467	21,496	23,394	232	2,532,589
Granted overdrafts	*147,443*	*392*	*997*	-	*148,832*	*163,277*	*480*	*1,027*	-	*164,784*
Loans for houses and flats	*1,084,702*	*5,158*	*13,713*	-	*1,103,573*	*1,320,541*	*11,796*	*17,916*	*1*	*1,350,254*
Consumer loans	*447,298*	*202*	*1,322*	-	*448,822*	*811,640*	*8,255*	*3,757*	*188*	*823,840*
Other loans	*92,566*	*390*	*442*	-	*93,398*	*192,009*	*965*	*694*	*43*	*193,711*
Loans to other customers	712,874	522,026	318,941	22,149	1,575,990	937,576	821,558	417,842	30,802	2,207,778
Loans to large corporate customers	*655,438*	*318,345*	*174,755*	*18,570*	*1,167,108*	*765,370*	*446,558*	*220,779*	*23,634*	*1,456,341*
Loans to small and medium size enterprises	*57,436*	*203,681*	*144,186*	*3,579*	*408,882*	*172,206*	*375,000*	*197,063*	*7,168*	*751,437*
Other financial assets	41,295	2,121	1,471	-	44,887	56,356	2,510	1,573	11	60,450
Total	**3,633,834**	**683,956**	**388,714**	**22,149**	**4,728,653**	**4,807,905**	**1,017,080**	**459,772**	**31,083**	**6,315,840**

* The loans and advances disclosed in the above tables are not individually impaired since they are fully or over collateralised.

k) Net loans and advances past due but not individually impaired

in EUR thousand

31.12.2015	NLB d.d. Up to 30 days	NLB d.d. Up to 90 days	NLB d.d. Over 90 days	NLB d.d. Total	NLB Group Up to 30 days	NLB Group Up to 90 days	NLB Group Over 90 days	NLB Group Total
Loans to government	1	-	-	1	8,468	56	-	8,524
Loans to banks	-	-	275	275	29	-	-	29
Loans to financial organizations	-	-	33	33	79	28	34	141
Loans to individuals	28,005	1,867	-	29,872	203,459	14,770	1,957	220,186
Granted overdrafts	*2,591*	*743*	-	*3,334*	*20,055*	*840*	*69*	*20,964*
Loans for houses and flats	*7,689*	*389*	-	*8,078*	*66,899*	*2,905*	*591*	*70,395*
Consumer loans	*9,452*	*133*	-	*9,585*	*64,930*	*1,725*	*413*	*67,068*
Other loans	*8,273*	*602*	-	*8,875*	*51,575*	*9,300*	*884*	*61,759*
Loans to other customers	1,508	177	1,888	3,573	149,789	13,698	13,464	176,951
Loans to large corporate customers	-	-	*24*	*24*	*40,384*	*1,842*	*2,179*	*44,405*
Loans to small and medium size enterprises	*1,508*	*177*	*1,864*	*3,549*	*109,405*	*11,856*	*11,285*	*132,546*
Other financial assets	88	1	18	107	3,412	229	383	4,024
Total	**29,602**	**2,045**	**2,214**	**33,861**	**365,236**	**28,781**	**15,838**	**409,855**

in EUR thousand

31.12.2014	NLB d.d. Up to 30 days	NLB d.d. Up to 90 days	NLB d.d. Over 90 days	NLB d.d. Total	NLB Group Up to 30 days	NLB Group Up to 90 days	NLB Group Over 90 days	NLB Group Total
Loans to government	202	-	-	202	3,941	4	-	3,945
Loans to banks	-	-	-	-	5	-	-	5
Loans to financial organizations	5	1	-	6	21	13	13	47
Loans to individuals	36,541	1,546	-	38,087	176,769	20,115	3,885	200,769
Granted overdrafts	*3,918*	*440*	-	*4,358*	*20,330*	*511*	*111*	*20,952*
Loans for houses and flats	*11,390*	*385*	-	*11,775*	*48,480*	*5,491*	*1,773*	*55,744*
Consumer loans	*11,295*	*2*	-	*11,297*	*62,425*	*3,018*	*449*	*65,892*
Other loans	*9,938*	*719*	-	*10,657*	*45,534*	*11,095*	*1,552*	*58,181*
Loans to other customers	8,686	227	3,454	12,367	145,613	24,829	20,247	190,689
Loans to large corporate customers	*631*	-	-	*631*	*37,482*	*1,842*	*3,559*	*42,883*
Loans to small and medium size enterprises	*8,055*	*227*	*3,454*	*11,736*	*108,131*	*22,987*	*16,688*	*147,806*
Other financial assets	54	2	5	61	4,060	241	270	4,571
Total	**45,488**	**1,776**	**3,459**	**50,723**	**330,409**	**45,202**	**24,415**	**400,026**

* The loans and advances disclosed in the above tables are not individually impaired since they are fully or over collateralised.

l) Individually impaired loans and advances

in EUR thousand

31.12.2015	NLB d.d. Gross value	NLB d.d. Impairment provision	NLB d.d. Net value	NLB Group Gross value	NLB Group Impairment provision	NLB Group Net value
Loans to government	12,754	(3,327)	9,427	16,836	(6,524)	10,312
Loans to banks	1,338	(197)	1,141	5,439	(241)	5,198
Loans to financial organizations	314,078	(45,488)	268,590	72,282	(36,948)	35,334
Loans to individuals	105,041	(51,682)	53,359	184,308	(112,559)	71,749
Granted overdrafts	*11,984*	*(7,609)*	*4,375*	*15,182*	*(10,611)*	*4,571*
Loans for houses and flats	*66,093*	*(27,672)*	*38,421*	*85,150*	*(39,594)*	*45,556*
Consumer loans	*24,940*	*(15,120)*	*9,820*	*62,339*	*(43,471)*	*18,868*
Other loans	*2,024*	*(1,281)*	*743*	*21,637*	*(18,883)*	*2,754*
Loans to other customers	895,611	(513,930)	381,681	1,475,971	(937,144)	538,827
Loans to large corporate customers	*285,868*	*(170,867)*	*115,001*	*438,867*	*(271,822)*	*167,045*
Loans to small and medium size enterprises	*609,743*	*(343,063)*	*266,680*	*1,037,104*	*(665,322)*	*371,782*
Other financial assets	11,340	(4,492)	6,848	31,711	(26,144)	5,567
Total	**1,340,162**	**(619,116)**	**721,046**	**1,786,547**	**(1,119,560)**	**666,987**

in EUR thousand

31.12.2014	NLB d.d. Gross value	NLB d.d. Impairment provision	NLB d.d. Net value	NLB Group Gross value	NLB Group Impairment provision	NLB Group Net value
Loans to government	14,388	(3,256)	11,132	16,413	(4,235)	12,178
Loans to banks	687	(682)	5	30,285	(24,714)	5,571
Loans to financial organizations	637,348	(159,650)	477,698	147,979	(37,176)	110,803
Loans to individuals	110,394	(59,106)	51,288	193,283	(123,339)	69,944
Granted overdrafts	*16,509*	*(9,732)*	*6,777*	*19,188*	*(12,186)*	*7,002*
Loans for houses and flats	*54,151*	*(25,547)*	*28,604*	*71,693*	*(35,669)*	*36,024*
Consumer loans	*32,662*	*(19,989)*	*12,673*	*72,018*	*(50,998)*	*21,020*
Other loans	*7,072*	*(3,838)*	*3,234*	*30,384*	*(24,486)*	*5,898*
Loans to other customers	1,285,603	(701,029)	584,574	2,145,797	(1,308,681)	837,116
Loans to large corporate customers	*527,787*	*(277,032)*	*250,755*	*748,292*	*(428,153)*	*320,139*
Loans to small and medium size enterprises	*757,816*	*(423,997)*	*333,819*	*1,397,505*	*(880,528)*	*516,977*
Other financial assets	19,792	(16,904)	2,888	48,010	(41,262)	6,748
Total	**2,068,212**	**(940,627)**	**1,127,585**	**2,581,767**	**(1,539,407)**	**1,042,360**

m) Net loans analysis

in EUR thousand

31.12.2015	NLB d.d. Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	394,579	-	-	394,579
Loans to government	568,756	1	9,427	578,184
Loans to banks	343,791	275	1,141	345,207
Loans to financial organizations	123,288	33	268,590	391,911
Loans to individuals	1,806,452	29,872	53,359	1,889,683
Granted overdrafts	*144,333*	*3,334*	*4,375*	*152,042*
Loans for houses and flats	*1,119,301*	*8,078*	*38,421*	*1,165,800*
Consumer loans	*452,484*	*9,585*	*9,820*	*471,889*
Other loans	*90,334*	*8,875*	*743*	*99,952*
Loans to other customers	1,581,107	3,573	381,681	1,966,361
Loans to large corporate customers	*1,148,030*	*24*	*115,001*	*1,263,055*
Loans to small and medium size enterprises	*433,077*	*3,549*	*266,680*	*703,306*
Other financial assets	41,989	107	6,848	48,944
Total	**4,859,962**	**33,861**	**721,046**	**5,614,869**

in EUR thousand

31.12.2014	NLB d.d. Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	706,785	-	-	706,785
Loans to government	376,044	202	11,132	387,378
Loans to banks	159,295	-	5	159,300
Loans to financial organizations	71,027	6	477,698	548,731
Loans to individuals	1,794,625	38,087	51,288	1,884,000
Granted overdrafts	*148,832*	*4,358*	*6,777*	*159,967*
Loans for houses and flats	*1,103,573*	*11,775*	*28,604*	*1,143,952*
Consumer loans	*448,822*	*11,297*	*12,673*	*472,792*
Other loans	*93,398*	*10,657*	*3,234*	*107,289*
Loans to other customers	1,575,990	12,367	584,574	2,172,931
Loans to large corporate customers	*1,167,108*	*631*	*250,755*	*1,418,494*
Loans to small and medium size enterprises	*408,882*	*11,736*	*333,819*	*754,437*
Other financial assets	44,887	61	2,888	47,836
Total	**4,728,653**	**50,723**	**1,127,585**	**5,906,961**

in EUR thousand

31.12.2015	NLB Group			
	Loans and advances neither past due nor impaired	**Loans and advances past due but not impaired**	**Individually impaired loans and advances**	**Total**
Debt securities	394,579	-	-	394,579
Loans to government	669,638	8,524	10,312	688,474
Loans to banks	426,548	29	5,198	431,775
Loans to financial organizations	104,377	141	35,334	139,852
Loans to individuals	2,616,056	220,186	71,749	2,907,991
Granted overdrafts	*160,377*	*20,964*	*4,571*	*185,912*
Loans for houses and flats	*1,387,863*	*70,395*	*45,556*	*1,503,814*
Consumer loans	*876,948*	*67,068*	*18,868*	*962,884*
Other loans	*190,868*	*61,759*	*2,754*	*255,381*
Loans to other customers	2,241,526	176,951	538,827	2,957,304
Loans to large corporate customers	*1,433,719*	*44,405*	*167,045*	*1,645,169*
Loans to small and medium size enterprises	*807,807*	*132,546*	*371,782*	*1,312,135*
Other financial assets	59,930	4,024	5,567	69,521
Total	**6,512,654**	**409,855**	**666,987**	**7,589,496**

in EUR thousand

31.12.2014	NLB Group			
	Loans and advances neither past due nor impaired	**Loans and advances past due but not impaired**	**Individually impaired loans and advances**	**Total**
Debt securities	706,785	-	-	706,785
Loans to government	499,192	3,945	12,178	515,315
Loans to banks	265,764	5	5,571	271,340
Loans to financial organizations	43,282	47	110,803	154,132
Loans to individuals	2,532,589	200,769	69,944	2,803,302
Granted overdrafts	*164,784*	*20,952*	*7,002*	*192,738*
Loans for houses and flats	*1,350,254*	*55,744*	*36,024*	*1,442,022*
Consumer loans	*823,840*	*65,892*	*21,020*	*910,752*
Other loans	*193,711*	*58,181*	*5,898*	*257,790*
Loans to other customers	2,207,778	190,689	837,116	3,235,583
Loans to large corporate customers	*1,456,341*	*42,883*	*320,139*	*1,819,363*
Loans to small and medium size enterprises	*751,437*	*147,806*	*516,977*	*1,416,220*
Other financial assets	60,450	4,571	6,748	71,769
Total	**6,315,840**	**400,026**	**1,042,360**	**7,758,226**

n) Repossessed assets

NLB d.d. and NLB Group received the following assets by taking possession of collateral held as security and held them at the reporting date:

in EUR thousand

	NLB d.d.		NLB Group	
	Net value		Net value	
Nature of assets	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Securities (note 5.4.b)	18,977	28,052	21,277	28,052
Investment property (note 5.10.)	3,750	-	57,599	8,291
Property and equipment (note 5.9.)	7	7	1,839	267
Investments in subsidiaries and associates	3,248	448	-	-
Other assets (note 5.13.)	3,371	1,561	75,652	116,606
Total	**29,353**	**30,068**	**156,367**	**153,216**

o) Analysis of loans and advances by industry sectors

in EUR thousand

NLB d.d.	31.12.2015				31.12.2014			
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	345,404	(197)	345,207	6.15	159,982	(682)	159,300	2.70
Finance	461,704	(48,575)	413,129	7.36	745,364	(163,620)	581,744	9.85
Electricity, gas and water	86,984	(16,559)	70,425	1.25	109,684	(38,332)	71,352	1.21
Construction industry	163,190	(91,144)	72,046	1.28	203,654	(110,069)	93,585	1.59
Heavy industry	652,104	(138,005)	514,099	9.16	806,252	(181,777)	624,475	10.57
Education	13,342	(402)	12,940	0.23	12,423	(417)	12,006	0.20
Agriculture, forestry and fishing	27,611	(10,492)	17,119	0.30	60,365	(38,465)	21,900	0.37
Public sector	301,481	(2,647)	298,834	5.32	309,576	(2,913)	306,663	5.19
Individuals	1,957,859	(68,176)	1,889,683	33.65	1,958,806	(74,806)	1,884,000	31.90
Mining	30,910	(5,860)	25,050	0.45	25,203	(6,729)	18,474	0.31
Entrepreneurs	64,181	(10,502)	53,679	0.96	79,175	(17,629)	61,546	1.04
Services	988,569	(144,690)	843,879	15.03	1,129,139	(160,844)	968,295	16.39
Transport and communications	756,836	(26,859)	729,977	13.00	790,812	(26,927)	763,885	12.93
Trade industry	393,574	(127,080)	266,494	4.75	448,667	(171,670)	276,997	4.69
Health care and social security	17,091	(3,727)	13,364	0.24	19,087	(4,184)	14,903	0.25
Other financial assets	54,067	(5,123)	48,944	0.87	65,357	(17,521)	47,836	0.81
Total	**6,314,907**	**(700,038)**	**5,614,869**	**100.00**	**6,923,546**	**(1,016,585)**	**5,906,961**	**100.00**

in EUR thousand

NLB Group	31.12.2015				31.12.2014			
Industry sector	**Gross loans**	**Impairment provisions**	**Net loans**	**(%)**	**Gross loans**	**Impairment provisions**	**Net loans**	**(%)**
Banks	432,017	(242)	431,775	5.69	296,062	(24,722)	271,340	3.50
Finance	202,661	(38,300)	164,361	2.17	228,583	(38,569)	190,014	2.45
Electricity, gas and water	134,658	(29,576)	105,082	1.38	141,029	(47,370)	93,659	1.21
Construction industry	319,901	(164,532)	155,369	2.05	423,906	(233,886)	190,020	2.45
Heavy industry	911,548	(241,932)	669,616	8.82	1,152,483	(352,129)	800,354	10.32
Education	18,036	(1,263)	16,773	0.22	15,001	(1,400)	13,601	0.18
Agriculture, forestry and fishing	67,071	(24,400)	42,671	0.56	100,267	(55,862)	44,405	0.57
Public sector	424,955	(15,831)	409,124	5.39	450,651	(16,051)	434,600	5.60
Individuals	3,050,810	(142,819)	2,907,991	38.32	2,957,961	(154,659)	2,803,302	36.13
Mining	86,915	(14,202)	72,713	0.96	90,849	(20,757)	70,092	0.90
Entrepreneurs	103,205	(16,617)	86,588	1.14	112,982	(23,714)	89,268	1.15
Services	1,208,684	(246,164)	962,520	12.68	1,410,358	(279,680)	1,130,678	14.57
Transport and communications	829,706	(39,330)	790,376	10.41	866,063	(45,759)	820,304	10.57
Trade industry	964,366	(282,832)	681,534	8.98	1,062,444	(354,350)	708,094	9.13
Health care and social security	28,519	(5,037)	23,482	0.31	40,844	(14,118)	26,726	0.34
Other financial assets	96,599	(27,078)	69,521	0.92	114,449	(42,680)	71,769	0.93
Total	**8,879,651**	**(1,290,155)**	**7,589,496**	**100.00**	**9,463,932**	**(1,705,706)**	**7,758,226**	**100.00**

p) Analysis of net loans and advances by geographical sectors

in EUR thousand

	NLB d.d.		NLB Group	
Country	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Republic of Slovenia	4,830,064	5,125,829	4,710,505	5,076,723
Other European Union members	357,510	177,966	437,089	320,214
Other countries	378,351	555,330	2,372,381	2,289,520
Total	**5,565,925**	**5,859,125**	**7,519,975**	**7,686,457**

The analysis of loans and advances by geographical sector excludes other financial assets.

r) Analysis of debt securities and derivative financial instruments by geographical sectors

in EUR thousand

31.12.2015	NLB d.d.					NLB Group					
Country	Loans and advances	Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative financial instruments	Loans and advances	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative financial instruments
Republic of Slovenia	394,579	82,096	423,884	383,540	10,639	394,579	82,096	-	470,881	383,540	10,172
Other members of European Union	-	154,273	738,184	181,995	20,835	-	154,273	753	740,851	181,995	20,835
- Italy	-	-	*23,333*	*5,064*	-	-	-	-	*23,333*	*5,064*	-
- Ireland	-	-	*6,933*	*5,161*	-	-	-	*486*	*6,933*	*5,161*	-
- France	-	-	*78,656*	*21,958*	*1*	-	-	*104*	*78,656*	*21,958*	*1*
- Belgium	-	-	*55,388*	*3,527*	*1,083*	-	-	-	*58,054*	*3,527*	*1,083*
- Netherlands	-	-	*73,039*	*36,494*	*14,357*	-	-	-	*73,039*	*36,494*	*14,357*
- Austria	-	*20,007*	*52,914*	*37,592*	-	-	*20,007*	-	*52,914*	*37,592*	-
- Germany	-	*73,156*	*161,928*	*52,519*	*597*	-	*73,156*	-	*161,928*	*52,519*	*597*
- Finland	-	-	*38,928*	*3,273*	-	-	-	-	*38,928*	*3,273*	-
- Sweden	-	-	*37,036*	-	-	-	-	*163*	*37,036*	-	-
- Denmark	-	*25,001*	*6,450*	-	-	-	*25,001*	-	*6,450*	-	-
- Luxembourg	-	-	*68,177*	*13,326*	-	-	-	-	*68,177*	*13,326*	-
- Great Britain	-	*33,008*	*99,102*	-	*4,797*	-	*33,008*	-	*99,102*	-	*4,797*
- Slovakia	-	*3,101*	*15,801*	*2,059*	-	-	*3,101*	-	*15,801*	*2,059*	-
- Spain	-	-	*14,745*	-	-	-	-	-	*14,745*	-	-
- Other	-	-	*5,754*	*1,022*	-	-	-	-	*5,755*	*1,022*	-
United States of America	-	-	15,879	-	-	-	-	-	15,879	-	-
Other countries	-	993	-	-	117	-	993	-	434,118	-	117
- Macedonia	-	-	-	-	-	-	-	-	*175,366*	-	*3*
- Serbia	-	-	-	-	*1*	-	-	-	*81,491*	-	-
- Bosnia and Herzegovina	-	-	-	-	-	-	-	-	*59,712*	-	-
- Montenegro	-	-	-	-	-	-	-	-	*49,786*	-	-
- Kosovo	-	-	-	-	*116*	-	-	-	*67,763*	-	*114*
- Other	-	*993*	-	-	-	-	*993*	-	-	-	-
Total	**394,579**	**237,362**	**1,177,947**	**565,535**	**31,591**	**394,579**	**237,362**	**753**	**1,661,729**	**565,535**	**31,124**

in EUR thousand

31.12.2014	NLB d.d.					NLB Group					
Country	Loans and advances	Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative financial instruments	Loans and advances	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative financial instruments
Republic of Slovenia	706,785	97,248	579,119	461,486	13,576	706,785	97,248	-	659,451	461,486	12,981
Other members of European Union	-	-	564,969	250,162	29,915	-	-	544	596,825	250,162	29,921
- Italy	-	-	-	*10,107*	-	-	-	-	-	*10,107*	-
- Ireland	-	-	*2,472*	*5,166*	-	-	-	*99*	*2,472*	*5,166*	-
- France	-	-	*71,169*	*35,673*	*107*	-	-	*105*	*78,378*	*35,672*	*107*
- Belgium	-	-	*47,819*	*6,046*	*2,966*	-	-	-	*66,257*	*6,046*	*2,966*
- Netherlands	-	-	*58,128*	*41,734*	*14,186*	-	-	-	*58,128*	*41,734*	*14,186*
- Austria	-	-	*57,186*	*42,831*	-	-	-	-	*63,395*	*42,831*	-
- Germany	-	-	*130,315*	*77,186*	*4,058*	-	-	-	*130,315*	*77,186*	*4,058*
- Finland	-	-	*39,109*	*13,634*	-	-	-	-	*39,109*	*13,634*	-
- Sweden	-	-	*32,190*	-	-	-	-	-	*32,190*	-	-
- Denmark	-	-	*23,327*	-	-	-	-	-	*23,327*	-	-
- Luxembourg	-	-	*63,260*	*14,706*	-	-	-	-	*63,260*	*14,706*	-
- Great Britain	-	-	*20,595*	-	*8,598*	-	-	*340*	*20,595*	-	*8,598*
- Slovakia	-	-	*15,777*	*2,058*	-	-	-	-	*15,777*	*2,058*	-
- Other	-	-	*3,622*	*1,021*	-	-	-	-	*3,622*	*1,022*	*6*
United States of America	-	-	6,778					-	6,778	-	-
Other countries	-	892	2,067	-	121	-	892	341	377,037	-	120
- Macedonia	-	-	-	-	-	-	-	-	*173,651*	-	-
- Serbia	-	-	-	-	*1*	-	-	-	*88,580*	-	-
- Bosnia and Herzegovina	-	-	-	-	-	-	-	-	*40,317*	-	-
- Montenegro	-	-	-	-	-	-	-	-	*23,364*	-	-
- Switzerland	-	-	*2,067*	-	-	-	-	-	*2,067*	-	-
- Kosovo	-	-	-	-	*120*	-	-	-	*49,058*	-	*120*
- Other	-	*892*	-	-	-	-	*892*	*341*	-	-	-
Total	**706,785**	**98,140**	**1,152,933**	**711,648**	**43,612**	**706,785**	**98,140**	**885**	**1,640,091**	**711,648**	**43,022**

s) Internal rating of derivatives counterparties

NLB d.d. and NLB Group	31.12.2015 in %	31.12.2014 in %
A	81.27	81.83
B	15.84	14.40
C	1.24	2.08
D and E	1.65	1.69
Total	**100.00**	**100.00**

All derivatives in the banking book are entered into with counterparties with an external investment-grade rating.

When derivatives are entered into on behalf of NLB Group's customers, such customers usually do not have an external rating, but all such transactions are covered through back-to-back transactions involving third parties with an external investment-grade rating.

t) Debt securities in NLB d.d.'s and NLB Group's portfolio that represent subordinated liabilities for the issuer

in EUR thousand

31.12.2015	NLB d.d.				NLB Group			
Internal rating	**A**	**B**	**C**	**Total**	**A**	**B**	**C**	**Total**
Available-for-sale financial assets	601	-	-	601	601	-	-	601
Loans and advances								
- loans and advances to banks	10,946	3,982	1,136	16,064	-	-	1,136	1,136
- loans and advances to customers	-	-	6,435	6,435	-	-	132	132
Total	**11,547**	**3,982**	**7,571**	**23,100**	**601**	**-**	**1,268**	**1,869**

in EUR thousand

31.12.2014	NLB d.d.				NLB Group			
Internal rating	**A**	**B**	**C**	**Total**	**A**	**B**	**C**	**Total**
Trading assets	2,084	-	-	2,084	2,084	-	-	2,084
Available-for-sale financial assets	574	-	-	574	574	-	-	574
Loans and advances								
- loans and advances to banks	-	11,685	1,340	13,025	-	-	1,340	1,340
- loans and advances to customers	-	-	23,665	23,665	-	-	-	-
Total	**2,658**	**11,685**	**25,005**	**39,348**	**2,658**	**-**	**1,340**	**3,998**

u) Presentation of net financial instruments by measurement category

in EUR thousand

	NLB d.d.						
31.12.2015	Trading assets	Financial assets designated at fair value thorugh profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
Cash, cash balances at central banks and other demand deposits at banks	-	-	-	496,806	-	-	496,806
Securities	237,372	4,913	1,248,359	394,604	565,535	-	2,450,783
- Bonds	43,555	-	999,781	394,579	545,561	-	1,983,476
- Shares	10	-	70,412	-	-	-	70,422
- Commercial bills	151,171	-	151,168	-	-	-	302,339
- Treasury bills	42,636	-	26,998	-	19,974	-	89,608
- Private equity fund	-	4,913	-	-	-	-	4,913
- Reverse sell and repurchase agreements	-	-	-	25	-	-	25
Derivatives	30,508	-	-	-	-	1,083	31,591
Loans and receivables	-	-	-	5,171,321	-	-	5,171,321
- Loans to government	-	-	-	578,184	-	-	578,184
- Loans to banks	-	-	-	345,207	-	-	345,207
- Loans to financial organizations	-	-	-	391,911	-	-	391,911
- Loans to individuals	-	-	-	1,889,683	-	-	1,889,683
Granted overdrafts	-	-	-	*152,042*	-	-	*152,042*
Loans for houses and flats	-	-	-	*1,165,800*	-	-	*1,165,800*
Consumer loans	-	-	-	*471,889*	-	-	*471,889*
Other loans	-	-	-	*99,952*	-	-	*99,952*
- Loans to other customers	-	-	-	1,966,336	-	-	1,966,336
Loans to large corporate customers	-	-	-	*1,263,030*	-	-	*1,263,030*
Loans to small and medium size enterprises	-	-	-	*703,306*	-	-	*703,306*
Other financial assets	-	-	-	48,944	-	-	48,944
Total financial assets	**267,880**	**4,913**	**1,248,359**	**6,111,675**	**565,535**	**1,083**	**8,199,445**

in EUR thousand

31.12.2014	NLB d.d. Trading assets	Financial assets designated at fair value thorugh profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
Cash, cash balances at central banks and other demand deposits at banks	-	-	-	434,438	-	-	434,438
Securities	98,162	4,702	1,182,748	706,810	711,648	-	2,704,070
- Bonds	57,876	-	999,148	706,785	691,765	-	2,455,574
- Shares	22	-	29,815	-	-	-	29,837
- Commercial bills	-	-	78,973	-	-	-	78,973
- Treasury bills	40,264	-	74,812	-	19,883	-	134,959
- Private equity fund	-	4,702	-	-	-	-	4,702
- Reverse sell and repurchase agreements	-	-	-	25	-	-	25
Derivatives	40,646	-	-	-	-	2,966	43,612
Loans and receivables	-	-	-	5,152,315	-	-	5,152,315
- Loans to government	-	-	-	387,378	-	-	387,378
- Loans to banks	-	-	-	159,300	-	-	159,300
- Loans to financial organizations	-	-	-	548,731	-	-	548,731
- Loans to individuals	-	-	-	1,884,000	-	-	1,884,000
Granted overdrafts	-	-	-	*159,967*	-	-	*159,967*
Loans for houses and flats	-	-	-	*1,143,952*	-	-	*1,143,952*
Consumer loans	-	-	-	*472,792*	-	-	*472,792*
Other loans	-	-	-	*107,289*	-	-	*107,289*
- Loans to other customers	-	-	-	2,172,906	-	-	2,172,906
Loans to large corporate customers	-	-	-	*1,418,469*	-	-	*1,418,469*
Loans to small and medium size enterprises	-	-	-	*754,437*	-	-	*754,437*
Other financial assets	-	-	-	47,836	-	-	47,836
Total financial assets	**138,808**	**4,702**	**1,182,748**	**6,341,399**	**711,648**	**2,966**	**8,382,271**

in EUR thousand

31.12.2015	NLB Group							
	Trading assets	Financial assets designated at fair value thorugh profit or loss	Available-for-sale financial assets	Loans and receivables	Financial leases	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
Cash, cash balances at central banks and other demand deposits at banks	-	-	-	1,161,983	-	-	-	1,161,983
Securities	237,372	7,595	1,737,191	394,604	-	565,535	-	2,942,297
- Bonds	43,555	753	1,350,942	394,579	-	545,561	-	2,335,390
- Shares	10	-	75,462	-	-	-	-	75,472
- Commercial bills	151,171	-	151,168	-	-	-	-	302,339
- Cash certificates	-	-	77,939	-	-	-	-	77,939
- Treasury bills	42,636	-	81,680	-	-	19,974	-	144,290
- Private equity fund	-	4,913	-	-	-	-	-	4,913
- Reverse sell and repurchase agreements	-	-	-	25	-	-	-	25
- Other investments	-	1,929	-	-	-	-	-	1,929
Derivatives	30,041	-	-	-	-	-	1,083	31,124
Loans and receivables	-	-	-	6,947,552	177,819	-	-	7,125,371
- Loans to government	-	-	-	675,094	13,380	-	-	688,474
- Loans to banks	-	-	-	431,775	-	-	-	431,775
- Loans to financial organizations	-	-	-	139,559	293	-	-	139,852
- Loans to individuals	-	-	-	2,843,107	64,884	-	-	2,907,991
Granted overdrafts	-	-	-	*185,912*	-	-	-	*185,912*
Loans for houses and flats	-	-	-	*1,503,814*	-	-	-	*1,503,814*
Consumer loans	-	-	-	*962,884*	-	-	-	*962,884*
Other loans	-	-	-	*190,497*	*64,884*	-	-	*255,381*
- Loans to other customers	-	-	-	2,858,017	99,262	-	-	2,957,279
Loans to large corporate customers	-	-	-	*1,615,919*	*29,225*	-	-	*1,645,144*
Loans to small and medium size enterprises	-	-	-	*1,242,098*	*70,037*	-	-	*1,312,135*
Other financial assets	-	-	-	69,521	-	-	-	69,521
Total financial assets	**267,413**	**7,595**	**1,737,191**	**8,573,660**	**177,819**	**565,535**	**1,083**	**11,330,296**

in EUR thousand

31.12.2014	NLB Group Trading assets	Financial assets designated at fair value thorugh profit or loss	Available-for-sale financial assets	Loans and receivables	Financial leases	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
Cash, cash balances at central banks and other demand deposits at banks	-	-	-	1,127,527	-	-	-	1,127,527
Securities	98,162	6,510	1,672,952	706,810	-	711,648	-	3,196,082
- Bonds	57,876	885	1,317,574	706,785	-	691,765	-	2,774,885
- Shares	22	-	32,861	-	-	-	-	32,883
- Commercial bills	-	-	78,973	-	-	-	-	78,973
- Certificates of deposits	-	-	35,521	-	-	-	-	35,521
- Treasury bills	40,264	-	208,023	-	-	19,883	-	268,170
- Private equity fund	-	4,702	-	-	-	-	-	4,702
- Reverse sell and repurchase agreements	-	-	-	25	-	-	-	25
- Other investments	-	923	-	-	-	-	-	923
Derivatives	40,056	-	-	-	-	-	2,966	43,022
Loans and receivables	-	-	-	6,778,039	201,608	-	-	6,979,647
- Loans to government	-	-	-	500,069	15,246	-	-	515,315
- Loans to banks	-	-	-	271,340	-	-	-	271,340
- Loans to financial organizations	-	-	-	153,804	328	-	-	154,132
- Loans to individuals	-	-	-	2,734,012	69,290	-	-	2,803,302
Granted overdrafts	-	-	-	*192,738*	-	-	-	*192,738*
Loans for houses and flats	-	-	-	*1,442,022*	-	-	-	*1,442,022*
Consumer loans	-	-	-	*910,752*	-	-	-	*910,752*
Other loans	-	-	-	*188,500*	*69,290*	-	-	*257,790*
- Loans to other customers	-	-	-	3,118,814	116,744	-	-	3,235,558
Loans to large corporate customers	-	-	-	*1,780,232*	*39,106*	-	-	*1,819,338*
Loans to small and medium size enterprises	-	-	-	*1,338,582*	*77,638*	-	-	*1,416,220*
Other financial assets	-	-	-	71,769	-	-	-	71,769
Total financial assets	**138,218**	**6,510**	**1,672,952**	**8,684,145**	**201,608**	**711,648**	**2,966**	**11,418,047**

As at 31 December 2015 and 31 December 2014, all of NLB Group's financial liabilities, except for derivatives designated as hedging instruments, trading liabilities and financial liabilities designated at fair value through profit or loss, were carried at amortised cost.

7.2. Market and liquidity management

NLB Group maintains an adequate level of liquidity at all times to meet its short-term liabilities, even if a specific stress scenario is realised. Consequently, the tolerance for this risk is low. With regard to structural liquidity, NLB Group maintains a sufficient amount of liquidity reserves in the form of high credit quality debt securities that are eligible for refinancing via the ECB or on the interbank market. In the current situation, NLB Group also strives to follow as closely as possible the long-term trend of diversification on both the liability and asset sides of the balance sheet. NLB Group regularly performs stress tests with the aim of testing the liquidity stability and availability of liquidity reserves in various stress situations. In addition, special attention is given to the new liquidity regulations (CRR/CRD), along with monitoring the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), and the fulfilment of the prescribed values of the aforementioned ratios.

In the area of currency risk, NLB Group pursues the goal of low to moderate exposure. In non-core members of NLB Group, the currency exposure is mostly related to structural non-alignment as a result of credit risk; the relevant departments of NLB d.d. regularly analyse their open positions and issue guidelines for the balancing of currency positions from the economic point of view, also considering the aspect of their open position at the consolidated level and the related effects. The orientation of NLB Group in interest rate risk management is to prevent negative effects on the net revenues arising from changed market interest rates. In line with this, the tolerance for this risk is low. The conclusion of transactions involving derivatives at NLB d.d. is limited to the servicing of the clients' and hedging of the Group's own open positions. In accordance with the provisions of the Strategy on trading in financial instruments in NLB Group, the trading activities in other NLB Group members are very restricted. Thus, NLB d.d. is the only Group member with a trading book in accordance with the CRR requirements.

Monitoring and managing NLB Group's exposure to market risks is decentralised. However, uniform guidelines and exposure limits for each type of risk are set for individual NLB Group entities. The methodologies are in line with regulatory requirements on an individual and consolidated level, while reporting to the regulator on the consolidated level is carried out using a standardised approach. Pursuant to the relevant policies, NLB Group entities must monitor and manage exposure to market risks and report to NLB d.d. accordingly. The exposure of an individual NLB Group entity is regularly monitored and reported to the Assets and Liabilities Committee of NLB Group (NLB Group ALCO).

7.2.1. Currency risk (FX)

NLB Group manages currency risks in accordance with the currency risk management policy adopted by NLB d.d.'s Assets and Liabilities Committee (ALCO). Currency risk management in NLB Group is decentralised. Each member is responsible for its own Currency risk policy which also includes a limit system and is in line with local regulatory requirements as well as the parent Bank's guidelines and standards. Policies are confirmed by local committees. NLB d.d. monitors and manages NLB Group currency risk exposure on a monthly basis for each member and on the consolidated level.

The positions of all currencies in the statement of financial position of NLB d.d., for which a daily limit is set, are monitored daily. Exposure to currency risks is managed by the Financial Markets Department on the basis of a report obtained from the Global Risk Department. The Financial Markets Department manages FX positions on the currency level so that they are always within the limits.

Exposure to currency risks is discussed at daily liquidity meetings and monthly meetings of the Assets and Liabilities Committee of NLB Group.

a) The amount of financial instruments denominated in euros and in foreign currency

in EUR thousand

	NLB d.d.				
31.12.2015	EUR	USD	CHF	Other	Total
Financial assets					
Cash, cash balances at central banks and other demand deposits at banks	360,831	66,477	14,554	54,944	496,806
Trading assets	257,727	10,143	-	10	267,880
Financial assets designated at fair value through profit or loss	4,913	-	-	-	4,913
Available-for-sale financial assets	1,218,163	27,333	-	2,863	1,248,359
Derivatives - hedge accounting	1,083	-	-	-	1,083
Loans and advances					
- debt securities	394,579	-	-	-	394,579
- loans and advances to banks	311,030	23,229	937	10,011	345,207
- loans and advances to customers	4,676,413	30,091	108,423	11,212	4,826,139
- other financial assets	48,804	61	17	62	48,944
Held-to-maturity financial assets	565,535	-	-	-	565,535
Fair value changes of the hedged items in portfolio hedge of interest rate risk	741	-	-	-	741
Total financial assets	**7,839,819**	**157,334**	**123,931**	**79,102**	**8,200,186**
Financial liabilities					
Trading liabilities	29,909	-	-	-	29,909
Financial liabilities designated at fair value through profit or loss	4,912	-	-	-	4,912
Derivatives - hedge accounting	33,842	-	-	-	33,842
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	50,494	17,399	16,954	11,889	96,736
- borrowings from banks and central banks	467,550	31,372	21,004	-	519,926
- due to customers	6,102,741	109,793	44,157	36,648	6,293,339
- borrowings from other customers	16,168	-	-	-	16,168
- debt securities in issue	304,962	-	-	-	304,962
- other financial liabilities	46,488	382	79	397	47,346
Total financial liabilities	**7,057,066**	**158,946**	**82,194**	**48,934**	**7,347,140**
Net on-balance sheet financial position	**782,753**	**(1,612)**	**41,737**	**30,168**	**853,046**
Derivative financial instruments	53,260	1,998	(44,678)	(17,427)	(6,847)
Net financial position	**836,013**	**386**	**(2,941)**	**12,741**	**846,199**
31.12.2014					
Total financial assets	**7,920,681**	**138,059**	**258,259**	**66,184**	**8,383,183**
Total financial liabilities	**7,320,185**	**132,621**	**74,420**	**34,429**	**7,561,655**
Net on-balance sheet financial position	**600,496**	**5,438**	**183,839**	**31,755**	**821,528**
Derivative financial instruments	195,043	1,173	(184,391)	(20,717)	(8,892)
Net financial position	**795,539**	**6,611**	**(552)**	**11,038**	**812,636**

in EUR thousand

31.12.2015	NLB Group EUR	USD	CHF	Other	Total
Financial assets					
Cash, cash balances at central banks and other demand deposits at banks	733,307	84,540	37,582	306,554	1,161,983
Trading assets	257,260	10,143	-	10	267,413
Financial assets designated at fair value through profit or loss	7,595	-	-	-	7,595
Available-for-sale financial assets	1,458,612	29,095	2,300	247,184	1,737,191
Derivatives - hedge accounting	1,083	-	-	-	1,083
Loans and advances					
- debt securities	394,579	-	-	-	394,579
- loans and advances to banks	350,960	47,722	1	33,092	431,775
- loans and advances to customers	5,865,911	33,395	111,632	682,683	6,693,621
- other financial assets	52,733	101	45	16,642	69,521
Held-to-maturity financial assets	565,535	-	-	-	565,535
Fair value changes of the hedged items in portfolio hedge of interest rate risk	741	-	-	-	741
Total financial assets	**9,688,316**	**204,996**	**151,560**	**1,286,165**	**11,331,037**
Financial liabilities					
Trading liabilities	29,920	-	-	-	29,920
Financial liabilities designated at fair value through profit or loss	4,912	-	-	-	4,912
Derivatives - hedge accounting	33,842	-	-	-	33,842
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	29,489	5,082	12,249	11,162	57,982
- borrowings from banks and central banks	518,286	31,372	21,371	-	571,029
- due to customers	7,762,577	170,979	67,218	1,019,892	9,020,666
- borrowings from other customers	99,217	-	-	1,050	100,267
- debt securities in issue	304,962	-	-	-	304,962
- subordinated liabilities	27,340	-	-	-	27,340
- other financial liabilities	61,405	770	2,466	10,666	75,307
Total financial liabilities	**8,871,950**	**208,203**	**103,304**	**1,042,770**	**10,226,227**
Net on-balance sheet financial position	**816,366**	**(3,207)**	**48,256**	**243,395**	**1,104,810**
Derivative financial instruments	53,173	1,998	(45,057)	(16,964)	(6,850)
Net financial position	**869,539**	**(1,209)**	**3,199**	**226,431**	**1,097,960**
31.12.2014					
Total financial assets	**9,895,854**	**185,241**	**185,695**	**1,152,169**	**11,418,959**
Total financial liabilities	**9,180,214**	**180,837**	**89,920**	**948,088**	**10,399,059**
Net on-balance sheet financial position	**715,640**	**4,404**	**95,775**	**204,081**	**1,019,900**
Derivative financial instruments	194,944	1,285	(184,840)	(20,272)	(8,883)
Net financial position	**910,584**	**5,689**	**(89,065)**	**183,809**	**1,011,017**

b) Sensitivity analysis for currency risk

NLB d.d. and NLB Group

Scenarios	31.12.2015	31.12.2014
USD	+/-13%	+/-6%
CHF	+/-4%	+/-2%
CZK	+/-1%	+/-2%
RSD	+/-3%	+/-3%
MKD	+/-0.4%	+/-0.6%
JPY	+/-10.5%	+/-7%
AUD	+/-15%	+/-8%
HUF	+/-7%	+/-7%
HRK	+/-1%	+/-1%

in EUR thousand

	NLB d.d.		NLB Group	
31.12.2015	**Effects on income statement**	**Effects on other comprehensive income**	**Effects on income statement**	**Effects on other comprehensive income**
Appreciation of				
USD	45	10	(11)	-
CHF	(9)	-	(434)	384
CZK	9	-	(7)	38
RSD	1	-	(5)	2,391
MKD	1	-	1	782
Other	65	-	(27)	718
Effects on comprehensive income	**112**	**10**	**(483)**	**4,313**
Depreciation of				
USD	(35)	(8)	8	-
CHF	8	-	397	(351)
CZK	(9)	-	6	(37)
RSD	(1)	-	5	(2,235)
MKD	(1)	-	(1)	(771)
Other	(52)	-	35	(709)
Effects on comprehensive income	**(90)**	**(8)**	**450**	**(4,103)**
Total	**22**	**2**	**(33)**	**210**

in EUR thousand

31.12.2014	NLB d.d. Effects on income statement	NLB d.d. Effects on other comprehensive income	NLB Group Effects on income statement	NLB Group Effects on other comprehensive income
Appreciation of				
USD	439	13	349	13
CHF	(11)	-	(29)	(1,980)
CZK	7	1	7	(114)
RSD	13	-	13	1,987
MKD	(1)	-	(1)	407
Other	173	-	173	156
Effects on comprehensive income	**620**	**14**	**512**	**469**
Depreciation of				
USD	(388)	(12)	(308)	(12)
CHF	11	-	27	1,903
CZK	(7)	(1)	(7)	109
RSD	(12)	-	(12)	(1,869)
MKD	(1)	-	(1)	(400)
Other	(146)	-	(146)	(153)
Effects on comprehensive income	**(543)**	**(13)**	**(447)**	**(422)**
Total	**77**	**1**	**65**	**47**

c) Value at Risk analysis

NLB d.d. uses an internal »Conditional Value at Risk« (CVaR) model to calculate currency risk arising from open positions. The calculation of the CVaR value is adjusted to Basel standards (99% confidence interval, monitored period of 300 business days, 10-day holding position period), and based on the historical simulation method. CVaR is calculated for currency risk for the whole open bank position (e.g. the position of the trading and banking book together) as NLB d.d.'s Total open position is managed by the Treasury Department.

in EUR thousand

NLB d.d.	2015			2014		
CVaR	Average	Maximum	Minimum	Average	Maximum	Minimum
Currency risk (trading book and banking book)	307	4,535	7	122	2,412	39

The methodology for measuring currency risk at NLB Group level is based on the net open foreign exchange position principle and monitoring of the nominal limits (for the Total open position by currency), related to the capital size of an NLB Group member. The internal CVaR method described above is used for the illustration below of exposure to currency risk which derives from the quarterly net open positions of NLB Group entities. CVaR was the result of exchange rate volatility, which affected the potential loss or the level of CVaR.

in EUR thousand

NLB Group	2015			2014		
CVaR	Average	Maximum	Minimum	Average	Maximum	Minimum
Currency risk (trading book and banking book)	6,019	21,564	3,480	1,878	4,325	1,250

7.2.2. Managing market risks in the trading book

NLB d.d. uses an internal VaR model based on the variance-covariance method for other market risks. The daily calculation of the VAR value is adjusted to Basel standards (99% confidence interval, monitored period of 250 business days, 10-day holding position period).

In 2015, FX risk in the trading book amounted to an average of EUR 182 thousand (2014: EUR 86 thousand). Compared with the previous year, the ratio is higher mainly due to SPOT deals with companies with trade date t+0, and closing deal with trading date t+2.

In 2015, interest rate risks in the trading book amounted to an average of EUR 341 thousand (2014: EUR 396 thousand) and remained on a relatively similar level compared with the previous year. At the end of 2014 the market value of the debt securities portfolio amounted to EUR 237.4 million (2014: EUR 98.1 million).

The risk of changing securities prices (equity portfolio) in the trading book fluctuated between EUR 0 and EUR 18 thousands (2014: between EUR 6 and EUR 537 thousand). At the end of 2015, the market value of the portfolio was EUR 10 thousand (2014: EUR 22 thousand).

in EUR thousand

NLB d.d. and NLB Group	2015			2014		
VaR	Average	Maximum	Minimum	Average	Maximum	Minimum
FX risk trading book	182	18	893	86	5	605
Interest rate risk in trading book	346	151	717	396	177	704
Equity risk in trading book	5	-	18	365	6	537

The average, maximum and minimum values in the upper table are calculated on the basis of daily VAR calculations, which are based on daily open positions and movements in market data during the past monitored period (300 or 250 working days). The "average" value represents the arithmetic mean of daily VAR values in 2015, while the "maximum" and "minimum" values represent the highest and lowest values of daily VAR calculations in 2015, respectively.

7.2.3. Managing interest rate risk

The management of interest rate risks in NLB d.d. banking book is separated from the measurement and monitoring of those risks. In the past, NLB d.d. implemented an interest rate risk management policy that reflects a conservative strategy for assuming interest rate risks and is based on general Basel risk management standards.

NLB d.d. manages interest rate risk in conjunction with credit, currency foreign exchange and liquidity risks as there is a close correlation between those risks that can have a significant impact on the stability of the interest rate margin. NLB d.d. also stabilises its interest rate margin through an appropriate pricing policy, a fund transfer pricing policy and the securities portfolio of the banking book.

The management of interest rate risk arising from banking book transactions is facilitated by managing the interest rate maturity of all on- and off-balance sheet items in individual maturity buckets. It takes into account the positions in each currency, adjusted to credit risk. The maturity calculation model for interest-insensitive liability items and interest-sensitive items without maturity (e.g. available capital and stable sight deposits) was approved by the national regulator. An important part of managing interest rate risk is the securities portfolio of the banking book, which is subject to strict internal rules and policies. The primary purpose of the portfolio is to maintain adequate liquidity reserves, while it also contributes to the stability of the interest rate margin.

Several analyses are performed in the management of interest rate risks (limited positions in individual maturity buckets, modified duration, BPV limits and interest rate margin). The BPV (basis point value) method helps to estimate changes in the market value of a banking book position due to a parallel shift in the yield curve. The BPV is calculated for different segments of the banking book and for the banking book as a whole. NLB d.d. also prepares calculations of the impact of changes in interest rates on net interest income.

The basic tool for managing interest rate risk in the banking book is the management of items from NLB d.d.'s statement of financial position. The strategies that foresee appropriate adjustments to items from the statement of financial position are discussed and adopted at the executive level of NLB d.d. or within the scope of NLB d.d.'s Assets and Liabilities Committee. If the management of interest rate risk using items from the statement of financial position is not possible, NLB d.d. manages risk by using the following derivative financial instruments:

- interest rate swaps,
- overnight index swaps,
- cross currency swaps, and
- forward rate agreements.

The management of NLB Group's interest rate exposure is not performed at the consolidated level. However, NLB d.d. monitors the risk positions of individual members of NLB Group on a regular basis in accordance with the Standards for Risk Management in NLB Group. The aforementioned document comprises guidelines for uniform and effective interest rate risk management. Interest rate risk exposure is monitored on the basis of maturity gaps, BPV analyses, the interest rate margin and limits. Guidelines regarding the limitation and management of interest risks within individual NLB Group members are approved by the ALCO.

a) Analysis of financial instruments according to the exposure to interest rate risk

Illustrated below are the carrying amounts of financial instruments categorised by the earlier of contractual repricing or residual maturity.

in EUR thousand

	NLB d.d.							
31.12.2015	**Total**	**Non-interest bearing**	**Interest bearing**	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**
Financial assets								
Cash, cash balances at central banks and other demand deposits at banks	496,806	128,682	368,124	368,124	-	-	-	-
Trading assets	267,880	10	267,870	40,651	32,940	194,278	1	-
Financial assets designated at fair value through profit or loss	4,913	4,913	-	-	-	-	-	-
Available-for-sale financial assets	1,248,359	70,412	1,177,947	39,489	60,220	184,845	590,844	302,549
Derivatives - hedge accounting	1,083	1,083	-	-	-	-	-	-
Loans and advances								
- debt securities	394,579	-	394,579	-	-	311,466	-	83,113
- loans and advances to banks	345,207	10	345,197	20,507	23,904	300,626	160	-
- loans and advances to customers	4,826,139	41,199	4,784,940	1,595,772	1,263,047	1,659,100	178,044	88,977
- other financial assets	48,944	48,944	-	-	-	-	-	-
Held-to-maturity financial assets	565,535	-	565,535	46,620	17,440	51,696	263,554	186,225
Fair value changes of the hedged items in portfolio hedge of interest rate risk	741	741	-	-	-	-	-	-
Total financial assets	**8,200,186**	**295,994**	**7,904,192**	**2,111,163**	**1,397,551**	**2,702,011**	**1,032,603**	**660,864**
Financial liabilities								
Trading liabilities	29,909	-	29,909	29,909	-	-	-	-
Financial liabilities designated at fair value through profit or loss	4,912	4,912	-	-	-	-	-	-
Derivatives - hedge accounting	33,842	33,842	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	96,736	-	96,736	96,731	-	5	-	-
- borrowings from banks and central banks	519,926	-	519,926	1,821	174,298	327,414	14,853	1,540
- due to customers	6,293,339	-	6,293,339	4,719,557	505,119	865,732	191,889	11,042
- borrowings from other customers	16,168	-	16,168	-	-	10,009	6,149	10
- debt securities in issue	304,962	-	304,962	-	-	29,917	275,045	-
- other financial liabilities	47,346	47,346	-	-	-	-	-	-
Total financial liabilities	**7,347,140**	**86,100**	**7,261,040**	**4,848,018**	**679,417**	**1,233,077**	**487,936**	**12,592**
Total interest repricing gap				**(2,736,855)**	**718,134**	**1,468,934**	**544,667**	**648,272**

in EUR thousand

31.12.2014	NLB d.d. Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
Financial assets								
Cash, cash balances at central banks and other demand deposits at banks	434,438	106,146	328,292	328,292	-	-	-	-
Trading assets	138,808	22	138,786	41,538	27,700	17,265	52,283	-
Financial assets designated at fair value through profit or loss	4,702	4,702	-	-	-	-	-	-
Available-for-sale financial assets	1,182,748	29,815	1,152,933	41,379	120,222	99,097	484,319	407,916
Derivatives - hedge accounting	2,966	2,966	-	-	-	-	-	-
Loans and advances								
- debt securities	706,785	-	706,785	-	-	312,050	309,000	85,735
- loans and advances to banks	159,300	9	159,291	87,332	31,757	39,750	452	-
- loans and advances to customers	4,993,040	39,929	4,953,111	1,954,539	1,036,482	1,752,882	152,613	56,595
- other financial assets	47,836	47,836	-	-	-	-	-	-
Held-to-maturity financial assets	711,648	-	711,648	67,924	52,010	110,380	245,155	236,179
Fair value changes of the hedged items in portfolio hedge of interest rate risk	912	912	-	-	-	-	-	-
Total financial assets	**8,383,183**	**232,337**	**8,150,846**	**2,521,004**	**1,268,171**	**2,331,424**	**1,243,822**	**786,425**
Financial liabilities								
Trading liabilities	43,764	-	43,764	43,764	-	-	-	-
Financial liabilities designated at fair value through profit or loss	4,701	4,701	-	-	-	-	-	-
Derivatives - hedge accounting	43,985	43,985	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	91,115	-	91,115	90,045	1,049	21	-	-
- borrowings from banks and central banks	643,578	-	643,578	49,780	229,313	229,582	132,979	1,924
- due to customers	6,294,925	-	6,294,925	4,043,882	784,496	1,176,350	277,230	12,967
- borrowings from other customers	33,511	-	33,511	-	20,181	10,012	3,318	-
- debt securities in issue	359,853	-	359,853	-	-	35,280	324,573	-
- other financial liabilities	46,223	46,223	-	-	-	-	-	-
Total financial liabilities	**7,561,655**	**94,909**	**7,466,746**	**4,227,471**	**1,035,039**	**1,451,245**	**738,100**	**14,891**
Total interest repricing gap				**(1,706,467)**	**233,132**	**880,179**	**505,722**	**771,534**

in EUR thousand

31.12.2015	NLB Group Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
Financial assets								
Cash and balances with banks and central banks	1,161,983	505,720	656,263	656,263	-	-	-	-
Trading assets	267,413	10	267,403	40,184	32,940	194,278	1	-
Financial assets designated at fair value through profit or loss	7,595	4,913	2,682	1,929	-	-	753	-
Available-for-sale financial assets	1,737,191	75,462	1,661,729	140,587	110,575	293,237	809,994	307,336
Derivatives - hedge accounting	1,083	1,083	-	-	-	-	-	-
Loans and advances								
- debt securities	394,579	-	394,579	-	-	311,466	-	83,113
- loans and advances to banks	431,775	25	431,750	61,550	46,699	322,784	717	-
- loans and advances to customers	6,693,621	51,431	6,642,190	1,969,369	1,345,506	2,463,505	662,116	201,694
- other financial assets	69,521	69,521	-	-	-	-	-	-
Held-to-maturity financial assets	565,535	-	565,535	46,620	17,440	51,696	263,554	186,225
Fair value changes of the hedged items in portfolio hedge of interest rate risk	741	741	-	-	-	-	-	-
Total financial assets	**11,331,037**	**708,906**	**10,622,131**	**2,916,502**	**1,553,160**	**3,636,966**	**1,737,135**	**778,368**
Financial liabilities								
Trading liabilities	29,920	-	29,920	29,920	-	-	-	-
Financial liabilities designated at fair value through profit or loss	4,912	4,912	-	-	-	-	-	-
Derivatives - hedge accounting	33,842	33,842	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	57,982	60	57,922	56,986	-	722	214	-
- borrowings from banks and central banks	571,029	-	571,029	5,517	176,629	349,694	36,254	2,935
- due to customers	9,020,666	79,603	8,941,063	6,244,768	666,622	1,563,576	428,403	37,694
- borrowings from other customers	100,267	-	100,267	1,323	3,019	21,284	46,637	28,004
- debt securities in issue	304,962	-	304,962	-	-	29,917	275,045	-
- subordinated liabilities	27,340	-	27,340	-	12,219	15,121	-	-
- other financial liabilities	75,307	75,307	-	-	-	-	-	-
Total financial liabilities	**10,226,227**	**193,724**	**10,032,503**	**6,338,514**	**858,489**	**1,980,314**	**786,553**	**68,633**
Total interest repricing gap				**(3,422,012)**	**694,671**	**1,656,652**	**950,582**	**709,735**

in EUR thousand

31.12.2014	NLB Group							
	Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
Financial assets								
Cash and balances with banks and central banks	1,127,527	432,339	695,188	695,188	-	-	-	-
Trading assets	138,218	22	138,196	40,943	27,701	17,269	52,283	-
Financial assets designated at fair value through profit or loss	6,510	4,702	1,808	1,605	-	203	-	-
Available-for-sale financial assets	1,672,952	32,861	1,640,091	118,593	260,941	263,392	581,838	415,327
Derivatives - hedge accounting	2,966	2,966	-	-	-	-	-	-
Loans and advances								
- debt securities	706,785	-	706,785	-	-	312,050	309,000	85,735
- loans and advances to banks	271,340	9	271,331	141,469	51,103	75,581	3,178	-
- loans and advances to customers	6,708,332	67,757	6,640,575	2,433,303	1,164,690	2,377,440	531,644	133,498
- other financial assets	71,769	71,769	-	-	-	-	-	-
Held-to-maturity financial assets	711,648	-	711,648	67,924	52,010	110,380	245,155	236,179
Fair value changes of the hedged items in portfolio hedge of interest rate risk	912	912	-	-	-	-	-	-
Total financial assets	**11,418,959**	**613,337**	**10,805,622**	**3,499,025**	**1,556,445**	**3,156,315**	**1,723,098**	**870,739**
Financial liabilities								
Trading liabilities	43,758	-	43,758	43,758	-	-	-	-
Financial liabilities designated at fair value through profit or loss	4,701	4,701	-	-	-	-	-	-
Derivatives - hedge accounting	43,985	43,985	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	62,334	1,143	61,191	59,133	1,049	1,009	-	-
- borrowings from banks and central banks	714,722	-	714,722	55,753	234,453	251,546	168,224	4,746
- due to customers	8,943,832	34,809	8,909,023	5,399,621	1,000,014	1,951,501	540,285	17,602
- borrowings from other customers	136,660	-	136,660	1,764	25,817	26,698	51,528	30,853
- debt securities in issue	359,853	-	359,853	-	-	35,280	324,573	-
- subordinated liabilities	17,328	-	17,328	216	11,958	5,154	-	-
- other financial liabilities	71,886	71,886	-	-	-	-	-	-
Total financial liabilities	**10,399,059**	**156,524**	**10,242,535**	**5,560,245**	**1,273,291**	**2,271,188**	**1,084,610**	**53,201**
Total interest repricing gap				**(2,061,220)**	**283,154**	**885,127**	**638,488**	**817,538**

b) Net interest income sensitivity analysis and an economic view of interest rate risk in the banking book

The analysis of interest income sensitivity assumes a move in interest rates by 50 basis points in the short term. The analysis is based on the assumption that the positions used remain unchanged and that the yield curve shift is parallel.

in EUR thousand

	NLB d.d.			NLB Group		
2015	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**
Interest income sensitivity						
EUR	11,408	10,247	12,316	17,318	15,914	18,808
USD	107	13	212	185	45	325
CHF	171	68	277	755	231	1,673
Other	47	36	61	1,186	1,089	1,404

in EUR thousand

	NLB d.d.			NLB Group		
2014	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**
Interest income sensitivity						
EUR	8,241	5,412	11,877	12,154	8,555	16,353
USD	37	2	147	106	65	249
CHF	298	136	490	533	392	675
Other	45	24	61	995	811	1,287

The values in the table are calculated on the basis of monthly calculations of short-term interest rate gaps, where the applied parallel shift of the yield curve by 50 basis points represents a realistic and practical scenario. The "average" value represents the arithmetic mean of monthly calculations, while the "maximum" and "minimum" values represent the highest and lowest values calculated during the period.

The BPV (Basis Point Value) method is a measure of sensitivity of financial instruments to market interest rates, i.e. changes of the required return. The BPV method is used to assess the change in the value of a position in case market interest rates change by +/-200 basis points. In this method, a parallel shift of the yield curve is assumed. The basis point value is the measurement of the change in the market value of a position in the case of an assumed change in market interest rates by a certain number of basis points, which is expressed in monetary units. NLB d.d. weekly calculates the absolute value of potential negative economic effects that would result from a parallel shift in interest rates by 200 bp.

The assessment of the impact of a change in interest rates of 200 basis points on the economic value of the banking book position:

in EUR thousand

	NLB d.d.			NLB Group		
2015	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**
Interest risk in banking book - BPV	103,878	89,619	115,005	134,423	127,415	146,900
Interest risk in banking book - BPV, as % of equity	9.27%	7.90%	10.39%	10.80%	10.24%	11.79%

in EUR thousand

	NLB d.d.			NLB Group		
2014	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**
Interest risk in banking book - BPV	107,980	100,414	119,347	131,306	121,058	151,731
Interest risk in banking book - BPV, as % of equity	10.48%	9.62%	12.99%	11.03%	10.29%	12.45%

The values in the table have been calculated on the basis of weekly calculations of interest rate gaps, where the applied parallel shift of the yield curve is by 200 basis points. The "average" value represents the arithmetic mean of monthly calculations, while the "maximum" and "minimum" values represent the highest and lowest values calculated during the period. The calculation does not take the allocation of the stable part of sight deposits into account.

Exposure to interest rate risk arises mostly from investments in high quality debt securities which are held primarily for liquidity risk management purposes whereas exposure from loans and deposits remains at low levels due to active management of these positions.

7.2.4. Risk of changes in prices in the portfolio of equity securities in the banking book

In terms of equity security investments, NLB d.d. has adopted policies for managing these investments that were approved by the Management and the Supervisory Board. The policies relate to the investment structure of the portfolio, its diversification, and the monitoring and measurement of risks. In addition to a standardised methodology, NLB d.d. also uses an internal model, which has been adapted in accordance with the requirements of the Basel standards for monitoring and measuring risks related to the equity portfolio.

The value of the equities portfolio in the banking book of NLB d.d. at the end of 2015 amounted to EUR 75.3 million (2014: EUR 34.5 million), of which realised collateral represented EUR 19.0 million (2014: EUR 28.1 million), the long-term portfolio as available-for-sale financial assets represented EUR 51.4 million (2014: EUR 1.7 million) and in the amount of EUR 4.9 million of financial assets designated at fair value through profit or loss (2014: EUR 4.7 million). Long-term portfolio as available-for-sale financial assets includes investment in National Resolution Fund in the amount of EUR 44.5 million (note 5.4.).

The value of VAR for the equities portfolio in the banking book at the end of 2015 amounted to EUR 2.3 million (2014: EUR 2.5 million). Assuming a fall in stock market indices or individual securities prices of 15% (2014: 15%), the value of the portfolio would decrease by EUR 3.1 million (2014: EUR 4.5 million).

NLB Group's financial instruments trading strategy includes guidelines for the effective management of risks associated with equity investments. Trading with equity securities is not permitted in subsidiaries. Only stock broking services are provided. The majority of the equity securities portfolio in the banking book derives from NLB d.d.'s position, while smaller positions are also held by certain NLB Group entities.

The value of the equity portfolio in the banking book for NLB Group equalled EUR 82.3 million at the end of 2015 (2014: EUR 38.5 million), of which EUR 21.3 million (2014: EUR 28.1 million) was received as collateral, while EUR 54.2 million was recorded as available-for-sale (2014: EUR 4.8 million) and EUR 6.8 million was classified as financial instruments at fair value through profit or loss (2014: EUR 5.6 million).

7.2.5.Liquidity risk management

Liquidity risk is monitored and managed in NLB Group in accordance with the relevant policies and strategies which set out rules and a hierarchy of responsibility. Standard liquidity risk monitoring and management guidelines were implemented by NLB Group companies in accordance with NLB Group Liquidity Risk Management Guidelines. Liquidity risk management is decentralised, with each company ensuring its own liquidity via the necessary sources of funding and their appropriate diversification and maturity, and by managing liquidity reserves and fulfilling the requirements of regulations governing liquidity. A standardised reporting system functions within NLB Group which ensures adequate control over the provision of operational and structural liquidity in all NLB Group companies.

The objectives of monitoring and managing liquidity risk in NLB Group are as follows:
- ensuring a sufficient level of liquid assets;
- minimising the costs of maintaining liquidity;
- optimising the amount of liquidity reserves;
- ensuring an appropriate level of liquidity for different situations and stress scenarios; and
- anticipating emergencies or crisis conditions, and implementing contingency plans in the event of extraordinary circumstances.

Liquidity is managed at three levels in NLB Group: operational, structural and strategic.

Operational level

Liquidity management at the operational level means managing liquidity within one day, for a period of several days or weeks, based on the planning and monitoring of cash flows. Liquidity management at the operational level in NLB Group is decentralised, meaning each NLB Group company is responsible for its own liquidity position and carries out the following activities:
- concluding transactions for providing liquidity within one day;
- planning and monitoring cash flows;
- monitoring and complying with the liquidity regulations of the central bank;
- adopting business decisions; and
- managing liquidity reserves.

The Bank actively manages liquidity within a day taking into account the characteristics of payment settlements to ensure the timely settlement of liabilities in normal and stressed circumstances.

Intraday liquidity management includes:
- monitoring and controlling the liquidity position of the Bank within one day; and
- providing secured funding to meet liquidity needs within a single day in normal and stressed circumstances.

As the parent bank, NLB d.d. regularly monitors and provides liquidity to its subsidiaries, if needed.

Structural level
Liquidity management at the structural level means managing liquidity over a longer time period, and includes the following activities:
- defining structural liquidity ratios, and the regular calculation and monitoring thereof;
- defining target values and/or target trends of individual selected structural liquidity ratios;
- monitoring trends in selected structural liquidity ratios;
- monitoring liquidity gaps by individual time buckets;
- calculating LCR and NSFR;
- calculating the GLTDF ratio;
- monitoring encumbered assets; and
- performing liquidity risk stress tests.

The objective of liquidity management at the structural level is to achieve a balance sheet structure that ensures NLB Group's long-term liquidity based on several criteria, e.g. maturity mismatch, funding concentration, credit ratings etc.

Strategic level
NLB Group companies perform the following activities in the context of liquidity management at the strategic level:
- preparing liquidity gaps;
- preparing dynamic projections of liquidity taking several cash-flow scenarios into account;
- monitoring liquidity gaps by different time buckets, and preparing analyses, proposals and measures for changes in the balance sheet structure that affect the Bank's liquidity position and liquidity risk;
- performing liquidity risk stress tests, and defining the optimal and minimal level of liquidity reserves on the basis thereof;
- defining and managing the liquidity reserves;
- preparing proposals for establishing additional financial assets as collateral for sources of funding; and
- monitoring liquidity risk through the Scoring model.

NLB d.d. prepares dynamic liquidity projections on a monthly basis and monitors unencumbered liquidity reserves according to the expected cash flows as well as ensures supervision over the liquidity position of each NLB Group member.

NLB Group performs liquidity stress tests to measure the liquidity risk, which warns of potential future cash outflows. Each NLB Group member should ensure it has sufficient liquidity reserves. In crisis conditions, NLB Group also maintained a sufficient level of high-quality available liquidity reserves with which it could cover unexpected cash outflows in stressed circumstances.

NLB Group has defined a Contingency funding plan as a plan for managing liquidity in stressed circumstances that lays down guidelines and plans activities for recognising problems, searching for solutions and handling emergency situations. It also provides for the establishment of a system of liquidity management that ensures the maintenance of NLB Group's liquidity and protects the commercial interests of clients and shareholders.

a) Non-derivative cash flows
The tables below illustrate the cash flows from non-derivative financial instruments by residual maturities at the end of the year. The amounts disclosed in the table are the undiscounted contractual cash flows determined on the basis of spot rates at the end of the reporting period.

in EUR thousand

31.12.2015	NLB d.d. Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial liabilities and credit related commitments						
Financial liabilities designated at fair value through profit or loss	-	1,390	1,460	2,062	-	4,912
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	96,732	-	5	-	-	96,737
- borrowings from banks and central banks	173	19,361	151,090	279,229	81,949	531,802
- due to customers	4,640,241	412,545	912,190	298,736	47,663	6,311,375
- borrowings from other customers	-	-	10,019	6,149	10	16,178
- debt securities in issue	-	-	35,409	282,986	-	318,395
- other financial liabilities	42,098	5,248	-	-	-	47,346
Credit risk related commitments	472,311	126,881	317,253	155,197	69,614	1,141,256
Non-financial guarantees	12,771	32,335	86,952	181,766	59,065	372,889
Total	**5,264,326**	**597,760**	**1,514,378**	**1,206,125**	**258,301**	**8,840,890**
Total financial assets	**1,291,636**	**349,793**	**1,872,826**	**3,350,224**	**2,048,505**	**8,912,984**

in EUR thousand

31.12.2014	NLB d.d. Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial liabilities and credit related commitments						
Financial liabilities designated at fair value through profit or loss	-	-	-	4,701	-	4,701
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	90,046	1,049	21	-	-	91,116
- borrowings from banks and central banks	17,335	9,497	40,628	470,288	133,553	671,301
- due to customers	3,978,589	720,855	1,224,202	372,019	34,609	6,330,274
- borrowings from other customers	-	20,245	54	13,344	-	33,643
- debt securities in issue	-	-	41,805	342,820	-	384,625
- other financial liabilities	44,326	1,897	-	-	-	46,223
Credit risk related commitments	511,582	153,074	331,472	213,447	51,466	1,261,041
Non-financial guarantees	37,517	39,682	128,082	171,815	70,026	447,122
Total	**4,679,395**	**946,299**	**1,766,264**	**1,588,434**	**289,654**	**9,270,046**
Total financial assets	**1,621,394**	**392,883**	**1,649,900**	**3,398,302**	**2,141,451**	**9,203,930**

When determining the gap between the financial liabilities and financial assets in the maturity bucket of up to 1 month, it is necessary to take account of the fact that financial liabilities include Total demand deposits, and that NLB d.d. may apply a stability weight of 60% to demand deposits when ensuring compliance with the central bank's regulations concerning calculation of the liquidity position. To ensure NLB d.d.'s and NLB Group's liquidity, and based on its approach to risk, in previous years NLB Group compiled a substantial amount of high-quality liquid investments, mostly government securities and selected loans, which are accepted as adequate financial assets by the ECB.

in EUR thousand

31.12.2015	NLB Group					
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial liabilities and credit related commitments						
Financial liabilities designated at fair value through profit or loss	-	1,390	1,460	2,062	-	4,912
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	57,046	-	738	214	-	57,998
- borrowings from banks and central banks	3,189	21,433	166,225	310,960	83,358	585,165
- due to customers	6,198,264	590,519	1,519,765	712,502	55,571	9,076,621
- borrowings from other customers	1,346	3,119	21,493	47,840	28,077	101,875
- debt securities in issue	-	-	35,409	282,986	-	318,395
- subordinated liabilities	-	597	1,524	17,772	18,341	38,234
- other financial liabilities	60,622	5,620	4,291	4,774	-	75,307
Credit risk related commitments	518,261	170,080	444,414	217,214	135,749	1,485,718
Non-financial guarantees	14,718	41,207	107,763	196,183	72,913	432,784
Total	**6,853,446**	**833,965**	**2,303,082**	**1,792,507**	**394,009**	**12,177,009**
Total financial assets	**2,446,251**	**554,541**	**2,538,232**	**4,358,254**	**2,610,207**	**12,507,485**

in EUR thousand

31.12.2014	NLB Group					
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial liabilities and credit related commitments						
Financial liabilities designated at fair value through profit or loss	-	-	-	4,701	-	4,701
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	60,012	1,049	760	515	-	62,336
- borrowings from banks and central banks	21,169	12,346	59,660	516,876	136,403	746,454
- due to customers	5,348,792	947,453	1,870,864	835,170	40,332	9,042,611
- borrowings from other customers	1,794	26,109	16,874	62,922	31,003	138,702
- debt securities in issue	-	-	41,805	342,820	-	384,625
- subordinated liabilities	-	608	1,831	14,561	5,171	22,171
- other financial liabilities	61,161	2,160	8,526	39	-	71,886
Credit risk related commitments	635,117	182,998	428,054	214,288	58,565	1,519,022
Non-financial guarantees	41,807	48,543	153,675	189,086	70,998	504,109
Total	**6,169,852**	**1,221,266**	**2,582,049**	**2,180,978**	**342,472**	**12,496,617**
Total financial assets	**2,814,853**	**693,187**	**2,224,296**	**4,419,803**	**2,584,695**	**12,736,834**

Liabilities and credit related commitments are included in maturity buckets based on their residual contractual maturity.

b) An analysis of the statement of financial position by residual maturity

in EUR thousand

31.12.2015	NLB d.d.					
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks and other demand deposits at banks	496,806	-	-	-	-	496,806
Trading assets	39,658	32,940	194,278	994	10	267,880
Financial assets designated at fair value through profit or loss	-	-	-	-	4,913	4,913
Available-for-sale financial assets	39,489	60,220	184,845	590,844	372,961	1,248,359
Derivatives - hedge accounting	1,083	-	-	-	-	1,083
Loans and advances						
- debt securities	-	-	311,466	-	83,113	394,579
- loans and advances to banks	19,645	21,290	283,551	9,790	10,931	345,207
- loans and advances to customers	677,932	195,689	726,807	2,057,805	1,167,906	4,826,139
- other financial assets	33,764	45	5	15,130	-	48,944
Held-to-maturity financial assets	7,573	17,440	57,916	296,381	186,225	565,535
Fair value changes of hedged in portfolio hedge of interest rate risk	-	187	-	-	554	741
Non-current assets classified as held for sale	-	-	1,776	-	-	1,776
Property and equipment	-	-	-	15,151	79,419	94,570
Investment property	-	-	-	8,613	-	8,613
Intangible assets	-	-	-	11,681	17,946	29,627
Investments in subsidiaries, associates and joint ventures	-	-	-	34,420	318,675	353,095
Deferred income tax assets	-	-	4,692	4,447	-	9,139
Other assets	6,017		3,762			9,779
Total assets	**1,321,967**	**327,811**	**1,769,098**	**3,045,256**	**2,242,653**	**8,706,785**
Trading liabilities	29,909	-	-	-	-	29,909
Financial liabilities designated at fair value through profit or loss	-	1,390	1,460	2,062	-	4,912
Derivatives - hedge accounting	33,842	-	-	-	-	33,842
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	96,731	-	5	-	-	96,736
- borrowings from banks and central banks	166	19,194	148,818	272,736	79,012	519,926
- due to customers	4,639,535	410,150	904,687	292,564	46,403	6,293,339
- borrowings from other customers	-	-	10,009	6,149	10	16,168
- debt securities in issue	-	-	29,917	275,045	-	304,962
- other financial liabilities	42,098	5,248	-	-	-	47,346
Provisions	-	-	27,494	77,643	-	105,137
Current income tax liabilities	-	-	6,681	-	-	6,681
Other liabilities	3,989	78	570	1,039	-	5,676
Total liabilities	**4,846,270**	**436,060**	**1,129,641**	**927,238**	**125,425**	**7,464,634**
Credit risk related commitments	472,311	126,881	317,253	155,197	69,614	1,141,256
Non-financial guarantees	12,771	32,335	86,952	181,766	59,065	372,889
Total liabilities and credit related commitments	**5,331,352**	**595,276**	**1,533,846**	**1,264,201**	**254,104**	**8,978,779**

in EUR thousand

31.12.2014	NLB d.d. Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks and other demand deposits at banks	434,438	-	-	-	-	434,438
Trading assets	40,646	27,700	17,265	52,283	914	138,808
Financial assets designated at fair value through profit or loss	-	-	-	-	4,702	4,702
Available-for-sale financial assets	26,362	109,346	109,973	499,336	437,731	1,182,748
Derivatives - hedge accounting	2,966	-	-	-	-	2,966
Loans and advances						
- debt securities	-	-	312,050	309,000	85,735	706,785
- loans and advances to banks	84,671	24,677	21,386	28,566	-	159,300
- loans and advances to customers	1,003,334	156,194	942,673	1,786,452	1,104,387	4,993,040
- other financial assets	34,378	104	1,588	11,766	-	47,836
Held-to-maturity financial assets	30,542	52,010	110,380	261,025	257,691	711,648
Fair value changes of hedged in portfolio hedge of interest rate risk	-	235	-	-	677	912
Non-current assets classified as held for sale	-	-	2,580	-	-	2,580
Property and equipment	-	-	-	11,336	85,994	97,330
Investment property	-	-	-	1,458	-	1,458
Intangible assets	-	-	-	9,609	24,134	33,743
Investments in subsidiaries, associates and joint ventures	-	-	-	10,492	342,220	352,712
Deferred income tax assets	-	-	3,335	3,403	-	6,738
Other assets	6,153	-	1,830	-	-	7,983
Total assets	**1,663,490**	**370,266**	**1,523,060**	**2,984,726**	**2,344,185**	**8,885,727**
Trading liabilities	43,764	-	-	-	-	43,764
Financial liabilities designated at fair value through profit or loss	-	-	-	4,701	-	4,701
Derivatives - hedge accounting	43,985	-	-	-	-	43,985
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	90,045	1,049	21	-	-	91,115
- borrowings from banks and central banks	17,304	9,209	36,149	455,309	125,607	643,578
- due to customers	3,977,136	714,178	1,207,071	363,320	33,220	6,294,925
- borrowings from other customers	-	20,181	12	13,318	-	33,511
- debt securities in issue	-	-	35,280	324,573	-	359,853
- other financial liabilities	44,326	1,897	-	-	-	46,223
Provisions	1,268	-	24,494	88,803	-	114,565
Current income tax liabilities	-	-	324	-	-	324
Other liabilities	3,474	14	90	685	-	4,263
Total liabilities	**4,221,302**	**746,528**	**1,303,441**	**1,250,709**	**158,827**	**7,680,807**
Credit risk related commitments	511,582	153,074	331,472	213,447	51,466	1,261,041
Non-financial guarantees	37,517	39,682	128,082	171,815	70,026	447,122
Total liabilities and credit related commitments	**4,770,401**	**939,284**	**1,762,995**	**1,635,971**	**280,319**	**9,388,970**

in EUR thousand

31.12.2015	NLB Group Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks and other demand deposits at banks	1,161,983	-	-	-	-	1,161,983
Trading assets	39,191	32,940	194,278	994	10	267,413
Financial assets designated at fair value through profit or loss	1,929	-	-	753	4,913	7,595
Available-for-sale financial assets	209,965	105,128	293,249	750,640	378,209	1,737,191
Derivatives - hedge accounting	1,083	-	-	-	-	1,083
Loans and advances						
- debt securities	-	-	311,466	-	83,113	394,579
- loans and advances to banks	61,556	45,394	322,216	2,609	-	431,775
- loans and advances to customers	900,979	305,796	1,159,058	2,691,095	1,636,693	6,693,621
- other financial assets	52,531	705	822	15,463	-	69,521
Held-to-maturity financial assets	7,573	17,440	57,916	296,381	186,225	565,535
Fair value changes of hedged in portfolio hedge of interest rate risk	-	187	-	-	554	741
Non-current assets classified as held for sale	-	-	4,629	-	-	4,629
Property and equipment	-	-	-	20,835	186,895	207,730
Investment property	-	-	-	90,598	2,915	93,513
Intangible assets	-	-	-	12,819	26,508	39,327
Investments in associates and joint ventures	-	-	-	294	39,402	39,696
Current income tax assets	423	475	31	-	-	929
Deferred income tax assets	-	-	4,876	4,524	-	9,400
Other assets	32,988	2,461	46,815	10,100	2,990	95,354
Total assets	**2,470,201**	**510,526**	**2,395,356**	**3,897,105**	**2,548,427**	**11,821,615**
Trading liabilities	29,920	-	-	-	-	29,920
Financial liabilities designated at fair value through profit or loss	-	1,390	1,460	2,062	-	4,912
Derivatives - hedge accounting	33,842	-	-	-	-	33,842
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	57,045	-	723	214	-	57,982
- borrowings from banks and central banks	3,050	21,047	163,144	303,381	80,407	571,029
- due to customers	6,194,532	584,268	1,497,562	690,395	53,909	9,020,666
- borrowings from other customers	1,303	3,020	21,124	46,828	27,992	100,267
- debt securities in issue	-	-	29,917	275,045	-	304,962
- subordinated liabilities	-	212	33	12,184	14,911	27,340
- other financial liabilities	60,622	5,620	4,291	4,774	-	75,307
Provisions	616	240	34,330	86,006	1,447	122,639
Current income tax liabilities	-	512	7,002	-	-	7,514
Deferred income tax liabilities	-	-	251	62	-	313
Other liabilities	11,234	480	1,750	1,075	-	14,539
Total liabilities	**6,392,164**	**616,789**	**1,761,587**	**1,422,026**	**178,666**	**10,371,232**
Credit risk related commitments	518,261	170,080	444,414	217,214	135,749	1,485,718
Non-financial guarantees	14,718	41,207	107,763	196,183	72,913	432,784
Total liabilities and credit related commitments	**6,925,143**	**828,076**	**2,313,764**	**1,835,423**	**387,328**	**12,289,734**

in EUR thousand

31.12.2014	NLB Group					
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks and other demand deposits at banks	1,127,527	-	-	-	-	1,127,527
Trading assets	40,051	27,701	17,269	52,283	914	138,218
Financial assets designated at fair value through profit or loss	1,605	-	-	203	4,702	6,510
Available-for-sale financial assets	90,057	252,039	274,600	607,839	448,417	1,672,952
Derivatives - hedge accounting	2,966	-	-	-	-	2,966
Loans and advances						
- debt securities	-	-	312,050	309,000	85,735	706,785
- loans and advances to banks	141,620	52,475	71,714	5,531	-	271,340
- loans and advances to customers	1,281,199	261,573	1,210,891	2,509,796	1,444,873	6,708,332
- other financial assets	55,126	224	4,592	11,827	-	71,769
Held-to-maturity financial assets	30,542	52,010	110,380	261,025	257,691	711,648
Fair value changes of hedged in portfolio hedge of interest rate risk	-	235	-	-	677	912
Non-current assets classified as held for sale	-	-	5,643	-	-	5,643
Property and equipment	-	-	-	14,704	200,471	215,175
Investment property	-	-	-	17,950	23,522	41,472
Intangible assets	-	-	-	10,879	31,872	42,751
Investments in associates and joint ventures	-	-	-	-	37,525	37,525
Current income tax assets	746	2	1,150	-	-	1,898
Deferred income tax assets	-	-	3,354	2,593	-	5,947
Other assets	23,315	289	103,168	13,296	51	140,119
Total assets	**2,794,754**	**646,548**	**2,114,811**	**3,816,926**	**2,536,450**	**11,909,489**
Trading liabilities	43,758	-	-	-	-	43,758
Financial liabilities designated at fair value through profit or loss	-	-	-	4,701	-	4,701
Derivatives - hedge accounting	43,985	-	-	-	-	43,985
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	60,010	1,049	760	515	-	62,334
- borrowings from banks and central banks	21,039	11,656	54,162	499,436	128,429	714,722
- due to customers	5,342,910	933,650	1,829,681	799,294	38,297	8,943,832
- borrowings from other customers	1,721	25,819	16,340	61,926	30,854	136,660
- debt securities in issue	-	-	35,280	324,573	-	359,853
- subordinated liabilities	-	216	154	11,958	5,000	17,328
- other financial liabilities	61,161	2,160	8,526	39	-	71,886
Provisions	1,654	305	29,186	91,028	4,801	126,974
Current income tax liabilities	-	125	1,655	-	-	1,780
Deferred income tax liabilities	-	-	306	9	-	315
Other liabilities	8,977	239	2,148	702	-	12,066
Total liabilities	**5,585,215**	**975,219**	**1,978,198**	**1,794,181**	**207,381**	**10,540,194**
Credit risk related commitments	635,117	182,998	425,054	214,288	58,565	1,516,022
Non-financial guarantees	41,807	48,543	153,675	189,086	70,998	504,109
Total liabilities and credit related commitments	**6,262,139**	**1,206,760**	**2,556,927**	**2,197,555**	**336,944**	**12,560,325**

c) Derivative cash flows

The table below illustrates cash flows from derivatives, broken down into the relevant maturity buckets based on residual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows prepared on the basis of spot rates on the reporting date.

in EUR thousand

	NLB d.d.					
31.12.2015	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Foreign exchange derivatives						
- Forwards						
- Outflow	(37,951)	(42,944)	(45,558)	-	-	(126,453)
- Inflow	37,972	42,999	45,610	-	-	126,581
- Swaps						
- Outflow	(67,211)	(25,255)	(1,156)	-	-	(93,622)
- Inflow	67,157	25,256	1,156	-	-	93,569
- Options						
- Outflow	(1,833)	(5,515)	-	-	-	(7,348)
- Inflow	1,833	5,260	-	-	-	7,093
- Futures						
- Outflow	-	(2,518)	-	-	-	(2,518)
- Inflow	-	2,500	-	-	-	2,500
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,469)	(1,412)	(32,516)	(44,178)	(35,069)	(114,644)
- Inflow	483	943	27,707	28,010	24,368	81,511
Total outflow	**(108,464)**	**(77,644)**	**(79,230)**	**(44,178)**	**(35,069)**	**(344,585)**
Total inflow	**107,445**	**76,958**	**74,473**	**28,010**	**24,368**	**311,254**

in EUR thousand

	NLB d.d.					
31.12.2014	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Foreign exchange derivatives						
- Forwards						
- Outflow	(101,702)	(107,069)	(81,194)	(547)	-	(290,512)
- Inflow	101,739	107,118	81,211	547	-	290,615
- Swaps						
- Outflow	(48,508)	(27,318)	(44,583)	(6,633)	-	(127,042)
- Inflow	48,464	27,328	44,626	6,640	-	127,058
- Futures						
- Outflow	-	(2,961)	-	-	-	(2,961)
- Inflow	-	2,900	-	-	-	2,900
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,516)	(22,749)	(14,939)	(150,869)	(42,206)	(232,279)
- Inflow	492	21,601	12,899	131,515	26,966	193,473
Total outflow	**(151,726)**	**(160,097)**	**(140,716)**	**(158,049)**	**(42,206)**	**(652,794)**
Total inflow	**150,695**	**158,947**	**138,736**	**138,702**	**26,966**	**614,046**

in EUR thousand

31.12.2015	NLB Group Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Foreign exchange derivatives						
- Forwards						
- Outflow	(38,548)	(42,424)	(45,561)	-	-	(126,533)
- Inflow	38,572	42,477	45,610	-	-	126,659
- Swaps						
- Outflow	(67,211)	(25,255)	(1,156)	-	-	(93,622)
- Inflow	67,157	25,256	1,157	-	-	93,570
- Options						
- Outflow	(1,833)	(5,515)	-	-	-	(7,348)
- Inflow	1,833	5,260	-	-	-	7,093
- Futures						
- Outflow	-	(2,518)	-	-	-	(2,518)
- Inflow	-	2,500	-	-	-	2,500
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,469)	(1,412)	(32,516)	(44,167)	(35,015)	(114,579)
- Inflow	474	923	27,624	27,686	24,198	80,905
Total outflow	**(109,061)**	**(77,124)**	**(79,233)**	**(44,167)**	**(35,015)**	**(344,600)**
Total inflow	**108,036**	**76,416**	**74,391**	**27,686**	**24,198**	**310,727**

in EUR thousand

31.12.2014	NLB Group Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Foreign exchange derivatives						
- Forwards						
- Outflow	(101,298)	(107,069)	(81,194)	(547)	-	(290,108)
- Inflow	101,338	107,118	81,211	547	-	290,214
- Swaps						
- Outflow	(53,452)	(30,282)	(44,583)	(6,633)	-	(134,950)
- Inflow	53,415	30,292	44,626	6,640	-	134,973
- Futures						
- Outflow	-	(2,961)	-	-	-	(2,961)
- Inflow	-	2,900	-	-	-	2,900
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,515)	(22,749)	(14,939)	(150,854)	(42,146)	(232,203)
- Inflow	482	21,580	12,803	131,126	26,730	192,721
Total outflow	**(156,265)**	**(163,061)**	**(140,716)**	**(158,034)**	**(42,146)**	**(660,222)**
Total inflow	**155,235**	**161,890**	**138,640**	**138,313**	**26,730**	**620,808**

d) Managing NLB Group's liquidity reserves

NLB Group has liquidity reserves available to cover liabilities that fall or may become due. Liquidity reserves must become available at short notice following the realisation of a stress scenario (immediately, i.e. within one week). Liquidity reserves comprise cash, the settlement account at the central bank, sight deposits and short-term deposits at banks, debt securities and loans eligible as collateral for Eurosystem claims, on the basis of which the Bank may generate the requisite liquidity at any time. Available liquidity reserves are liquidity reserves decreased by the reserve requirement, required balances for the continuous performance of payment transactions, encumbered securities and credit claims for different purposes (secured funding).

The structure of liquidity reserves is shown in the following table.

Structural liquidity reserves

in EUR thousand

	NLB d.d.		NLB Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Liquidity reserves				
Cash, cash balances at central banks and other demand deposits at banks	496,806	434,438	1,161,983	1,127,527
Placements with banks	315,016	116,719	427,195	264,496
Trading book securities	237,362	98,140	237,362	98,140
Banking book securities	2,138,061	2,571,366	2,621,843	3,058,524
ECB eligible loans	799,757	864,214	799,757	864,214
Total liquid assets	**3,987,002**	**4,084,877**	**5,248,140**	**5,412,901**
Encumbered liquid assets	345,398	322,664	588,333	516,970
Unencumbered liquid assets	3,641,604	3,762,213	4,659,807	4,895,931

NLB Group classifies debt securities as either the banking book or trading book depending on the purpose of their acquisition and the intended manner of their disposal. The main objective of securities placed in the banking book is to collect contractual cash flows, while the purpose of trading book securities is to generate profits resulting from the difference between the purchase price and selling price as well as the placement of excess liquidity from the short-term (operative) liquidity point of view in treasury.

The purpose of banking book securities is to provide liquidity, along with stabilisation of the interest margin and interest rate risk management simultaneously. When managing the portfolio, NLB Group uses conservative principles, particularly with respect to the portfolio's structure in terms of issuers' ratings and the duration of the portfolio. The framework for managing the banking book securities is the Policy for managing debt securities in the banking book, which clearly defines the objectives and characteristics of the associated portfolio.

As at 31 December 2015, the balance of debt securities in the banking book of NLB d.d.was EUR 2,138.1 million (31 December 2014: EUR 2,571.4 million) and in the banking book of NLB Group it was EUR 2,621.8 million (31 December 2014: EUR 3,058.5 million). Of these, 87.5% (31 December 2014: 84.4%) were government securities and 12.5% (31 December 2014: 12.6%) were bonds from financial organisations. On 15 December 2015, the first of the two GGB securities issued by BAMC in 2013 matured in the amount of EUR 309 million.

The ECB-eligible credit claims comprise loans which fulfil the high eligibility criteria set by the ECB itself and for domestic loans are specified in the Resolution about general rules on Eurosystem monetary policy instruments and procedures (Chapter 5) adopted by the Bank of Slovenia. NLB d.d. is the only member of NLB Group that complies with the conditions set by the Eurosystem to classify as an eligible counterparty. This is why the above-mentioned ECB credit claims are included among liquidity reserves. As at 31 December 2015, the volume of the outstanding principal of ECB-eligible credit claims stood at EUR 939.8 million (31 December 2014: EUR 864.2 million).

NLB d.d. has encumbered liquid assets for different purposes; the biggest proportion represents ECB-eligible loans and debt securities encumbered for secured funding at the ECB. Members of NLB Group manage their liquidity reserves on a decentralised basis in compliance with the local liquidity regulation and valid policies of NLB Group.

Encumbered liquid assets

in EUR thousand

	NLB d.d.				NLB Group			
2015	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities
Loans on demand	-	-	368,124	-	-	-	933,827	-
Equity instruments	-	-	75,335	69,530	-	-	82,314	76,509
Debt securities	158,700	166,533	2,216,723	2,270,834	158,700	166,533	2,701,258	2,755,369
Loans and advances other than loans on demand	169,180	-	5,051,110	-	169,180	-	7,025,737	-
Other assets	-	-	667,613	-	-	-	750,599	-
Total	**327,880**		**8,378,905**		**327,880**		**11,493,735**	

in EUR thousand

2014	NLB d.d. Carrying amount of encumbered assets	NLB d.d. Fair value of encumbered securities	NLB d.d. Carrying amount of unencumbered assets	NLB d.d. Fair value of unencumbered securities	NLB Group Carrying amount of encumbered assets	NLB Group Fair value of encumbered securities	NLB Group Carrying amount of unencumbered assets	NLB Group Fair value of unencumbered securities
Loans on demand	-	-	328,292	-	-	-	930,692	-
Equity instruments	-	-	34,539	34,461	-	-	38,508	-
Debt securities	140,364	143,437	2,529,142	2,602,947	140,364	143,437	3,017,185	3,090,991
Loans and advances other than loans on demand	168,874	-	5,031,302	-	168,874	-	6,882,567	-
Other assets	-	-	653,214	-	-	-	731,299	-
Total	**309,238**		**8,576,489**		**309,238**		**11,600,251**	

Unencumbered

The nominal amount of collateral received or own debt securities issued not available for encumbrance is shown in the table below:

in EUR thousand

	NLB d.d. 2015	NLB d.d. 2014	NLB Group 2015	NLB Group 2014
Equity instruments	150,419	228,524	168,393	247,748
Debt securities	46	1,354	106	2,057
Loans and advances other than loans on demand	50,627	55,804	148,303	154,117
Other assets	4,222,727	4,959,526	8,016,021	8,959,749
Total	**4,423,819**	**5,245,208**	**8,334,838**	**9,363,671**

Neither NLB d.d. nor NLB Group has collateral received or own debt securities issued available for encumbrance.

Collateralised assets and liabilities

in EUR thousand

NLB d.d. and NLB Group	2015 Collateralised liability	2015 Assets given as collateral	2014 Collateralised liability	2014 Assets given as collateral
Derivatives	32,519	29,087	37,016	28,378
Deposits and loans	4,899,112	298,793	4,821,147	280,860
Total	**4,931,631**	**327,880**	**4,858,163**	**309,238**

As at 31 December 2015, NLB d.d. and NLB Group had a large share of unencumbered assets. The amount of encumbered assets equalled to EUR 327.9 million, mainly related to requests arising from the deposit guarantee scheme and the targeted long-term refinancing operation (TLTRO) with the ECB.

The difference between encumbered liquidity reserves and encumbered assets is presented by a deposit placed as collateral for derivative instruments transactions in accordance with CSA contracts. This deposit does not constitute part of the liquidity reserves.

NLB Group has defined a liquidity management plan for exceptional circumstances that lays down guidelines and a plan of activities for recognising problems, searching for solutions and handling exceptional circumstances. It also provides for the establishment of a system of liquidity management that ensures the maintenance of NLB Group's liquidity and protects the commercial interests of its customers and shareholders.

Geographical analysis of the debt securities portfolio in the banking book

in EUR million

	NLB d.d.				NLB Group			
	31.12.2015		31.12.2014		31.12.2015		31.12.2014	
	Carrying value	in %	Carrying value	in %	Carrying value	in %	Carrying value	in %
Country								
Austria	91	4.3	100	3.9	91	3.5	106	3.5
France	100	4.7	107	4.2	101	3.9	114	3.7
Germany	214	10.0	207	8.1	214	8.2	208	6.8
Netherlands	110	5.1	100	3.9	110	4.2	100	3.3
Belgium	59	2.8	54	2.1	62	2.4	72	2.4
Slovenia	1,202	56.2	1,747	67.9	1,249	47.6	1,828	59.8
Macedonia	-	-	-	-	173	6.6	173	5.7
Serbia	-	-	-	-	81	3.1	88	2.9
Other	362	16.9	256	9.9	541	20.6	369	12.1
Total	**2,138**	**100.0**	**2,571**	**100.0**	**2,622**	**100.0**	**3,058**	**100.0**

*The analysis includes all debt securities in the banking book regardless of their measurement category (note 7.1.u).

7.3. Management of non-financial risks

a) Operational risk

When assuming operational risks, NLB Group follows the guideline that such risks may not materially impact its operations and, therefore, the risk appetite for operational risks is low to moderate. Currently, the complexity of NLB Group operations is on a moderate level, although it is constantly reducing through the divestment of non-core activities. The Group has set up a system of collecting loss events, identification, assessment and management of operational risks, all with the aim of ensuring quality management of operational risks.

All core members of NLB Group monitor the upper limit of tolerance to operational risk, defined as the limit amount of net loss that an individual member still allows in its operations. If the sum of net loss exceeds the tolerance limit, a special treatment of major loss events is required and, if necessary, taking of additional measures for the prevention of the same or similar loss events. The critical limit of loss events is also defined, representing the limit above which the member considers a possible increase in the capital requirement for operational risk within ICAAP and other possible risk management measures. The key risk indicators are regularly monitored (at least quarterly) within NLB Group's Risk Profile.

As the highest authority in the area of operational risk management, NLB d.d. appointed an Operational Risk Committee. Relevant operational risk committees were also appointed at other NLB Group banks. The management board serves in this role at other subsidiaries. The main task of the aforementioned bodies is to discuss the most significant operational risks and loss events, and to monitor and support the effective management of operational risks within an individual entity. All NLB Group entities included in the consolidation have adopted relevant documents that are in line with NLB d.d. standards. In core members, these documents are in line with the development of operational risk management and regularly updated. The whole NLB Group uses uniform software support, which is also regularly upgraded.

In NLB Group, the incurred and reported net loss arising from loss events in 2015 was higher than in the previous year, but much lower than the capital requirement for operational risk. At the beginning of the year, a loss event was reported resulting from an unintentionally economically open currency position, on the basis of which NLB d.d. adopted additional measures for preventing similar events in the future. In general, considerable attention was paid to reporting potential loss events and defining operational risks in all segments. To treat major loss events appropriately and as soon as possible, the Bank has introduced an escalation scale for reporting loss events to the top levels of decision-making at NLB d.d. and the Supervisory Board of NLB d.d. In the reporting of loss events, additional attention is also paid to the reporting of potential loss events in order to improve the internal controls and thus minimise similar events.

Through comprehensive identification of operational risks, possible future losses are identified, estimated and appropriately managed. The major operational risks are actively managed with the measures taken to reduce them. Special emphasis is put on the most topical risks, among which in particular on those with a low probability of occurrence and very high potential financial influence. An operational risk profile is prepared once a year on the basis of the operational risk identification. The capital requirement for operational risk is calculated using the standardised approach at NLB d.d. and using the basic indicator approach at NLB Group level.

b) Business Continuity Management (BCM)
In NLB Group, business continuity management is carried out to protect lives, goods and reputation. Business continuity plans are prepared to be used in the event of natural disasters, IT disasters and undesired effects of the environment to mitigate their consequences.

The concept of the action plan, prepared each year, is such that the activities contribute to the upgrading or improvement of the system of business continuity management. The basis for modernising the business continuity plans is the regular annual analysis of the impact on operations (BIA). On its basis, the adequacy of the plans for office buildings and IT plans is checked. The best indicator of the adequacy of the business continuity plans is testing. In 2015, 43 tests were carried out at NLB d.d. (33 internal ones and 10 with external business partners). No major deviations were discovered.

In NLB Group, know-how and methodologies are transferred to the members (except small members). The members have adopted appropriate documents which are in line with the standards of NLB d.d. and revised in accordance with the development of business continuity management. The activity of the members is monitored throughout the year, and expert assistance is provided if necessary. For more efficient functioning of the business continuity management system in NLB Group, training courses and visits to individual banking members are also provided. In 2015, NLB d.d. thus carried out a training course for members of the Crisis Management Team, the Business Operative Crisis Team and the Crisis Teams of office buildings. Upon IT disasters/failures, the Bank successfully used the IT plans and instructions for manual procedures, and thus also ensured business operations in emergency situations.

c) Management of other types of non-financial risks – capital risk, strategic risks, reputation risk and profitability risk
Risks not included in the calculation of capital requirements by the regulatory approach but which are also important for NLB Group are adequately discussed in the context of the internal capital adequacy assessment process (ICAAP). NLB d.d. has established the relevant methodologies for identifying and assessing specific types of risk (capital, strategic, reputation and profitability risk); the methodologies are subject to regular review. The calculation of internal capital requirements for non-financial risks is made quarterly at NLB Group level. If a certain risk is assessed as a key risk, capital requirements are created. Individual capital requirements for non-financial risks are calculated by certain NLB Group banks in accordance with their national regulations. Significant and material changes in the calculation of capital requirements for individual NLB Group entities could discretionarily result in an increase in relevant capital requirements at NLB Group level.

7.4. Information regarding the quality of debt securities

The portfolio of debt securities in the banking book is intended to provide liquidity and manage NLB Group's interest rate risk. When managing the portfolio, NLB Group uses conservative principles, particularly with respect to issuers' ratings and the maturity of the portfolio.

Structure of the banking book according to the Fitch credit rating agency

in EUR million

	NLB d.d.				NLB Group			
	31.12.2015		31.12.2014		31.12.2015		31.12.2014	
	Carrying value	in %	Carrying value	in %	Carrying value	in %	Carrying value	in %
Rating								
AAA	350	16.4	452	17.6	350	13.3	458	15.0
AA	246	11.5	178	6.9	249	9.5	204	6.7
A	233	10.9	165	6.4	233	8.9	200	6.5
BBB	1,272	59.5	1,752	68.1	1,278	48.7	1,798	58.8
Other	37	1.7	24	0.9	512	19.5	398	13.0
Total	**2,138**	**100.0**	**2,571**	**100.0**	**2,622**	**100.0**	**3,058**	**100.0**

Structure of the trading book according to the Fitch credit rating agency

	31.12.2015	31.12.2014
NLB d.d. and NLB Group	**in %**	**in %**
Rating		
A	36.7	-
BBB	36.3	82.2
Other	27.0	17.8
Total	**100.0**	**100.0**

7.5. Fair value hierarchy of financial and non-financial assets and liabilities

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. NLB Group uses various valuation techniques to determine fair value. IFRS 13 specifies a fair value hierarchy with respect to the inputs and assumptions used to measure financial and non-financial assets and liabilities at fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the assumptions of NLB Group. This hierarchy gives the highest priority to observable market data when available and the lowest priority to unobservable market data. NLB Group considers relevant and observable market prices in its valuations, where possible. The fair value hierarchy comprises the following levels:

- Level 1 – Quoted prices (unadjusted) on active markets. This level includes listed equities, debt instruments, derivatives, units of investment funds and other unadjusted market prices of assets and liabilities. When an asset or liability may be exchanged in multiple active markets, the principal market for the asset or liability must be determined. In the absence of a principal market, the most advantageous market for the asset or liability must be determined.
- Level 2 – A valuation technique where inputs are observable, either directly (i.e. prices) or indirectly (i.e. derived from prices). Level 2 includes prices quoted for similar assets or liabilities in active markets and prices quoted for identical or similar assets and liabilities in markets that are not active. The sources of input parameters for financial instruments, such as yield curves, credit spreads, foreign exchange rates, and the volatility of interest rates and foreign exchange rates, are Reuters and Bloomberg.
- Level 3 – A valuation technique where inputs are not based on observable market data. Unobservable inputs are used to the extent that relevant observable inputs are not available. Unobservable inputs must reflect the assumptions that market participants would use when pricing an asset or liability. This level includes non-tradable shares and bonds and derivatives associated with these investments and other assets and liabilities for which fair value cannot be determined with observable market inputs.

Wherever possible, fair value is determined as an observable market price in an active market for an identical asset or liability. An active market is a market in which transactions for an asset or liability are executed with sufficient frequency and volume to provide pricing information on an ongoing basis. Assets and liabilities measured at fair value in active markets are determined as the market price of a unit (e.g. share) at the measurement date, multiplied by the quantity of units owned by NLB Group. The fair value of assets and liabilities whose market is not active is determined using valuation techniques. Valuation techniques bear a different intensity level of estimates and assumptions, depending on the availability of observable market inputs associated with the asset or liability that is the subject of the valuation. Unobservable inputs shall reflect the estimates and assumptions that other market participants would use when pricing the asset or liability.

For non-financial assets measured at fair value and not classified at Level 1, fair value is determined based on valuation reports provided by certified valuators. Valuations are prepared in accordance with the International Valuation Standards (IVS).

a) Financial and non-financial assets and liabilities measured at fair value in the financial statements

in EUR thousand

	NLB d.d.				NLB Group			
31.12.2015	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Financial instruments held for trading	85,208	181,565	1,107	267,880	85,208	181,098	1,107	267,413
Debt instruments	*85,198*	*151,171*	*993*	*237,362*	*85,198*	*151,171*	*993*	*237,362*
Equity instruments	*10*	-	-	*10*	*10*	-	-	*10*
Derivatives	-	*30,394*	*114*	*30,508*	-	*29,927*	*114*	*30,041*
Derivatives - hedge accounting	-	1,083	-	1,083	-	1,083	-	1,083
Financial assets designated at fair value through profit or loss	4,913	-	-	4,913	7,595	-	-	7,595
Debt instruments	-	-	-	-	*753*	-	-	*753*
Equity instruments	*4,913*	-	-	*4,913*	*6,842*	-	-	*6,842*
Financial assets available-for-sale	1,037,876	203,609	6,874	1,248,359	1,344,175	383,056	9,960	1,737,191
Debt instruments	*1,018,857*	*159,090*	-	*1,177,947*	*1,324,978*	*336,751*	-	*1,661,729*
Equity instruments	*19,019*	*44,519*	*6,874*	*70,412*	*19,197*	*46,305*	*9,960*	*75,462*
Financial liabilities								
Financial instruments held for trading	-	29,909	-	29,909	-	29,920	-	29,920
Derivatives	-	*29,909*	-	*29,909*	-	*29,920*	-	*29,920*
Derivatives - hedge accounting	-	33,842	-	33,842	-	33,842	-	33,842
Financial liabilities designated at fair value through profit or loss	-	4,912	-	4,912	-	4,912	-	4,912
Non-financial assets								
Investment properties	-	8,613	-	8,613	-	93,513	-	93,513
Non-current assets classified as held for sale	-	1,776	-	1,776	-	4,629	-	4,629
Impaired non-financial assets								
Recoverable amount of property, plant and equipment	-	-	-	-	-	13,296	-	13,296
Recoverable amount of investment in subsidiaries, associates and joint ventures	-	23,146	11,273	34,419	-	-	-	-

in EUR thousand

31.12.2014	NLB d.d. Level 1	NLB d.d. Level 2	NLB d.d. Level 3	NLB d.d. Total fair value	NLB Group Level 1	NLB Group Level 2	NLB Group Level 3	NLB Group Total fair value
Financial assets								
Financial instruments held for trading	90,576	47,220	1,012	138,808	90,576	46,630	1,012	138,218
Debt instruments	*90,554*	*6,694*	*892*	*98,140*	*90,554*	*6,694*	*892*	*98,140*
Equity instruments	*22*	-	-	*22*	*22*	-	-	*22*
Derivatives	-	*40,526*	*120*	*40,646*	-	*39,936*	*120*	*40,056*
Derivatives - hedge accounting	-	2,966	-	2,966	-	2,966	-	2,966
Financial assets designated at fair value through profit or loss	4,702	-	-	4,702	6,510	-	-	6,510
Debt instruments	-	-	-	-	*885*	-	-	*885*
Equity instruments	*4,702*	-	-	*4,702*	*5,625*	-	-	*5,625*
Financial assets available-for-sale	1,074,296	102,527	5,925	1,182,748	1,378,408	287,802	6,742	1,672,952
Debt instruments	*1,050,406*	*102,527*	-	*1,152,933*	*1,352,640*	*287,451*	-	*1,640,091*
Equity instruments	*23,890*	-	*5,925*	*29,815*	*25,768*	*351*	*6,742*	*32,861*
Financial liabilities								
Financial instruments held for trading	-	39,593	4,171	43,764	-	39,587	4,171	43,758
Derivatives	-	*39,593*	*4,171*	*43,764*	-	*39,587*	*4,171*	*43,758*
Derivatives - hedge accounting	-	43,985	-	43,985	-	43,985	-	43,985
Financial liabilities designated at fair value through profit or loss	-	4,701	-	4,701	-	4,701	-	4,701
Non-financial assets								
Investment properties	-	1,458	-	1,458	-	41,472	-	41,472
Non-current assets classified as held for sale	-	2,580	-	2,580	-	5,643	-	5,643
Impaired non-financial assets								
Recoverable amount of property, plant and equipment	-	76	-	76	-	5,788	-	5,788
Recoverable amount of investment in subsidiaries, associates and joint ventures	-	448	-	448	-	-	-	-

b) Significant transfers of financial instruments between levels of valuation

NLB Group's policy of transfers of financial instruments between levels of valuation is illustrated in the table below.

Fair value hierarchy	Equities	Equity stake	Funds	Fixed income	Derivatives		
					Equities	Currency	Interest
1	market value from exchange market		regular valuation by fund management company	market value from exchange market			
2				valuation model	valuation model (underlying in level 1)	valuation model	valuation model
3	valuation model	valuation model	valuation model	valuation model	valuation model (underlying in level 3)		
Transfers	*from level 1 to level 3*		*from level 1 to level 3*	*from level 1 to level 2*	*from level 2 to level 3*		
	equity excluded from exchange market		fund management stops publishing regular valuation	fixed income excluded from exchange market	underlying excluded from exchange market		
	from level 1 to level 3		*from level 3 to level 1*	*from level 1 to level 2*	*from level 3 to level 2*		
	companies in insolvency proceedings		fund management starts publishing regular valuation	fixed income not liquid (no trading for 6 months)	underlying included into exchange market		
	from level 3 to level 1			*from level 1 to level 3 and from level 2 to level 3*			
	equity included to exchange market			companies in insolvency proceedings			
				from level 2 to level 1 and from level 3 to level 1			
				start trading with fixed income on exchange market			
				from level 3 to level 2			
				until valuation parameters are confirmed on ALCO (at least on quarterly basis)			

For 2015, neither NLB d.d. nor NLB Group had any significant transfers of financial instruments between levels of valuation.

For 2014, significant transfers of financial instruments between levels of valuation are shown in the table below:

in EUR thousand

31.12.2014	NLB d.d. and NLB Group					
	Level 1		Level 2		Level 3	
Financial assets	**from**	**to**	**from**	**to**	**from**	**to**
Financial instruments held for trading						
- debt instruments	*-*	*1,248*	*(1,248)*	*4,611*	*(4,611)*	*-*
Financial assets available-for-sale						
- debt instruments	*-*	*-*	*-*	*5,042*	*(5,042)*	*-*

c) Financial and non-financial assets and liabilities at Level 2 regarding the fair value hierarchy

Financial instruments on Level 2 of the fair value hierarchy at NLB d.d. and NLB Group include:

- debt securities: bonds not quoted on active markets and valuated by a valuation model;
- equities;
- derivatives: derivatives except forward derivatives and options on equity instruments that are not quoted on active markets;
- the National Resolution Fund; and
- structured deposits.

When valuing bonds classified on Level 2, NLB Group primarily uses the income approach based on an estimation of future cash flows discounted to the present value.

The input parameters used in the income approach are the risk-free yield curve and the spread over the yield curve (credit, liquidity, country).

Fair values for derivatives are determined using a discounted cash flow model based on the risk-free yield curve. Fair values for options are determined using valuation models for options (Garman and Kohlhagen model, binomial model and Black-Scholes model).

At least three valuation methods are used for the valuation of investment property. The majority of investment property is valued using the income approach where the present value of future expected returns is assessed. When valuing an investment property, average rents at similar locations and capitalisation ratios such as the risk-free yield, risk premium, liquidity premium, risk premium to account for the management of the investment and risk premium to account for capital preservation are used. Rents at similar locations are generated from various sources, like data from lessors and lessees, web databases and own databases. NLB Group has observable data for all investment property at its disposal. If observable data for similar locations are not available, NLB Group uses data from wider locations and appropriately adjusts such data.

Non-current assets held for sale represent property, plant and equipment that are measured at fair value less costs to sell because it is lower than the previous carrying amount of those assets.

d) Financial and non-financial assets and liabilities at Level 3 of the fair value hierarchy

Financial instruments on Level 3 of the fair value hierarchy in NLB d.d. and NLB Group include:

- debt securities: structured debt securities from inactive emerging markets;
- equities: mainly Slovenian corporate and financial equities that are not quoted on active markets; and
- derivative financial instruments: forward derivatives and options on equity instruments that are not quoted on an active organised market. Fair values for forward derivatives are determined using the discounted cash flow model. Fair values for equity options are determined using valuation models for options (Garman and Kohlhagen model, binomial model and Black-Scholes model). Unobservable inputs include the fair values of underlying instruments determined using valuation models. The source of observable market inputs is the Reuters information system.

NLB Group uses three valuation methods for the valuation of equity financial assets: the income approach, market approach and cost approach.

The most commonly used valuation technique is the income approach. The income approach is based on an estimation of future cash flows discounted to the present value. One of the key elements of the valuation is the projection of the cash flows the company is able to generate in the future. Based on that, the projection of the future cash flow is generated. The key variables that affect the amount of cash flows, and thus the estimated fair value of the financial asset, also include an assumption regarding the long-term EBITDA margin. A discount rate that is appropriate for the risks associated with the realisation of these benefits is used to discount cash flows. The discount rate is determined as the weighted average cost of capital. A forecast of future cash flows and a calculation of the weighted average cost of capital is prepared for an accurate forecasting period (usually 10 years from the date of the prediction value), and for a period following the period of accurate forecasting. Assumptions of long-term stable growth in the amount of 2.5% are used for the period following the period of accurate forecasting. NLB Group can select values of unobservable input data within a reasonable possible range, but uses those input data that other market participants would use.

Movements of financial assets and liabilities at Level 3

in EUR thousand

NLB d.d.	Financial instruments held for trading: Debt instruments	Financial instruments held for trading: Equity instruments	Financial instruments held for trading: Derivatives	Financial assets available- for-sale: Debt instruments	Financial assets available- for-sale: Equity instruments	Total financial assets	Financial liabilities held for trading: Derivatives
Balance at 1 January 2014	**4,058**	**16,719**	**118**	**3,573**	**4,240**	**28,708**	**3,916**
Exchange differences	105	-	-	-	-	105	-
Valuation:							
- through profit or loss	*1,363*	-	*2*	*1,785*	*(516)*	*2,634*	*255*
- recognised in other comprehensive income	-	-	-	*31*	*2,549*	*2,580*	-
Increases	220	-	-	286	-	506	-
Decreases	(243)	(16,719)	-	(633)	(348)	(17,943)	-
Transfer out of level 3	(4,611)	-	-	(5,042)	-	(9,653)	-
Balance at 31 December 2014	**892**	**-**	**120**	**-**	**5,925**	**6,937**	**4,171**
Exchange differences	101	-	-		-	101	-
Valuation:							
- through profit or loss	-	-	*(6)*		*(2,705)*	*(2,711)*	*87*
- recognised in other comprehensive income	-	-	-		*3,676*	*3,676*	-
Decreases	-	-	-		(22)	(22)	(4,258)
Balance at 31 December 2015	**993**	**-**	**114**	**-**	**6,874**	**7,981**	**-**

in EUR thousand

NLB Group	Financial instruments held for trading: Debt instruments	Financial instruments held for trading: Equity instruments	Financial instruments held for trading: Derivatives	Financial assets available- for-sale: Debt instruments	Financial assets available- for-sale: Equity instruments	Total financial assets	Financial liabilities held for trading: Derivatives
Balance at 1 January 2014	**4,058**	**16,719**	**118**	**3,573**	**4,714**	**29,182**	**3,916**
Exchange differences	105	-	-	-	(4)	101	-
Valuation:							
- through profit or loss	*1,363*	-	*2*	*1,785*	*(572)*	*2,578*	*255*
- recognised in other comprehensive income	-	-	-	*31*	*2,606*	*2,637*	-
Increases	220	-	-	286	415	921	-
Decreases	(243)	(16,719)	-	(633)	(359)	(17,954)	-
Transfer out of level 3	(4,611)	-	-	(5,042)	(58)	(9,711)	-
Balance at 31 December 2014	**892**	**-**	**120**	**-**	**6,742**	**7,754**	**4,171**
Exchange differences	101	-	-	-	(32)	69	-
Disposal of subsidiary	-	-	-	-	(48)	(48)	-
Valuation:							
- through profit or loss	-	-	*(6)*	-	*(4,732)*	*(4,738)*	*87*
- recognised in other comprehensive income	-	-	-	-	*3,584*	*3,584*	-
Increases	-	-	-	-	4,357	4,357	-
Decreases	-	-	-	-	(22)	(22)	(4,258)
Transfers into level 3	-	-	-	-	111	111	-
Balance at 31 December 2015	**993**	**-**	**114**	**-**	**9,960**	**11,067**	**-**

NLB d.d. and NLB Group recognise effects from the valuation of trading instruments in the income statement item Gains less losses from financial assets and liabilities not classified at fair value through profit or loss and exchange differences recognised in the income statement item Foreign exchange translation gains less losses. Effects from the valuation of available-for-sale financial assets are recognised in the income statement item Impairment charge and in the accumulated other comprehensive income item Available-for-sale financial assets.

In 2015, NLB d.d. and NLB Group recognised the following unrealised gains or losses for financial instruments that were at Level 3 as at 31 December 2015:

in EUR thousand

	NLB d.d.			NLB Group		
31.12.2015	Trading assets	Available-for-sale financial assets	Trading liabilities	Trading assets	Available-for-sale financial assets	Trading liabilities
Items of Income statement						
Losses from financial assets and liabilities held for trading	(6)	-	-	(6)	-	-
Impairment charge	-	2,705	-	-	4,732	
Foreign exchange translation gains	101	-	-	101	-	-
Item of Other comprehensive income						
Available-for-sale financial assets	-	3,676	-	-	3,584	-

in EUR thousand

	NLB d.d.			NLB Group		
31.12.2014	Trading assets	Available-for-sale financial assets	Trading liabilities	Trading assets	Available-for-sale financial assets	Trading liabilities
Items of Income statement						
Gains from financial assets and liabilities held for trading	4	-	255	4	-	255
Impairment charge	-	516	-	-	570	-
Foreign exchange translation gains	105	-	-	105	-	-
Item of Other comprehensive income						
Available-for-sale financial assets	-	-	-	-	58	-

e) Fair value of financial instruments not measured at fair value in financial statements

in EUR thousand

	NLB d.d.				NLB Group			
	31.12.2015		31.12.2014		31.12.2015		31.12.2014	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Loans and advances								
- debt securities	394,579	397,079	706,785	720,046	394,579	397,079	706,785	720,046
- loans and advances to banks	345,207	354,369	159,300	164,397	431,775	431,736	271,340	272,687
- loans and advances to customers	4,826,139	4,838,561	4,993,040	4,969,519	6,693,621	6,685,798	6,708,332	6,728,908
- other financial assets	48,944	48,944	47,836	47,836	69,521	69,521	71,769	71,769
Held-to-maturity investments	565,535	624,977	711,648	775,265	565,535	624,977	711,648	775,265
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	96,736	96,736	91,115	91,017	57,982	58,008	62,334	62,371
- borrowings from banks and central banks	519,926	513,719	643,578	633,768	571,029	566,144	714,722	706,449
- due to customers	6,293,339	6,299,181	6,294,925	6,314,378	9,020,666	9,036,023	8,943,832	8,984,830
- borrowings from other customers	16,168	15,783	33,511	33,410	100,267	101,197	136,660	140,362
- debt securities in issue	304,962	308,989	359,853	373,777	304,962	308,989	359,853	373,777
- subordinated liabilities	-	-	-	-	27,340	27,585	17,328	14,629
- other financial liabilities	47,346	47,346	46,223	46,223	75,307	75,307	71,886	71,886

Loans and advances to banks

The estimated fair value of deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and residual maturities. The fair value of overnight deposits equals their carrying value.

Loans and advances to customers

Loans and advances are net of the allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates for debts with similar credit risk and residual maturities to determine their fair value.

Deposits and borrowings

The fair value of sight deposits and overnight deposits equals their carrying value. However, their actual value for NLB Group depends on the timing and amounts of cash flows, current market rates and the credit risk of the depository institution itself. A portion of sight deposits is stable, similar to term deposits. Therefore, their economic value for NLB Group differs from the carrying amount.

The estimated fair value of other deposits and borrowings from customers is based on discounted cash flows using interest rates for new deposits with similar residual maturities.

Held-to-maturity financial assets and issued debt securities

The fair value of held-to-maturity financial assets and issued debt securities is based on their quoted market price or value calculated by using a discounted cash flow method and prevailing money market interest rates.

Other financial assets and liabilities

The carrying amount of other financial assets and liabilities is a reasonable approximation of their fair value as they mainly relate to short-term receivables and payables.

Fair value hierarchy of financial instruments not measured at fair value in financial statements

in EUR thousand

	NLB d.d.				NLB Group			
31.12.2015	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Loans and advances								
- debt securities	-	397,079	-	397,079	-	397,079	-	397,079
- loans and advances to banks	-	354,369	-	354,369	-	431,736	-	431,736
- loans and advances to customers	-	4,838,561	-	4,838,561	-	6,685,798	-	6,685,798
- other financial assets	-	48,944	-	48,944	-	69,521	-	69,521
Held-to-maturity investments	624,977	-	-	624,977	624,977	-	-	624,977
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	96,736	-	96,736	-	58,008	-	58,008
- borrowings from banks and central banks	-	513,719	-	513,719	-	566,144	-	566,144
- due to customers	-	6,299,181	-	6,299,181	-	9,036,023	-	9,036,023
- borrowings from other customers	-	15,783	-	15,783	-	101,197	-	101,197
- debt securities in issue	308,989	-	-	308,989	308,989	-	-	308,989
- subordinated liabilities	-	-	-	-	-	27,585	-	27,585
- other financial liabilities	-	47,346	-	47,346	-	75,307	-	75,307

in EUR thousand

31.12.2014	NLB d.d. Level 1	NLB d.d. Level 2	NLB d.d. Level 3	NLB d.d. Total fair value	NLB Group Level 1	NLB Group Level 2	NLB Group Level 3	NLB Group Total fair value
Loans and advances								
- debt securities	-	720,046	-	720,046	-	720,046	-	720,046
- loans and advances to banks	-	164,397	-	164,397	-	272,687	-	272,687
- loans and advances to customers	-	4,969,519	-	4,969,519	-	6,728,908	-	6,728,908
- other financial assets	-	47,836	-	47,836	-	71,769	-	71,769
Held-to-maturity investments	775,265	-	-	775,265	775,265	-	-	775,265
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	91,017	-	91,017	-	62,371	-	62,371
- borrowings from banks and central banks	-	633,768	-	633,768	-	706,449	-	706,449
- due to customers	-	6,314,378	-	6,314,378	-	8,984,830	-	8,984,830
- borrowings from other customers	-	33,410	-	33,410	-	140,362	-	140,362
- debt securities in issue	373,777	-	-	373,777	373,777	-	-	373,777
- subordinated liabilities	-	-	-	-	-	14,629	-	14,629
- other financial liabilities	-	46,223	-	46,223	-	71,886	-	71,886

7.6. Offsetting financial assets and financial liabilities

NLB Group has entered into foreign exchange netting arrangements with certain banks and companies. Cash flows from all FX derivatives with counterparties that are due on the same day are settled on a net basis, i.e. a single cash flow for each currency. Assets and liabilities related to these FX netting arrangements are not presented in a net amount in the statement of financial position because netting rules apply to cash flows and not to an instrument as a whole.

In accordance with the European Market Infrastructure Regulation (EMIR), NLB Group also novated certain standardised derivative financial instruments to a central counterparty in 2013. A system of daily margins assures the mitigation and collateralisation of exposures, as well as the daily settlement of cash flows for each currency.

in EUR thousand

NLB d.d.

31.12.2015				Amounts not set off in the statement of financial position		
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amounts set off in the statement of financial position	Net amounts of financial assets/ liabilities presented in the statement of financial position	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	30,385	-	30,385	10,100	7,844	12,441
Derivatives - liabilities	47,454	-	47,454	10,100	22,881	14,473

in EUR thousand

NLB d.d.

31.12.2014				Amounts not set off in the statement of financial position		
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amounts set off in the statement of financial position	Net amounts of financial assets/ liabilities presented in the statement of financial position	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	40,526	-	40,526	16,919	8,396	15,211
Derivatives - liabilities	63,086	-	63,086	16,919	23,972	22,195

in EUR thousand

31.12.2015	NLB Group			Amounts not set off in the statement of financial position		
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amounts set off in the statement of financial position	Net amounts of financial assets/ liabilities presented in the statement of financial position	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	29,918	-	29,918	10,100	7,844	11,974
Derivatives - liabilities	47,454	-	47,454	10,100	22,882	14,472

in EUR thousand

31.12.2014	NLB Group			Amounts not set off in the statement of financial position		
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amounts set off in the statement of financial position	Net amounts of financial assets/ liabilities presented in the statement of financial position	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	39,931	-	39,931	16,919	8,396	14,616
Derivatives - liabilities	63,086	-	63,086	16,919	23,972	22,195

8. Analysis by segment for NLB Group

a) Segments

in EUR thousand

2015	Corporate banking in Slovenia	Retail banking in Slovenia	Financial markets in Slovenia	Foreign strategic markets	Non-strategic markets and activities	Other activities	Unallocated	Total
	NLB Group							
Total net income	85,149	150,746	72,909	165,946	10,025	2,526	-	487,301
Net income from external customers	*95,627*	*136,337*	*65,944*	*168,818*	*13,853*	*2,812*	-	*483,391*
Intersegment net income	*(10,478)*	*14,409*	*6,965*	*(2,872)*	*(3,828)*	*(286)*	-	*3,910*
Net interest income	55,783	78,253	60,192	125,208	21,579	(813)	-	340,202
Net interest income from external customers	*66,261*	*59,210*	*57,584*	*128,858*	*28,816*	*(527)*	-	*340,202*
Intersegment net interest income	*(10,478)*	*19,043*	*2,608*	*(3,650)*	*(7,237)*	*(286)*	-	-
Administrative expenses	(39,211)	(94,818)	(11,068)	(85,396)	(26,404)	(12,997)	-	(269,894)
Depreciation and amortisation	(4,833)	(11,934)	(1,192)	(8,036)	(3,423)	(2,438)	-	(31,856)
Reportable segment profit/(loss) before impairment and provision charge	41,105	43,994	60,649	72,514	(19,802)	(12,909)	-	185,551
Other net gains/(losses) from equity investments in subsidiaries, associates and joint ventures	-	4,486	-	-	(174)	-	-	4,312
Impairment and provisions charge	10,351	(9,795)	218	(27,807)	(50,103)	(5,969)	-	(83,105)
Profit/(loss) before income tax	51,456	38,685	60,867	44,707	(70,079)	(18,878)	-	106,758
Owners of the parent	*51,456*	*38,685*	*60,867*	*41,243*	*(70,079)*	*(18,878)*		*103,294*
Non-controlling interests	-	-	-	*3,464*	-	-	-	*3,464*
Income tax	-	-	-	-	-	-	(11,380)	(11,380)
Profit for the year								**95,378**
Reportable segment assets	2,160,440	2,015,459	3,350,804	3,389,032	752,137	114,047	-	11,781,919
Investments in associates and joint ventures	-	39,696	-	-	-	-	-	39,696
Reportable segment liabilities	1,193,660	4,906,699	1,139,738	2,942,463	114,111	74,561	-	10,371,232
Additions to non-current assets	4,673	12,127	762	10,129	8,747	4,104	-	40,541

in EUR thousanc

2014	Corporate banking in Slovenia	Retail banking in Slovenia	Financial markets in Slovenia	Foreign strategic markets	Non-strategic markets and activities	Other activities	Unallocated	Total
	NLB Group							
Total net income	91,778	151,631	82,947	139,622	49,333	1,566	-	516,877
Net income from external customers	*110,220*	*115,202*	*81,684*	*145,381*	*61,787*	*(3,005)*	-	*511,269*
Intersegment net income	*(18,442)*	*36,429*	*1,263*	*(5,759)*	*(12,454)*	*4,571*	-	*5,608*
Net interest income	59,229	82,866	65,840	103,656	19,166	(751)	-	330,006
Net interest income from external customers	*77,896*	*41,112*	*65,077*	*110,676*	*35,883*	*(638)*	-	*330,006*
Intersegment net interest income	*(18,667)*	*41,754*	*763*	*(7,020)*	*(16,717)*	*(113)*	-	-
Administrative expenses	(39,563)	(97,727)	(11,614)	(83,191)	(28,829)	(12,411)	-	(273,335)
Depreciation and amortisation	(5,404)	(13,839)	(1,436)	(8,266)	(4,240)	(2,591)	-	(35,776)
Reportable segment profit/(loss) before impairment and provision charge	46,811	40,065	69,897	48,165	16,264	(13,436)	-	207,766
Other net gains/(losses) from equity investments in subsidiaries, associates and joint ventures	-	3,106	-	-	(234)	-	-	2,872
Impairment and provisions charge	(42,331)	(7,083)	12,638	(39,835)	(64,142)	(686)	-	(141,439)
Profit/(loss) before income tax	4,480	36,088	82,535	8,330	(48,112)	(14,122)	-	69,199
Owners of the parent	*4,480*	*36,088*	*82,535*	*5,598*	*(48,112)*	*(14,122)*		*66,467*
Non-controlling interests	-	-	-	*2,732*	-	-	-	*2,732*
Income tax	-	-	-	-	-	-	(4,131)	(4,131)
Profit for the year								**65,068**
Reportable segment assets	2,122,661	2,006,758	3,407,921	3,337,451	912,171	85,002	-	11,871,964
Investments in associates and joint ventures	-	37,525	-	-	-	-	-	37,525
Reportable segment liabilities	1,022,115	4,778,322	1,673,880	2,883,458	123,952	58,467	-	10,540,194
Additions to non-current assets	1,317	4,185	265	7,189	9,067	-	-	22,023

Segment reporting is presented in accordance with the strategy on the basis of the organisational structure used in management reporting of NLB Group's results.

NLB Group's segments are business units that focus on different customers and markets. They are managed separately because each business unit requires different strategies and service levels.

The business activities of NLB d.d. are divided into several segments. Interest income is reallocated between segments on the basis of multiple internal transfer rates (fund transfer pricing – FTP).

Other NLB Group members are, based on their business activity, included in only one segment.

Description of NLB Group's segments:

- Retail banking in Slovenia represents banking with individuals in NLB d.d. and assets management – NLB Skladi. It also includes the contribution to the financial result of the joint venture NLB Vita and the associates Skupna pokojninska družba and Bankart;
- Corporate banking in Slovenia, which includes operations with large (key), medium-sized (mid-market), micro and small businesses, Intensive Care and Non-performing loans;
- Financial markets in Slovenia, which include treasury activities, asset liability management, trading in financial instruments, brokerage and custody of securities as well as financial advisory;
- Foreign strategic markets represent all business activities of NLB Group members in strategic markets of NLB Group (Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia and Serbia), except leasing entities;
- Non-strategic markets and activities represent Total activities of NLB Group members in non-strategic markets of NLB Group (Croatia, Germany, Switzerland and Czech Republic) and all leasing entities. It also includes the operating result of non-financial entities (NLB Propria, Prospera Plus) and the performance of the Internal restructuring unit of NLB d.d.; and
- Other represents items of NLB d.d. income statement not related to reportable segments.

NLB Group is primarily a financial group and net interest income represents the majority of its net revenues. NLB Group's main indicator of a segment's efficiency is net profit before tax.

There was no income from transactions with a single external customer that amounted to 10% or more of NLB Group's income.

b) Geographical information

Geographical analysis includes a breakdown of items with respect to the country in which individual NLB Group entities are located.

The tables below present the consolidated data of NLB Group.

in EUR thousand

	Revenues		Net income		Profit/(loss) before income tax		Income tax	
NLB Group	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Slovenia	405,711	458,590	322,343	359,224	97,418	82,421	(7,198)	(1,369)
South East Europe	231,515	232,107	171,269	150,289	32,052	(1,514)	(4,188)	(2,752)
Macedonia	*79,578*	*76,907*	*55,944*	*51,041*	*13,927*	*12,894*	*(1,549)*	*(1,178)*
Serbia	*22,463*	*23,660*	*19,025*	*11,782*	*(2,634)*	*(27,104)*	*(35)*	*454*
Montenegro	*30,986*	*31,551*	*21,661*	*17,340*	*6,414*	*2,903*	*(126)*	*74*
Croatia	*840*	*881*	*707*	*1,985*	*(4,006)*	*(2,741)*	-	-
Bosnia and Herzegovina	*65,531*	*67,126*	*47,865*	*46,928*	*9,182*	*7,915*	*(1,436)*	*(1,405)*
Bulgaria	-	-	*(1)*	*(9)*	*(77)*	*(1,475)*	-	-
Kosovo	*32,117*	*31,982*	*26,068*	*21,222*	*9,246*	*6,094*	*(1,042)*	*(697)*
Western Europe	3,033	2,085	(10,185)	1,698	(20,997)	(9,191)	5	(9)
Germany	*2*	*77*	*250*	*1,118*	*243*	*(1,347)*	-	-
Switzerland	*3,031*	*2,008*	*(10,435)*	*580*	*(21,240)*	*(7,844)*	*5*	*(9)*
Czech Republic	-	-	(36)	58	(1,715)	(2,517)	1	(1)
Total	**640,259**	**692,782**	**483,391**	**511,269**	**106,758**	**69,199**	**(11,380)**	**(4,131)**

The column Revenues include interest and similar income, dividend income and fee and commission income.

The column Net income includes net interest income, dividend income, net fee and commission income, the net effect of financial instruments, foreign exchange translation, effect on derecognition of assets and net operating income.

in EUR thousand

NLB Group	Non-current assets 31.12.2015	Non-current assets 31.12.2014	Total assets 31.12.2015	Total assets 31.12.2014	Number of employees 31.12.2015	Number of employees 31.12.2014
Slovenia	240,592	219,691	8,289,804	8,375,571	3,225	3,327
South East Europe	138,513	116,922	3,469,279	3,432,197	3,136	3,107
Macedonia	*33,919*	*35,113*	*1,117,708*	*1,044,617*	*875*	*847*
Serbia	*24,778*	*25,392*	*280,274*	*304,384*	*480*	*450*
Montenegro	*35,580*	*11,005*	*495,044*	*512,631*	*341*	*335*
Croatia	*3,623*	*4,495*	*33,032*	*41,446*	*16*	*19*
Bosnia and Herzegovina	*27,031*	*26,682*	*1,077,299*	*1,064,185*	*930*	*929*
Bulgaria	*1*	*1*	*333*	*351*	*2*	*2*
Kosovo	*13,581*	*14,234*	*465,589*	*464,583*	*492*	*525*
Western Europe	296	310	58,961	96,972	11	14
Germany	*240*	*275*	*3,273*	*3,326*	*2*	*5*
Switzerland	*56*	*35*	*55,688*	*93,646*	*9*	*9*
Czech Republic	865	-	3,571	4,749	-	-
Total	**380,266**	**336,923**	**11,821,615**	**11,909,489**	**6,372**	**6,448**

The table below presents data on NLB Group members before intercompany eliminations and consolidation journals.

in EUR thousand

NLB Group	Revenues 2015	Revenues 2014	Net income 2015	Net income 2014	Profit/(loss) before income tax 2015	Profit/(loss) before income tax 2014	Income tax 2015	Income tax 2014
Slovenia	435,691	491,617	342,489	382,035	34,302	68,794	(8,516)	(1,400)
South East Europe	231,869	233,504	167,159	142,111	34,943	(391)	(4,057)	(2,980)
Macedonia	*79,638*	*77,174*	*54,737*	*49,776*	*13,997*	*12,634*	*(1,549)*	*(1,178)*
Serbia	*22,685*	*24,080*	*19,005*	*11,955*	*(686)*	*(25,640)*	*(53)*	*243*
Montenegro	*30,887*	*31,721*	*20,267*	*13,584*	*6,292*	*979*	*23*	*57*
Croatia	*813*	*823*	*(383)*	*268*	*(4,015)*	*(2,712)*	*-*	*-*
Bosnia and Herzegovina	*65,729*	*67,728*	*47,187*	*45,379*	*10,148*	*8,681*	*(1,436)*	*(1,405)*
Bulgaria	*-*	*1*	*(1)*	*(95)*	*(77)*	*(465)*	*-*	*-*
Kosovo	*32,117*	*31,977*	*26,347*	*21,244*	*9,284*	*6,132*	*(1,042)*	*(697)*
Western Europe	4,036	3,600	5,534	(723)	(4,792)	(9,242)	5	(9)
Germany	*3*	*72*	*242*	*1,107*	*243*	*(1,396)*	*-*	*-*
Switzerland	*4,033*	*3,528*	*5,292*	*(1,830)*	*(5,035)*	*(7,846)*	*5*	*(9)*
Czech Republic	108	25	(217)	(220)	(1,715)	(2,517)	1	(1)
Total	**671,704**	**728,746**	**514,965**	**523,203**	**62,738**	**56,644**	**(12,567)**	**(4,390)**

9. Related-party transactions

A related party is a person or entity that is related to NLB Group in such a manner that it has control or joint control, has a significant influence or is a member of the key management personnel of the reporting entity. Related parties of NLB d.d. and NLB Group include key management personnel (Management Board, other key management personnel and their family members), the Supervisory Board, companies in which members of the Management Board, key management personnel or their family members have control, joint control or a significant influence, the ultimate parent, subsidiaries, associates and joint ventures.

A number of banking transactions are entered into with related parties in the normal course of business. The volume of related-party transactions and the outstanding balances are as follows:

in EUR thousand

	Management Board and other Key management personnel		Family members of the Management Board and other key management personnel		Companies in which members of the Management Board, key management personnel or their family members have control, joint control or a significant influence		Supervisory Board	
NLB d.d. and NLB Group	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Loans issued								
Balance at 1 January	2,102	2,604	347	638	451	588	18	48
Increase	1,046	999	326	337	89	97	30	23
Decrease	(1,195)	(1,501)	(205)	(628)	(165)	(234)	(46)	(53)
Balance at 31 December	**1,953**	**2,102**	**468**	**347**	**375**	**451**	**2**	**18**
Interest income	44	54	12	9	10	14	-	2
Deposits received								
Balance at 1 January	1,958	2,942	1,136	1,268	199	221	115	66
Increase	3,042	3,786	971	1,622	191	377	485	133
Decrease	(2,842)	(4,770)	(1,378)	(1,754)	(284)	(399)	(377)	(84)
Balance at 31 December	**2,158**	**1,958**	**729**	**1,136**	**106**	**199**	**223**	**115**
Interest expense	(20)	(39)	(10)	(16)	-	-	(1)	(2)
Other financial assets	-	-	-	**1**	-	-	-	-
Other financial liabilities	**2**	**3**	-	-	**1**	-	-	-
Guarantees issued and credit commitments	**223**	**276**	**83**	**114**	**14**	**4**	**17**	**20**
Fee income	11	13	6	7	7	7	1	1

Ultimate parent company of NLB d.d. is Republic of Slovenia.

in EUR thousand

	NLB d.d.		NLB Group	
	Ultimate parent		Ultimate parent	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Loans issued				
Balance at 1 January	225,971	212,343	233,895	221,565
Increase	32,177	22,516	32,384	22,778
Decrease	(37,502)	(8,888)	(38,938)	(10,448)
Balance at 31 December	**220,646**	**225,971**	**227,341**	**233,895**
Interest income	7,441	7,901	7,648	8,162
Deposits received				
Balance at 1 January	375,102	7	375,102	7
Increase	47,400,068	52,217,427	47,400,068	52,217,427
Decrease	(47,665,169)	(51,842,332)	(47,665,169)	(51,842,332)
Balance at 31 December	**110,001**	**375,102**	**110,001**	**375,102**
Interest expense	(43)	(405)	(43)	(405)
Investments in securities				
Balance at 1 January	1,015,263	1,427,322	1,094,826	1,500,631
Exchange difference on opening balance	-	-	(1)	(264)
Increase	343,435	999,253	405,541	1,079,810
Decrease	(499,873)	(1,434,981)	(594,698)	(1,514,949)
Valuation	(13,786)	23,669	(14,092)	21,992
Balance at 31 December	**845,039**	**1,015,263**	**891,576**	**1,094,826**
Interest income	28,602	41,229	28,889	42,821
Other financial assets	**16**	**1**	**168**	**305**
Other financial liabilities	**9**	**34**	**9**	**34**
Guarantees issued and credit commitments	**824**	**884**	**824**	**884**
Fee income	113	12	113	12
Fee expense	(55)	-	(55)	-
Other income	32	5	32	5
Other expense	(2)	(108)	(2)	(108)

NLB Group discloses all transactions with the ultimate controlling party. For transactions with other government-related entities, NLB Group discloses individually significant transactions.

in EUR thousand

NLB Group	Amount of significant transactions concluded during the year		Number of significant transactions concluded during the year	
	1.1. - 31.12.2015	1.1. - 31.12.2014	1.1. - 31.12.2015	1.1. - 31.12.2014
Loans	200,000	-	1	-
Borrowings, deposits and business accounts	48,669	222,240	1	5
Commitments to extend credit	-	40,000	-	1

	Year-end balance of all significant transactions		Number of significant transactions at year-end	
	1.1. - 31.12.2015	1.1. - 31.12.2014	1.1. - 31.12.2015	1.1. - 31.12.2014
Loans	617,185	443,752	5	4
Debt securities classified as loans and advances	394,579	706,785	1	2
Debt securities	-	51,998	-	1
Borrowings, deposits and business accounts	134,798	134,648	3	5

	1.1. - 31.12.2015	1.1. - 31.12.2014
Interest income from loans	3,291	4,228
Effects from net interest income and net valuation from debt securities classified as loans and receivables	25,066	35,804
Interest income from debt securities	-	1,728
Interest expense from borrowings, deposits and business accounts	(517)	(4,099)
Interest income from commitments to extend credit	294	267

in EUR thousand

NLB d.d.	Subsidiaries 31.12.2015	Subsidiaries 31.12.2014	Associates 31.12.2015	Associates 31.12.2014	Joint ventures 31.12.2015	Joint ventures 31.12.2014
Loans issued						
Balance at 1 January	608,748	733,790	1,942	6,304	103,972	138,318
Increase	289,100	817,686	1,453	222	33,985	118,179
Decrease	(516,102)	(942,728)	(1,770)	(4,584)	(44,158)	(152,525)
Balance at 31 December	**381,746**	**608,748**	**1,625**	**1,942**	**93,799**	**103,972**
Interest income	10,679	23,998	65	108	2,679	6,403
Impairment	(18,626)	676	(23)	391	(5,794)	7,351
Deposits						
Balance at 1 January	12,328	18,966	-	10,215	-	-
Increase	193,746	201,012	-	30,867	-	-
Decrease	(202,636)	(207,650)	-	(41,082)	-	-
Balance at 31 December	**3,438**	**12,328**	**-**	**-**	**-**	**-**
Interest income	251	314	-	136	-	-
Impairment	6,796	249	-	9	-	-
Deposits received						
Balance at 1 January	48,380	62,034	1,642	10,362	770	5,167
Increase	8,128,118	9,301,805	6,503	68,534	45,232	20,271
Decrease	(8,117,091)	(9,315,459)	(6,966)	(77,254)	(42,564)	(24,668)
Balance at 31 December	**59,407**	**48,380**	**1,179**	**1,642**	**3,438**	**770**
Interest expense	(20)	(133)	(1)	(39)	(2)	(25)
Investments in securities						
Balance at 1 January	-	-	-	490	-	-
Increase	-	-	-	24	-	-
Decrease	-	-	-	(528)	-	-
Valuation	-	-	-	14	-	-
Balance at 31 December	**-**	**-**	**-**	**-**	**-**	**-**
Interest income	-	-	-	24	-	-
Debt securities in issue	**-**	**-**	**569**	**569**	**-**	**-**
Interest expense	-	-	(23)	(23)		
Derivatives						
Fair value	469	589	-	-	-	-
Contractual amount	3,836	4,313	-	-	-	-
Other financial assets	**5,054**	**625**	**28**	**25**	**207**	**11**
Impairment	(11)	4	-	1	(1)	-
Other financial liabilities	**357**	**4,086**	**948**	**1,078**	**176**	**134**
Interest expense	-	-	-	-	(132)	(134)
Guarantees issued and credit commitments	**38,660**	**76,332**	**43**	**42**	**28**	**42,646**
Income/(expense) provisons for guaranties and commitments	46	(495)	-	24	776	201
Received loan commitments and financial guarantees	**750**	**1,386**	**-**	**-**	**-**	**-**
Fee income	4,935	3,496	113	250	3,040	3,246
Fee expense	(109)	(112)	(9,903)	(10,135)	(1,413)	(1,225)
Other income	478	2,705	367	3,694	481	526
Other expense	(2,914)	(4,240)	(1,119)	(1,212)	-	-

in EUR thousand

NLB Group	Associates 31.12.2015	Associates 31.12.2014	Joint ventures 31.12.2015	Joint ventures 31.12.2014
Loans issued				
Balance at 1 January	1,942	6,331	104,590	138,361
Increase	1,453	7,158	37,215	120,763
Decrease	(1,770)	(11,547)	(47,982)	(154,534)
Balance at 31 December	**1,625**	**1,942**	**93,823**	**104,590**
Interest income	65	108	2,681	6,406
Impairment	(23)	391	(5,794)	7,351
Deposits				
Balance at 1 January	-	18,282	-	-
Increase	-	30,955	-	-
Decrease	-	(49,237)	-	-
Balance at 31 December	**-**	**-**	**-**	**-**
Interest income	-	172	-	-
Impairment	-	9	-	-
Deposits received				
Balance at 1 January	1,642	10,362	4,116	6,548
Exchange difference on opening balance	-	-	(17)	(75)
Increase	6,503	68,534	138,099	165,194
Decrease	(6,966)	(77,254)	(136,162)	(167,551)
Balance at 31 December	**1,179**	**1,642**	**6,036**	**4,116**
Interest expense	(1)	(39)	(139)	(39)
Investments in securities				
Balance at 1 January	-	490	-	-
Increase	-	24	-	-
Decrease	-	(528)	-	-
Valuation	-	14	-	-
Balance at 31 December	**-**	**-**	**-**	**-**
Interest income	-	24	-	-
Debt securities in issue	**569**	**569**	**-**	**-**
Interest expense	(23)	(23)	-	-
Other financial assets	**32**	**34**	**208**	**11**
Impairment	-	1	(1)	-
Other financial liabilities	**1,025**	**1,126**	**203**	**134**
Interest expense	-	-	(132)	(134)
Guarantees issued and credit commitments	**43**	**42**	**29**	**42,831**
Income provisons for guaranties and commitments	-	24	776	201
Fee income	113	250	3,301	3,410
Fee expense	(9,903)	(10,135)	(1,905)	(1,565)
Other income	367	3,649	560	526
Other expense	(1,119)	(1,212)	-	-

Key management compensation

The performance of key management is defined by financial and non-financial criteria. They are entitled to the annual variable part of the salary based on their achievement of the financial and non-financial performance criteria, which encompass the goals of NLB d.d. or NLB Group, the goals of the organisational unit and the personal goals of the employee performing special work.

Members of the Management Board are entitled to contractual gross salary considering the limitations of the Slovenian and European legislation.

Simultaneously, under the contract members of the Management Board are entitled to a performance bonus based on criteria set by the Supervisory Board. Each year, the Supervisory Board determines the criteria of remuneration upon the adoption of the Bank's annual business plan. The Supervisory Board determines the performance bonuses with the conclusion of each business year. In accordance with the legislation, the annual performance bonus cannot in any case exceed 30 percent of gross salaries in a business year of members of the Management Board. In addition, members of the Management Board are entitled to performance bonuses only proportionally, depending on their actual employment in the Bank for the period for which the performance bonus relates. The first 50 percent of the performance bonus is due for payment within 15 days of the General Meeting of Shareholders that voted on use of the previous year's profit and the discharge of the Management Board. Payment of the remaining 50 percent of the performance bonus is deferred.

Upon the conclusion of the General Meeting of Shareholders, members of the Supervisory Board receive payment for their performance and attendance, while the above amounts are limited to a decision of the General Meeting of Shareholders and are in full compliance with the applicable recommendations of corporate governance.

in EUR thousand

	Management Board		Other key management personnel		Supervisory Board	
NLB d.d. and NLB Group	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Short-term benefits	579	729	4,372	5,161	182	143
Cost refunds	7	8	113	140	77	30
Long-term bonuses:						
- severance pay	-	-	36	-	-	-
- post-employment benefits	-	-	-	5	-	-
- other benefits	3	-	40	4	-	-
- variable part of payments	77	-	536	-	-	-
Total	**666**	**737**	**5,097**	**5,310**	**259**	**173**

Short-term benefits include:
• monetary benefits (gross salaries, supplementary insurance, holiday allowances, other bonuses); and
• non-monetary benefits (company cars, health care, apartments etc.).

The reimbursement of cost comprises food allowances and travel expenses.

Post-employment benefits include annuity savings.

Payments to individual members of the Management Board

in EUR

Member		2015	2014
Janko Medja 2.10.2012	Short-term benefits:		
	- gross salary and holiday allowance	131,601	129,105
	- benefits and other short-term bonuses	1,652	1,347
	Costs refunds	3,299	3,229
	Long-term bonuses:		
	- other benefits	763	-
	- variable part of payments	19,246	-
	Total	**156,561**	**133,681**
Blaž Brodnjak 1.12.2012	Short-term benefits:		
	- gross salary and holiday allowance	131,601	129,105
	- benefits and other short-term bonuses	4,109	4,610
	Costs refunds	1,230	1,248
	Long-term bonuses:		
	- other benefits	763	-
	- variable part of payments	19,246	-
	Total	**156,949**	**134,963**
Andreas Burkhardt 18.9.2013	Short-term benefits:		
	- gross salary and holiday allowance	131,601	129,105
	- benefits and other short-term bonuses	27,364	27,599
	Costs refunds	1,169	1,199
	Long-term bonuses:		
	- other benefits	763	-
	- variable part of payments	19,246	-
	Total	**180,143**	**157,903**
Archibald Kremser 31.7.2013	Short-term benefits:		
	- gross salary and holiday allowance	131,601	129,105
	- benefits and other short-term bonuses	20,037	21,187
	Costs refunds	1,187	1,151
	Long-term bonuses:		
	- other benefits	763	-
	- variable part of payments	19,246	-
	Total	**172,834**	**151,443**
Nima Motazed 6.2.2013 - 17.12.2014	Short-term benefits:		
	- gross salary and holiday allowance	-	129,105
	- benefits and other short-term bonuses	-	28,963
	Costs refunds	-	1,261
	Total	**-**	**159,329**

The above table shows earnings paid to individuals in the year when they were members of the Management Board.

Payments to individual members of the Supervisory Board

in EUR

Member		2015	2014
Peter Groznik 4.11.2014 - 27.8.2015	Session fees	2,915	871
	Performance payment	11,085	1,742
	Costs refunds	616	-
France Arhar 12.6.2013 - 17.4.2014	Session fees	-	1,870
	Performance payment	-	6,304
Goran Katušin 12.6.2013 - 13.12.2014	Session fees	-	5,500
	Performance payment	-	15,376
Gorazd Podbevšek 12.6.2013	Session fees	6,886	5,500
	Performance payment	24,894	17,606
	Costs refunds	1,306	764
Sergeja Slapničar 12.6.2013	Session fees	6,600	5,500
	Performance payment	21,619	16,500
	Costs refunds	1,562	1,248
Tit A. Erker 12.6.2013	Session fees	6,831	5,500
	Performance payment	25,556	16,500
	Costs refunds	42,262	10,415
Miha Košak 12.6.2013	Session fees	7,931	5,500
	Performance payment	26,749	17,189
	Costs refunds	22,955	17,307
Uroš Ivanc 12.6.2013	Session fees	6,655	5,500
	Performance payment	21,619	16,500
	Costs refunds	214	189
Andreas Klingen 22.6.2015	Session fees	2,420	-
	Performance payment	10,365	-
	Costs refunds	8,051	-

The above table shows earnings paid to individuals in the year when they were members of the Supervisory Board.

ANNEX A: INCOME STATEMENTS AND BALANCE SHEETS OF THE NLB GROUP MEMBERS IN THE CORE FOREIGN MARKETS SEGMENT

The following tables set out the income statements and balance sheets for the NLB Group members in core foreign markets segment as at and for the periods indicated:

NLB Macedonia

Income Statement	For the six months ended 30 June 2018	2017	For the year ended 31 December 2017	2016	2015
	(EUR thousands)				
Total Income	**39,869**	**30,098**	**62,511**	**58,624**	**52,995**
Net interest income	23,745	23,886	49,665	46,327	41,344
Net non-interest income	16,124	6,212	12,846	12,297	11,651
Total expenses	**(12,152)**	**(11,273)**	**(23,381)**	**(22,250)**	**(22,369)**
Employee costs	(6,454)	(5,957)	(12,370)	(12,084)	(12,039)
Other general and administrative expenses	(4,139)	(3,820)	(8,000)	(7,515)	(7,703)
Depreciation and amortisation	(1,559)	(1,496)	(3,011)	(2,651)	(2,627)
PROFIT/LOSS BEFORE PROVISIONS AND TAX	**27,717**	**18,825**	**39,130**	**36,374**	**30,626**
Impairments and provisions	(2,867)	4,154	5,481	(8,747)	(16,044)
Gains less losses from capital investments in subsidiaries, associates and joint ventures	–	–	–	–	–
PROFIT OR LOSS BEFORE INCOME TAX	**24,850**	**22,979**	**44,611**	**27,627**	**14,582**
Income tax	(2,235)	(2,303)	(4,607)	(2,630)	(1,453)
PROFIT OR LOSS for the period	**22,615**	**20,676**	**40,004**	**24,997**	**13,129**

Balance Sheet	as at 30 June 2018	as at 31 December 2017	2016	2015
	(EUR thousands)			
Cash, cash balances at central banks and other demand deposits at banks	140,838	160,273	168,512	134,052
Financial instruments	180,333	168,532	156,867	173,364
Loans - to banks	48,460	49,008	25,211	50,349
Loans to non-banking sector	**817,008**	**796,678**	**743,341**	**704,657**
Gross loans to non-banking sector	873,613	877,644	829,378	810,177
Loans - to enterprises	358,174	383,678	382,447	401,044
Loans - to citizens	511,289	485,873	438,260	399,198
Loans - to state	4,150	8,093	8,671	9,935
Impairments	(56,605)	(80,966)	(86,037)	(105,520)
Investments in subsidiaries, associates and joint ventures	–	–	1,038	1,038
Tangible assets and investment property	33,270	34,167	35,254	36,010
Intangible assets	2,180	2,115	2,170	1,959
Other	8,528	25,141	20,968	18,249
Total Assets	**1,230,617**	**1,235,914**	**1,153,091**	**1,119,678**
Deposits - from banks	6,554	7,082	9,515	8,523
Deposits - from non-banking sector	981,678	1,005,282	938,496	918,934
Deposits - from enterprises	250,344	269,865	248,328	251,602
Deposits - from citizens	728,431	732,036	687,272	664,087
Deposits - from state	2,903	3,381	2,896	3,245
Borrowings	37,865	51,683	57,167	66,798
Other	19,733	15,258	18,830	11,446
Total equity	**184,787**	**156,609**	**129,083**	**113,977**
Total liabilities and equity	**1,230,617**	**1,235,914**	**1,153,091**	**1,119,678**

NLB Banja Luka

Income Statement	For the six months ended 30 June 2018	2017	For the year ended 31 December 2017	2016	2015
	(EUR thousands)				
Total Income	**14,102**	**13,784**	**27,782**	**27,074**	**24,879**
Net interest income	8,794	9,211	18,146	18,255	16,656
Net non-interest income	5,308	4,573	9,636	8,819	8,223
Total expenses	**(6,510)**	**(6,199)**	**(12,803)**	**(12,788)**	**(12,651)**
Employee costs	(4,221)	(3,972)	(8,316)	(8,254)	(8,319)
Other general and administrative expenses	(1,726)	(1,643)	(3,341)	(3,415)	(3,235)

Income Statement	For the six months ended 30 June 2018	2017	For the year ended 31 December 2017	2016	2015
			(EUR thousands)		
Depreciation and amortisation	(563)	(584)	(1,146)	(1,119)	(1,097)
PROFIT/LOSS BEFORE PROVISIONS AND TAX	**7,592**	**7,585**	**14,979**	**14,286**	**12,228**
Impairments and provisions	3,238	9,270	10,579	1,994	(1,473)
Gains less losses from capital investments in subsidiaries, associates and joint ventures	–	–	–	–	–
PROFIT OR LOSS BEFORE INCOME TAX	**10,830**	**16,855**	**25,558**	**16,280**	**10,755**
Income tax	(1,063)	(1,109)	(1,864)	(2,163)	(892)
PROFIT OR LOSS for the period	**9,767**	**15,746**	**23,694**	**14,117**	**9,863**

Balance Sheet	As at 30 June 2018	As at 31 December 2017	2016	2015
		(EUR thousands)		
Cash, cash balances at central banks and other demand deposits at banks	167,795	152,814	161,431	185,614
Financial instruments	129,979	116,612	100,804	77,556
Loans - to banks	7,606	32,140	24,443	22,348
Loans to non-banking sector	**368,395**	**349,102**	**327,430**	**303,041**
Gross loans to non-banking sector	390,716	379,161	373,949	351,480
Loans - to enterprises	164,546	155,547	150,163	129,172
Loans - to citizens	170,774	161,829	148,333	132,055
Loans - to state	55,396	61,785	75,453	90,253
Impairments	(22,321)	(30,059)	(46,519)	(48,439)
Investments in subsidiaries, associates and joint ventures	–	–	–	–
Tangible assets and investment property	15,705	15,734	17,099	17,067
Intangible assets	816	910	499	508
Other	2,854	2,637	2,795	5,614
Total Assets	**693,150**	**669,949**	**634,501**	**611,748**
Deposits - from banks	1,320	787	2,093	1,909
Deposits - from non-banking sector	557,254	532,546	495,438	474,323
Deposits - from enterprises	125,171	122,122	108,179	106,528
Deposits - from citizens	379,706	363,562	343,837	325,934
Deposits - from state	52,377	46,862	43,422	41,861
Borrowings	43,238	45,264	53,134	58,415
Other	9,674	6,912	9,229	9,043
Total equity	**81,664**	**84,440**	**74,607**	**68,058**
Total liabilities and equity	**693,150**	**669,949**	**634,501**	**611,748**

NLB Sarajevo

Income Statement	For the six months ended 30 June 2018	2017	For the year ended 31 December 2017	2016	2015
			(EUR thousands)		
Total Income	**12,749**	**12,615**	**25,512**	**23,953**	**22,336**
Net interest income	8,659	9,034	18,059	16,927	15,710
Net non-interest income	4,090	3,581	7,453	7,026	6,626
Total expenses	**(6,990)**	**(6,814)**	**(13,973)**	**(13,670)**	**(13,631)**
Employee costs	(4,168)	(3,939)	(8,066)	(7,923)	(7,978)
Other general and administrative expenses	(2,427)	(2,476)	(5,095)	(4,987)	(4,938)
Depreciation and amortisation	(395)	(399)	(812)	(760)	(715)
PROFIT/LOSS BEFORE PROVISIONS AND TAX	**5,759**	**5,801**	**11,539**	**10,283**	**8,705**
Impairments and provisions	191	(1,197)	(2,000)	(4,286)	(3,979)
Gains less losses from capital investments in subsidiaries, associates and joint ventures	0	0	0	0	0
PROFIT OR LOSS BEFORE INCOME TAX	**5,950**	**4,604**	**9,539**	**5,997**	**4,726**
Income tax	(476)	(555)	(1,239)	(640)	(544)
PROFIT OR LOSS for the period	**5,474**	**4,049**	**8,300**	**5,357**	**4,182**

Balance Sheet	As at 30 June 2018	As at 31 December 2017	2016	2015
	(EUR thousands)			
Cash, cash balances at central banks and other demand deposits at banks	141,203	145,014	139,549	133,410
Financial instruments	41,639	38,341	31,834	28,059
Loans - to banks	2,365	2,295	2,614	2,246
Loans to non-banking sector	**350,660**	**332,557**	**312,012**	**300,715**
Gross loans to non-banking sector	383,877	368,440	351,419	338,123
Loans - to enterprises	174,395	168,563	173,936	173,582
Loans - to citizens	206,676	197,121	177,213	162,533
Loans - to state	2,806	2,756	270	2,008
Impairments	(33,217)	(35,883)	(39,407)	(37,408)
Investments in subsidiaries, associates and joint ventures	–	–	–	–
Tangible assets and investment property	10,848	10,809	10,272	10,126
Intangible assets	246	282	224	205
Other	1,528	1,718	1,356	1,349
Total Assets	**548,489**	**531,016**	**497,861**	**476,110**
Deposits - from banks	10,537	5,279	8,796	1,761
Deposits - from non-banking sector	435,682	427,932	406,940	390,491
Deposits - from enterprises	113,344	112,434	100,615	119,577
Deposits - from citizens	268,836	260,895	250,510	224,617
Deposits - from state	53,502	54,603	55,815	46,297
Borrowings	20,344	22,099	16,730	23,747
Other	5,634	6,620	4,615	4,798
Total equity	**76,292**	**69,086**	**60,780**	**55,313**
Total liabilities and equity	**548,489**	**531,016**	**497,861**	**476,110**

NLB Kosovo

Income Statement	For the six months ended 30 June 2018	2017	For the year ended 31 December 2017	2016	2015
	(EUR thousands)				
Total Income	**15,246**	**14,171**	**29,082**	**27,758**	**26,347**
Net interest income	12,928	12,046	24,471	23,545	22,736
Net non-interest income	2,318	2,125	4,611	4,213	3,611
Total expenses	**(5,982)**	**(5,459)**	**(11,242)**	**(11,118)**	**(10,781)**
Employee costs	(3,113)	(2,773)	(5,653)	(5,790)	(5,893)
Other general and administrative expenses	(2,272)	(2,129)	(4,442)	(4,277)	(3,723)
Depreciation and amortisation	(597)	(557)	(1,147)	(1,051)	(1,165)
PROFIT/LOSS BEFORE PROVISIONS AND TAX	**9,264**	**8,712**	**17,840**	**16,640**	**15,566**
Impairments and provisions	(1,065)	(71)	(2,176)	(4,088)	(6,282)
Gains less losses from capital investments in subsidiaries, associates and joint ventures	–	–	–	–	–
PROFIT OR LOSS BEFORE INCOME TAX	**8,199**	**8,641**	**15,664**	**12,552**	**9,284**
Income tax	(801)	(768)	(1,467)	(1,289)	(1,042)
PROFIT OR LOSS for the period	**7,398**	**7,873**	**14,197**	**11,263**	**8,242**

Balance Sheet	As at 30 June 2018	As at 31 December 2017	2016	2015
	(EUR thousands)			
Cash, cash balances at central banks and other demand deposits at banks	74,489	103,519	90,360	62,539
Financial instruments	68,703	65,228	65,944	67,924
Loans - to banks	16,423	15,362	17,556	32,356
Loans to non-banking sector	**443,574**	**386,804**	**329,608**	**289,339**
Gross loans to non-banking sector	468,905	414,228	357,383	313,282
Loans - to enterprises	303,219	262,643	231,055	207,349
Loans - to citizens	165,686	151,585	126,328	105,933
Loans - to state	–	–	–	–
Impairments	(25,331)	(27,424)	(27,775)	(23,943)
Investments in subsidiaries, associates and joint ventures	–	–	–	–
Tangible assets and investment property	11,132	11,399	11,338	11,533
Intangible assets	710	728	577	494

Balance Sheet	As at 30 June 2018	As at 31 December 2017	2016	2015
	(EUR thousands)			
Other	1,140	1,046	732	507
Total Assets	**616,171**	**584,086**	**516,115**	**464,692**
Deposits - from banks	756	537	1,339	221
Deposits - from non-banking sector	530,648	506,672	442,095	400,245
Deposits - from enterprises	120,737	122,981	101,936	91,325
Deposits - from citizens	399,244	374,328	335,938	304,885
Deposits - from state	10,667	9,363	4,221	4,035
Borrowings	68	77	262	83
Other liabilities	19,672	10,095	9,574	4,418
Total equity	**65,027**	**66,705**	**62,845**	**59,725**
Total liabilities and equity	**616,171**	**584,086**	**516,115**	**464,692**

NLB Montenegro

Income Statement	For the six months ended 30 June 2018	2017	For the year ended 31 December 2017	2016	2015
	(EUR thousands)				
Total Income	**11,158**	**10,356**	**21,526**	**21,405**	**19,782**
Net interest income	8,466	7,784	16,416	17,162	14,866
Net non-interest income	2,692	2,572	5,110	4,243	4,916
Total expenses	**(5,936)**	**(6,181)**	**(12,414)**	**(12,570)**	**(12,783)**
Employee costs	(3,547)	(3,808)	(7,204)	(7,418)	(7,535)
Other general and administrative expenses	(1,951)	(1,949)	(4,368)	(4,264)	(4,248)
Depreciation and amortisation	(438)	(424)	(842)	(888)	(1,000)
PROFIT/LOSS BEFORE PROVISIONS AND TAX	**5,222**	**4,175**	**9,112**	**8,835**	**6,999**
Impairments and provisions	291	(1,728)	(3,807)	(3,505)	(731)
Gains less losses from capital investments in subsidiaries, associates and joint ventures	0	0	0	0	0
PROFIT OR LOSS BEFORE INCOME TAX	**5,513**	**2,447**	**(5,305)**	**5,330**	**6,268**
Income tax	(7)	(8)	80	(12)	(28)
PROFIT OR LOSS for the period	**5,506**	**2,439**	**5,385**	**5,318**	**6,240**

Balance Sheet	As at 30 June 2018	As at 31 December 2017	2016	2015
	(EUR thousands)			
Cash, cash balances at central banks and other demand deposits at banks	102,147	117,437	132,895	146,303
Financial instruments	54,614	50,348	61,024	55,582
Loans - to banks	10	9	8	5,010
Loans to non-banking sector	**289,658**	**265,062**	**255,888**	**253,710**
Gross loans to non-banking sector	311,095	287,102	288,800	293,042
Loans - to enterprises	91,993	76,931	103,089	129,268
Loans - to citizens	187,701	176,683	163,691	157,150
Loans - to state	31,401	33,488	22,020	6,624
Impairments	(21,437)	(22,040)	(32,912)	(39,332)
Investments in subsidiaries, associates and joint ventures	208	208	208	276
Tangible assets and investment property	12,146	12,086	11,919	12,499
Intangible assets	713	689	627	821
Other	9,751	11,397	10,489	10,342
Total Assets	**469,247**	**457,236**	**473,058**	**484,543**
Deposits - from banks	13,907	1,908	1,690	2,031
Deposits - from non-banking sector	367,229	359,736	361,201	379,832
Deposits - from enterprises	110,628	110,109	119,943	132,564
Deposits - from citizens	242,066	235,598	228,382	231,562
Deposits - from state	14,535	14,029	12,876	15,706
Borrowings	16,433	18,938	26,446	27,227
Other	7,114	9,679	7,934	6,829
Total equity	**64,564**	**66,975**	**75,787**	**68,624**
Total liabilities and equity	**469,247**	**457,236**	**473,058**	**484,543**

NLB Serbia

Income Statement	For the six months ended 30 June 2018	2017	As at 31 December 2017	2016	2015
			(EUR thousands)		
Total Income	**11,268**	**10,089**	**20,999**	**17,360**	**16,957**
Net interest income	9,570	8,369	17,984	14,748	13,760
Net non-interest income	1,698	1,720	3,015	2,612	3,197
Total expenses	**(8,703)**	**(7,652)**	**(16,336)**	**(16,980)**	**(15,470)**
Employee costs	(4,509)	(3,938)	(8,329)	(8,799)	(7,265)
Other general and administrative expenses	(3,480)	(3,122)	(6,734)	(7,090)	(7,304)
Depreciation and amortisation	(714)	(592)	(1,273)	(1,091)	(901)
PROFIT/LOSS BEFORE PROVISIONS AND TAX	**2,565**	**2,437**	**4,663**	**380**	**1,487**
Impairments and provisions	(51)	1,774	(919)	1,808	(270)
Gains less losses from capital investments in subsidiaries, associates and joint ventures	–	–	–	–	–
PROFIT OR LOSS BEFORE INCOME TAX	**2,514**	**4,211**	**3,744**	**2,188**	**1,217**
Income tax	(26)	15	(13)	(36)	(36)
PROFIT OR LOSS for the period	**2,488**	**4,226**	**3,731**	**2,152**	**1,181**

Balance Sheet	As at 30 June 2018	As at 31 December 2017	2016	2015
		(EUR thousands)		
Cash, cash balances at central banks and other demand deposits at banks	67,548	57,081	45,983	45,709
Financial instruments	49,827	56,623	54,579	81,497
Loans - to banks	498	2,352	19	15
Loans to non-banking sector	**284,390**	**238,795**	**159,363**	**92,895**
Gross loans to non-banking sector	294,978	251,056	175,600	119,056
Loans - to enterprises	180,299	152,063	104,840	65,041
Loans - to citizens	114,461	98,615	70,153	53,384
Loans - to state	218	378	607	631
Impairments	(10,588)	(12,261)	(16,237)	(26,161)
Investments in subsidiaries, associates and joint ventures	–	–	–	–
Tangible assets and investment property	6,419	6,615	7,346	7,673
Intangible assets	2,011	2,131	2,073	934
Other	6,601	7,210	6,436	6,894
Total Assets	**417,294**	**370,807**	**275,799**	**235,617**
Deposits - from banks	58,825	40,799	29,996	2,438
Deposits - from non-banking sector	286,995	259,755	189,962	179,788
Deposits - from enterprises	108,355	109,393	73,758	67,157
Deposits - from citizens	157,028	144,254	115,629	112,363
Deposits - from state	21,612	6,108	575	268
Borrowings	75	80	15	3,244
Other	6,353	8,729	10,300	6,026
Total equity	**65,046**	**61,444**	**45,526**	**44,121**
Total liabilities and equity	**417,294**	**370,807**	**275,799**	**235,617**

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