NLB Group

Interim Report

Q1 2018

Slovenia

NLB, Ljubljana

108
Number of branches

8,851
Total assets (in EUR million)

689,092
Number of active clients

23.2%
Market share by total assets

36.5
Result after tax (in EUR million)

NLB Skladi, Ljubljana

1,208
Assets under management (in EUR million)

30.5%
Market share* (mutual funds)

1.0
Result after tax (in EUR million)

* Market share of assets under management in mutual funds.

NLB Vita, Ljubljana

448
Assets of covered funds without own resources (in EUR million)

17.2%
Market share*

1.9
Result after tax (in EUR million)

* Market share in traditional life insurance.

Bosnia and Herzegovina

NLB Banka, Banja Luka

58
Number of branches

686
Total assets (in EUR million)

218,308
Number of active clients

18.6%
Market share* by total assets

5.3
Result after tax (in EUR million)

* Market share in the Republic of Srpska as at 31 December 2017 (estimation).

NLB Banka, Sarajevo

39
Number of branches

545
Total assets (in EUR million)

140,317
Number of active clients

5.2%
Market share* by total assets

3.0
Result after tax (in EUR million)

* Market share in the Federation of Bosnia and Herzegovina as at 31 December 2017.

Macedonia

NLB Banka, Skopje

52
Number of branches

1,239
Total assets (in EUR million)

380,883
Number of active clients

16.2%
Market share by total assets

17.0
Result after tax (in EUR million)

Kosovo

NLB Banka, Prishtina

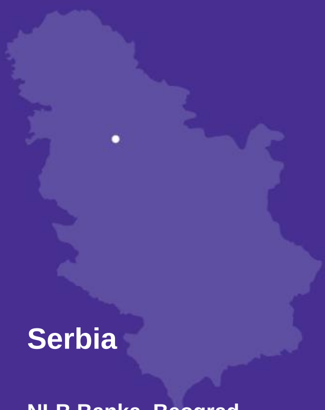
44
Number of branches

600
Total assets (in EUR million)

194,327
Number of active clients

16.0%
Market share by total assets

3.6
Result after tax (in EUR million)



Serbia

NLB Banka, Beograd

31
Number of branches

399
Total assets (in EUR million)

133,437
Number of active clients

1.3%
Market share* by total assets

1.4
Result after tax (in EUR million)

Montenegro

NLB Banka, Podgorica

18
Number of branches

450
Total assets (in EUR million)

58,459
Number of active clients

10.9%
Market share by total assets

2.7
Result after tax (in EUR million)

* Market share as at 31 December 2017.

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

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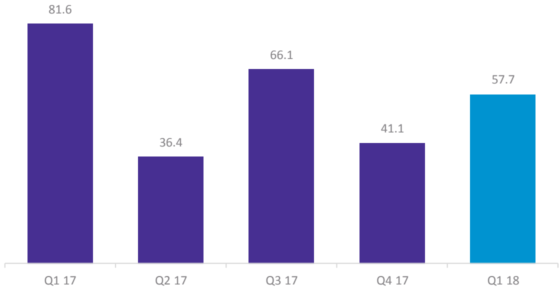
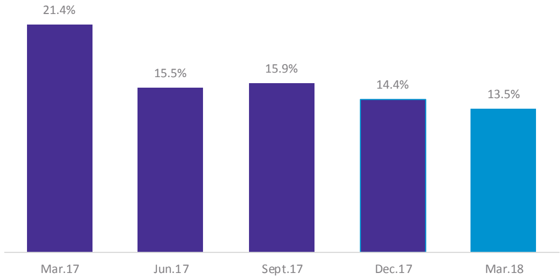
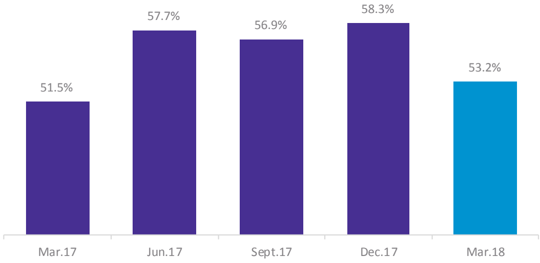
Profit a.t. - quarterly (in EUR million)



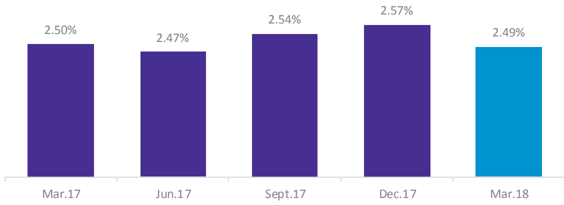
ROE a.t. - YtD (in %)



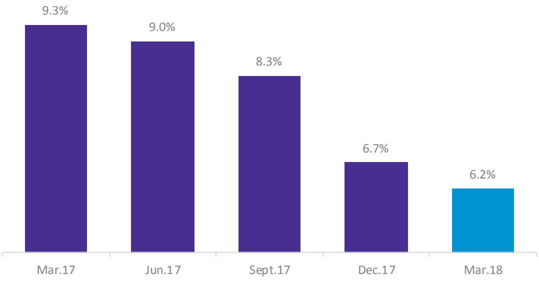
Cost /income ratio (CIR) - YtD (in %)



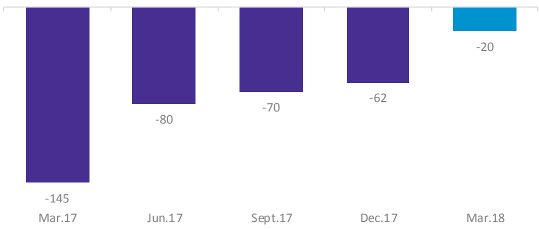
Interest margin - YtD (in %)



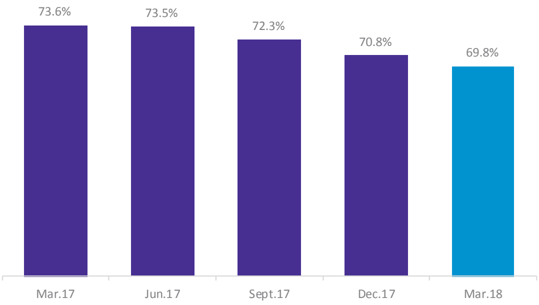
Non-performing exposure (NPE) - YtD (in %)



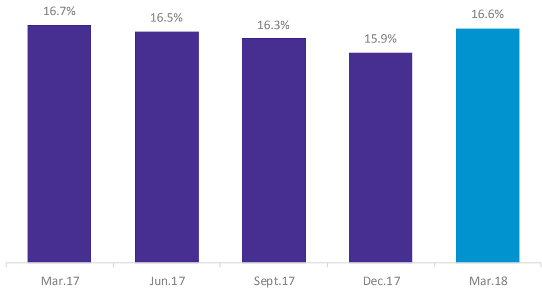
Cost of risk net - YtD (in bp)



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



Total capital ratio - YtD (in %)



Note:
31 December 2017: envisaging dividend payment in 100% profit after tax of the Bank (EUR 189 million)
31 March 2018: IFRS 9 implementation effect included (EUR 43.8 million)

Key financial caption of NLB Group

Table 1: Key financial caption of NLB Group

	NLB Group					
	1-3 2018	1-3 2017	Change YoY	Q1 18	Q4 17	Change QoQ
Key Income statement data (in EUR million)						
Net operating income	130.4	131.0	0%	130.4	122.4	6%
Net interest income	75.0	75.3	0%	75.0	80.6	-7%
Net non-interest income	55.4	55.7	-1%	55.4	41.8	32%
Costs	-69.4	-67.5	3%	-69.4	-76.9	-10%
Result before impairments and provisions	61.0	63.5	-4%	61.0	45.6	34%
Impairments and provisions	2.8	24.5	-89%	2.8	-7.7	136%
Result after tax	57.7	81.6	-29%	57.7	41.1	40%
Key financial indicators						
Interest margin (on interest bearing assets)[1]	2.49%	2.50%	0.0 p.p.	2.49%	2.67%	-0.2 p.p.
Interest margin (on total assets - BoS ratio)	2.44%	2.50%	-0.1 p.p.	2.44%	2.66%	-0.2 p.p.
Cost-to-income ratio (CIR)	53.2%	51.5%	1.7 p.p.	53.2%	62.8%	-9.6 p.p.
Cost-to-income ratio (CIR) normalised [2]	58.7%	55.9%	2.8 p.p.	58.7%	60.1%	-1.4 p.p.
Return on equity after tax (ROE a.t.)	13.5%	21.4%	-7.9 p.p.			
Return on assets after tax (ROA a.t.)	1.9%	2.7%	-0.8 p.p.			
RORAC a.t.[3]	17.4%	28.1%	-10.7 p.p.			
Cost of Risk Net (bps)[4]	-20	-145	125.5 b.p.			

	NLB Group				
	31 March 2018	31 Dec 2017	31 March 2017	Change YoY	Change YtD
Key financial position statement data (in EUR million)					
Total assets	12,425	12,238	12,090	3%	2%
Loans to customers (gross)	7,501	7,641	7,876	-5%	-2%
Loans to customers (net)	6,935	6,994	7,005	-1%	-1%
o/w Key business activities	6,413	6,425	6,328	1%	0%
Deposits from customers	9,939	9,879	9,514	4%	1%
Total equity	1,753	1,654	1,565	12%	6%
Other key financial indicators					
LTD (Loans to customers/Deposits from customers)[5]	69.8%	70.8%	73.6%	-3.8 p.p.	-1.0 p.p.
Common Equity Tier 1 Ratio*	16.6%	15.9%	16.7%	-0.1 p.p.	0.7 p.p.
Total capital ratio*	16.6%	15.9%	16.7%	-0.1 p.p.	0.7 p.p.
Total risk exposure amount (RWA)	8,634	8,547	7,935	9%	1%
NPL - Gross (in EUR million)	801	844	1,215	-34%	-5%
NPL coverage ratio[6]	61.9%	62.2%	65.1%	-3.2 p.p.	-0.3 p.p.
NPL coverage ratio[7]	70.8%	77.5%	75.6%	-4.8 p.p.	-6.7 p.p.
Share of non-performing loans (NPL) in all loans	8.8%	9.2%	12.7%	-3.9 p.p.	-0.4 p.p.
NPL ratio - Net[8]	3.6%	3.8%	4.9%	-1.3 p.p.	-0.2 p.p.
NPE ratio[9]	6.2%	6.7%	9.3%	-3.1 p.p.	-0.5 p.p.
Employees					
Number of employees	5,951	6,029	6,162	-3.4%	-1.3%

[1] Further analyses of interest margins are based on interest bearing assets
[2] Without non-recurring revenues and restructuring costs
[3] RORAC a.t. = profit a.t./average capital requirement normalized at 15.38% RWA for 2018 and onwards, 14.75% before
[4] Cost of risk NET = Credit impairments and provisions (annualised level) /average net loans to non-banking sector
[5] Net loans to customers /Deposits from customers
[6] NPL Coverage ratio = Coverage of gross non-performing loans with impairments for non-performing loans
[7] NPL Coverage ratio = Coverage of gross non-performing loans with impairments for all loans
[8] NPL ratio - Net = Net non performing loans/Net loan portfolio
[9] EBA definition
*31 Dec 2017 envisaging dividend payment in 100% of net profit after tax of the Bank (EUR 189 million)
31 March 2018 IFRS 9 implementation effect included (EUR 43.8 million)

International credit ratings NLB	31 March 2018	31 Dec 2017	Outlook
Standard & Poor's*	BB	BB	Positive
Fitch	BB	BB	Stable**

* As at 18 May 2018; Rating: BB+; Outlook: Developing.
** As at 26 April 2018; Outlook: Rating Watch Evolving.

Macroeconomic environment

The global economy entered the new year on a high note, with considerable optimism regarding the global economy and rising inflationary dynamics being the central talking points on financial markets. While macroeconomic metrics subsided from their multi-decade peaks throughout the quarter, the global economy continued to maintain high levels of momentum. However, anticipation of monetary policy normalisation and rising geopolitical risks soon replaced the improved economic picture as the primary driver of financial market movements. A sharp increase in financial market volatility ensued, with most primary equity indices experiencing notable losses in the turmoil. In the United States (US), the return of long-awaited wage growth positively surprised economists, but at the same time reminded market participants of impeding rising rates. The Federal Reserve (FED), raised its key interest rate for the 6th time since it began tightening its policy in 2015, while minutes from its March meeting indicated optimism regarding the country's economy and continued growth of inflationary pressures. At present, another two to three interest rate increases are expected from the FED in the current year, while the next increase will bring the Federal Funds rate to 2.0%. Spurred by the improved inflationary environment, other major central banks around the world have also begun the path of signaling policy normalisation, and even the Bank of Japan (BoJ) is currently expected to conclude its monetary stimulus in 2019. The continued increase in crude oil prices, with West Texas Intermediate (WTI) experiencing 10.5% euro basis growth in the quarter, will likely result in additional upward pressure on headline inflation in the coming quarters, which will result in another round of monetary policy normalisation discussions, and could lead to further market volatility in the coming quarters.

The European continent continued to benefit from a strengthening domestic economy and positive trends abroad. Regional solidarity continued to be an important theme, as economic momentum continued at an elevated pace. At the same time, the formation of the German government and Italian elections, sources of internal political risk, passed without much commotion. While numerous potential risk factors in the Euro area remain unresolved, with the formation of the Italian government and Brexit among them, they pale in comparison to events and geopolitical risks occurring outside of its borders. Data in the quarter showed that, in 2017, for the first time in history all Euro area members met the 3% deficit limit, further fueling pro-European optimism and continued spread convergence. While there was some softness in inflation in the first quarter, the metric is expected to remain steady at 1.5% in the year, as we slowly come to the end of the European Central Bank's (ECB) quantitative easing program. The normalisation of the ECB's monetary policy is set to become a central theme on financial markets in coming quarters. Further clarity on the central bank's asset purchase tapering and rates guidance is anticipated at its June meeting. Current expectations point to a conclusion of the asset purchase program in the current year, with asset purchase tapering expected in the fourth quarter. An increase of key interest rates is presently forecast to occur in the second half of 2019, putting the Euro area firmly on its path to normalization, and in the mid-term excessive reserves on the ECB's balance sheet will keep short-term rates anchored to the ECB's deposit rate. However, escalating geopolitical tensions, fears of a potential trade war and increased market volatility, threaten to delay the normalisation of monetary policy and at the same time cloud the outlook of the global economy.

In Slovenia, the strong economic momentum from the previous year continued into the first quarter of 2018, and as in the Euro area a slight retraction of key macroeconomic metrics from multi-year peaks was noted. However, expectations for Slovenia's economy remain high, with above five percent gross domestic product (GDP) growth forecast for the year. External trade performance, private consumption, and investments will remain the primary contributors to the elevated economic growth in the year. Increasing employment and high levels of consumer confidence will support heightened consumption dynamics in the coming years, while a continuation of economic recovery in Europe will support further trade performance. The recovery of the labor market is expected to continue at a strong pace in the mid-term. Positive trends in the economic environment, and to an increasing extent demographic factors, are forecast to support employment growth and become the primary factors affecting labor dynamics in upcoming years. Scarcity on the real estate market, which was a driving force behind the substantial price growth in the previous year, is expected to continue throughout the year and will support further upward pressure on prices. In line with rising prices and lacking supply, activity in the construction sector continued to expand in the quarter and is expected to strengthen further in the mid-term. However, it will be some time before a substantial increase is expected from the supply side, a factor of risk which could contribute to the rise of further price imbalances on the market. The turnaround of Slovenia’s economy in recent years has been remarkable, and the outlook for the economy remains positive, with strong economic performance anticipated in major trading partners and a strengthening domestic economic environment. However, due to inconclusive polling, the outcome of the parliamentary elections in the second quarter represent a short-term uncertainty. Additionally, the recent resurgence of tensions between the West and Russia and the subsequent depreciation of the Ruble will have likely have a negative impact on Slovenia’s corporate sector.

Following a record year for Slovenia's banking system, profitability of the banking system decreased by 5.5% in the first two months of 2018 when compared with the same period in the previous year. The system’s return on equity remained above ten percent and measured 10.4%. The quality of the banking systems credit portfolio continued to improve, with non-performing loans (NPL) decreasing by a further 30 basis points to 3.3% at the end of February. After returning to growth in 2017 for the first time in a decade, the corporate loan portfolio continued to expand in 2018. On an annual basis the portfolio expanded by 3.1%, while on a year to date basis the expansion measured 2.3%. High levels of capacity utilisation in the corporate sector and economic growth are expected to support further growth of the corporate portfolio, as the sector gradually shifts the mix of funding sources for its investments to banking loans. As of February, the retail loan portfolio recorded 6.7% growth on an annual basis, scarcity within the real estate market is likely to become an increasing force limiting the real estate loan portfolio’s growth in the short-term. However, rising consumption dynamics and the low indebtedness of Slovenian households should help to offset the aforementioned through retail loans for consumption purposes. Interest rates on loans continued to show signs of stabilisation through the quarter, with several categories continuing to show signs of recovery, however, excess liquidity, a high degree of competition, and increasing real-estate scarcity will limit any sudden movements of the loan interest rate environment in the short-term and will continue to exert pressure on the banking systems income throughout the year.

Business Report

Key developments of NLB Group:

EUR 57.7 million

Profit after tax
In the Q1 2018 the Group realised profit after tax in the amount of EUR 57.7 million, a decrease of 29% YoY, mostly due to release of pool provisions in the first quarter of 2017.

1%

Continued growth (1% YtD) in **retail loan** balances in Slovenia. Strategic foreign markets also continued to perform well with loan growth YtD at 1%.

5%

Fee and commission income increase
Total Net operating income stayed on the same level as compared with Q1 2017 (Q1 2018: EUR 130.4 million), with stable net interest income, higher net fees and commission income (5% YoY), and lower other regular net non-interest income.

16.6%

Total capital ratio
At the end of Q1 2018, the capital ratios (CET 1 and total capital ratio) of the Group remained very strong, reaching 16.6% (not including the three months profits) and were well above regulatory thresholds.

53.2%

CIR stood at 53.2% and normalised CIR* at 58.7%, which is 1.7 or 2.8 p.p. higher YoY, respectively.

* Without non-recurring revenues and restructuring costs.

6.2%

NPE
Further improvement of loan portfolio quality was also shown in the additional reduction of non-performing loans (NPL) in Q1 2018. The NPL ratio thus decreased to 8.8%, while the non-performing exposure (NPE) ratio fell to 6.2%.

-8%

Recurring profit before impairments and provisions totalled EUR 48.8 million, a decrease of 8% YoY (EUR 4.2 million) based on lower net profit from financial operations and higher costs.

44.8%

Share of liquid assets in total assets stood at 44.8%, which is 0.2 p.p. higher YtD. The Group liquidity remains exceptionally strong, which confirms the low liquidity risk tolerance of the Group.

Financial performance of NLB Group

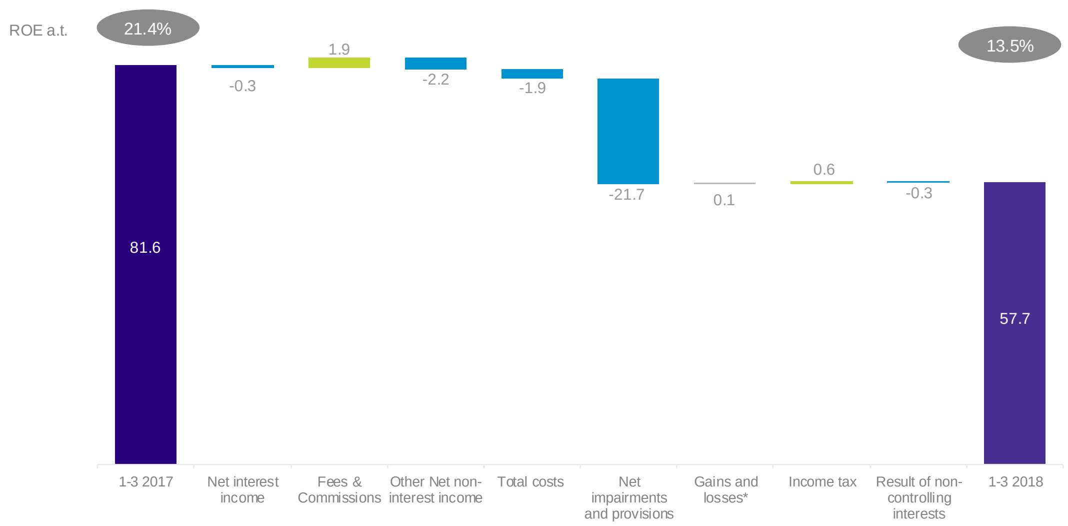
Table 2: Income statement of NLB Group

	NLB Group					
in EUR million	1-3 2018	1-3 2017	Change YoY	Q1 18	Q4 17	Change QoQ
Net interest income	**75.0**	**75.3**	**0%**	**75.0**	**80.6**	**-7%**
Net fee and commission income	39.3	37.4	5%	39.3	40.2	-2%
Dividend income	0.0	0.0	-	0.0	0.0	-
Net income from financial transactions	2.1	14.2	-85%	2.1	4.2	-50%
Net other income	13.9	4.1	243%	13.9	-2.6	-
Net non-interest income	**55.4**	**55.7**	**-1%**	**55.4**	**41.8**	**32%**
Total net operating income	**130.4**	**131.0**	**0%**	**130.4**	**122.4**	**6%**
Employee costs	-40.3	-39.6	2%	-40.3	-43.9	-8%
Other general and administrative expenses	-22.3	-21.0	6%	-22.3	-26.0	-14%
Depreciation and amortisation	-6.8	-6.9	-1%	-6.8	-7.0	-3%
Total costs	**-69.4**	**-67.5**	**3%**	**-69.4**	**-76.9**	**-10%**
Result before impairments and provisions	**61.0**	**63.5**	**-4%**	**61.0**	**45.6**	**34%**
Impairments of securities	-0.2	0.0	-	-0.2	0.0	-
Credit impairments and provisions	3.5	25.4	86%	3.5	6.6	47%
Other impairments and provisions	-0.5	-0.9	-42%	-0.5	-14.3	-96%
Impairments and provisions	**2.8**	**24.5**	**-89%**	**2.8**	**-7.7**	**-136%**
Gains less losses from capital investments in subsidiaries, associates, and joint ventures	1.2	1.1	8%	1.2	1.0	-
Profit before income tax	**65.0**	**89.1**	**-27%**	**65.0**	**38.9**	**67%**
Income tax	-4.3	-4.8	-11%	-4.3	3.2	-234%
Result of non-controlling interests	3.0	2.7	10%	3.0	1.0	214%
Profit for the period	**57.7**	**81.6**	**-29%**	**57.7**	**41.1**	**40%**

Profit

In Q1 2018 the Group generated EUR 57.7 million of profit after tax, EUR 23.9 million or 29% less YoY, mostly due to the release of pool provisions in the amount of approx. EUR 21 million in Q1 2017.

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

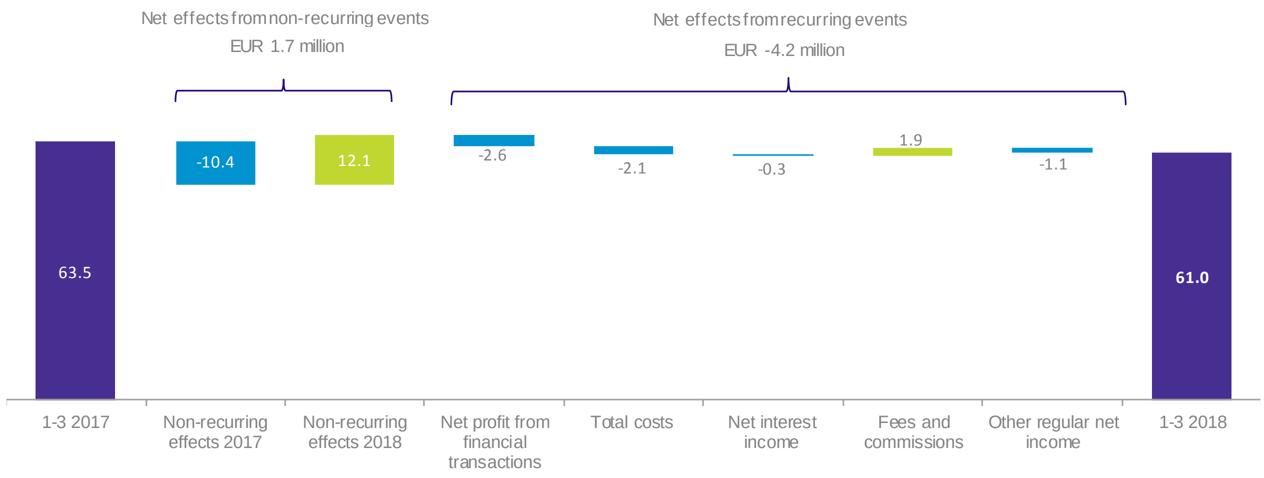


* Gains less losses from capital investments in subsidiaries, associates, and joint ventures.

The Group's result in Q1 2018 is based on the following key drivers:

- Non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje in the positive amount of EUR 12.2 million;
- Stable net interest income on the Group level; a decrease in net interest income of the Bank was partially compensated by growth in the Strategic foreign market;
- Higher net fee and commission income by EUR 1.9 million, or 5%;
- Lower net profit from financial operations due to positive effects from the sale of debt securities in 2017 (EUR 1.8 million);
- Higher costs by EUR 1.9 million or 3% YoY, mostly due to an increase in general and administrative costs of the Bank;
- Negative cost of risk (-20 b.p.) due to released net impairments and provisions in the amount of EUR 2.8 million.

Figure 2: Profit before impairments and provisions (in EUR million)

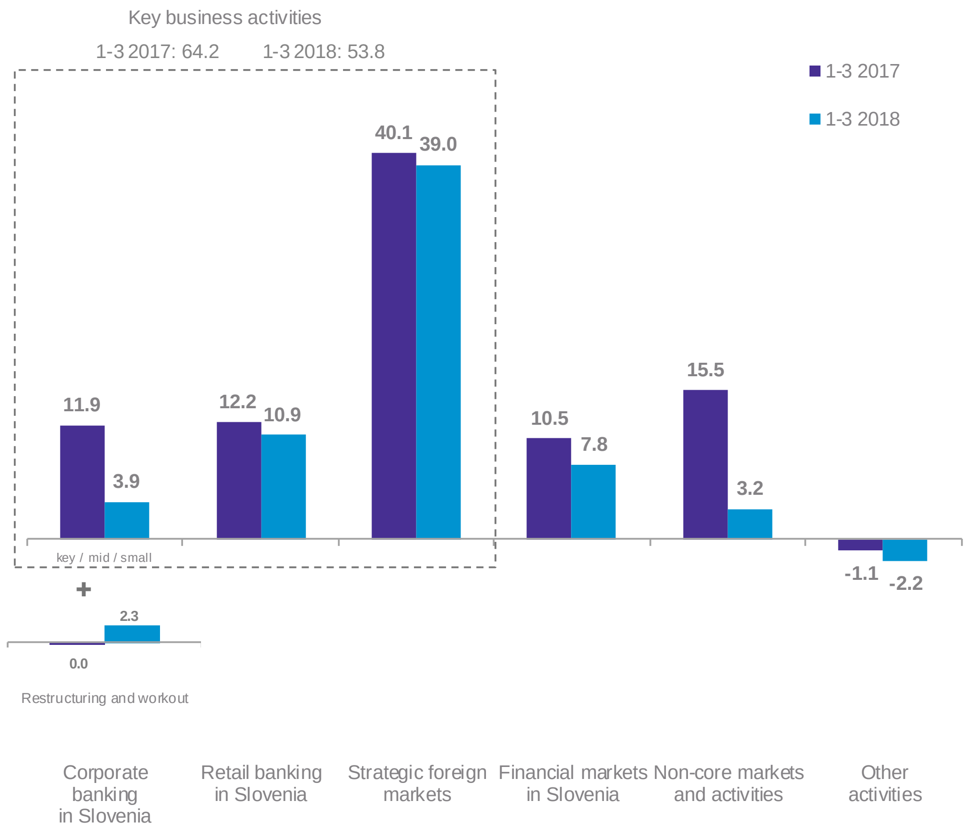


Regular profit before impairments and provisions (excluded non-recurring items[1]) was EUR 48.8 million, EUR 4.2 million or 8% lower YoY. The increase in costs and lower financial and other net non-interest income was partially offset by an increase in net fees and commissions.

Notes:

[1] Non-recurring items in Q1 2017: positive effects from non-core equity participation (EUR 9.5 million), a court settlement with Zavarovalnica Triglav (EUR 1.2 million), and the negative effect of restructuring costs (EUR 0.3 million).
Non-recurring items in the Q1 2018: positive effect from sale of core subsidiary NLB Nov penziski fond, Skopje (EUR 12.2 million), and the negative effect of restructuring costs (EUR 0.1 million).

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



In the Q1 2018, the Corporate segment recorded a substantial drop in profit before tax, 47%, mostly due to the release of pool provisions in March 2017 that had a positive impact on profit in the Q1 2017. An important drop of profit was also recorded also on Non-core markets and activities, due to one-offs in the Q1 2017[2]. The Strategic foreign market segment includes the positive effect from non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje in the amount of EUR 12.2 million. All Group subsidiary banks in the SEE market generated a profit, contributing EUR 27.5 million (42%)[3] to the Group profit before tax in Q1 2018 (Q1 2017: EUR 40.7 million, 46%) lower by EUR 13.2 million mostly due to lower release of impairments and provisions in 2018.

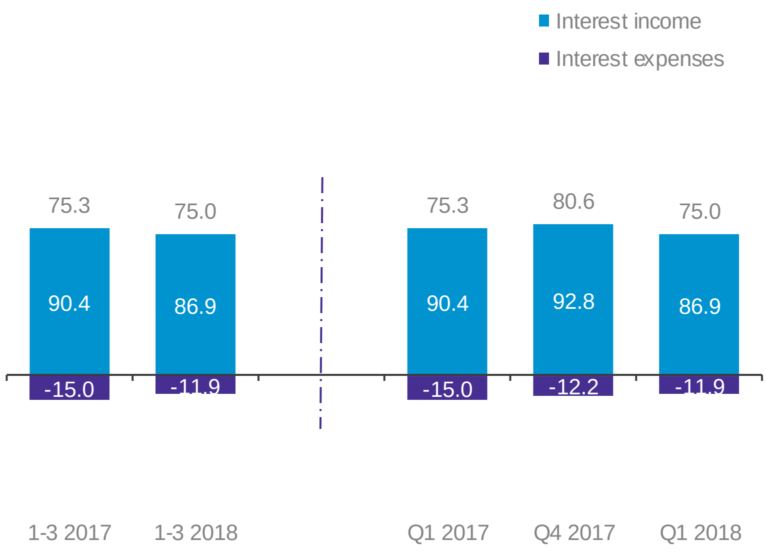
Notes:

[2] Please refer to note 1.

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

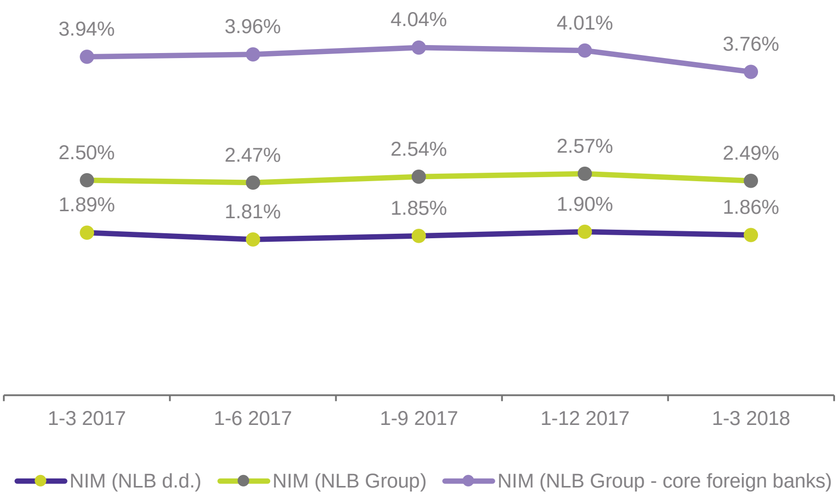
Net interest income

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



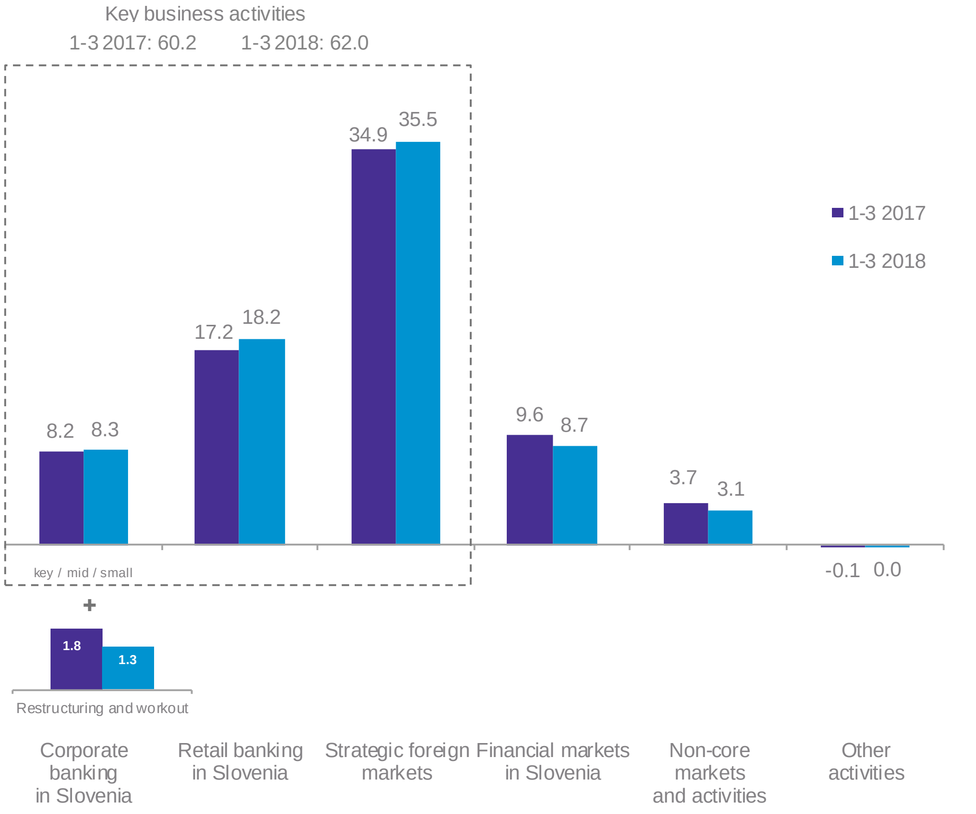
Net interest income remained at the same level as in Q1 2017 and totaled EUR 75.0 million. The decrease of interest rates on loans and yields on securities continues. Nevertheless, stable net interest income was supported by increase of the net interest income in Key business activities (3%) and in the reduction of the interest expenses of the Bank, attributed in large part to the maturity of the Bank's bond in July 2017 (bond in the amount of EUR 300 million issued in July 2014). The highest drop of net interest income (10%) was recorded in Financial markets in Slovenia.

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



Net interest margin of the Group decreased by 0.08 p.p. to 2.49% in Q1 2018, mostly due to lower interest margins in core foreign banks as a result of a strong competitive pressure to lower active interest rates.

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

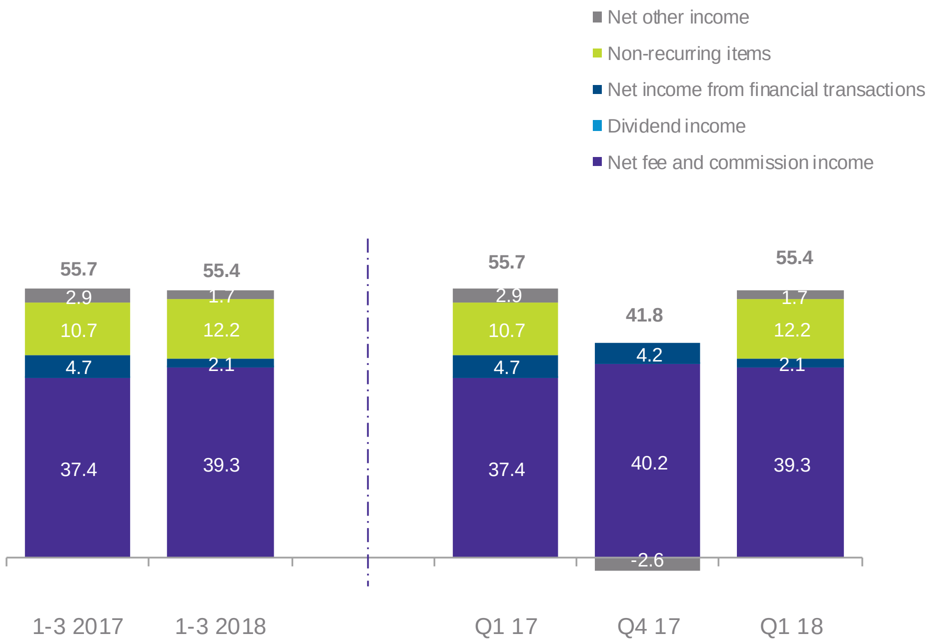


Net interest income of Key business activities in Q1 2018 increased by EUR 1.8 million or 3% YoY:

- Net interest income in Key/Mid/Small corporates in Slovenia remained stable;
- Net interest income in Retail banking in Slovenia increased by EUR 1.0 million or 6% as a result of the increase in loans volume and rising active interest rates;
- In Strategic foreign markets net interest income improved by EUR 0.7 million or 2% due to YoY increase of loans volume of 7%, or EUR 184.6 million despite the lower interest margins in the SEE region (0.18 p.p. decrease);
- Net interest income in Financial markets in Slovenia decreased by EUR 0.9 million or 10% due to the historically low yield environment and continuous reinvestment of the securities portfolio at lower yields;
- Lower contribution in net interest income was evident in Non-core markets and activities as a result of reduction of operations according to the Restructuring plan.

Net non-interest income

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



Net non-interest income remained stable compared with the Q1 2017 and totaled to EUR 55.4 million, which includes non-recurring income from the sale of NLB Nov penziski fond, Skopje in the amount of EUR 12.2 million (non-recurring income in the Q1 2017 amounted to EUR 10.7 million).

Regular net non-interest income (excluding non-recurring income[4]) decreased by EUR 1.8 million or 4% YoY due to the following factors:

- Lower net profit from financial transactions by EUR 2.6 million on the account of selling some debt securities in February 2017 with positive effect of EUR 1.8 million.
- Lower net other income by EUR 1.1 million of which EUR 0.9 million were related to received bonuses from insurance company in March 2017 in the Bank.
- Higher net fee and commission income for EUR 1.9 million was attributed to an increase in cards and ATM operations (EUR 1.0 million), investment banking (EUR 0.7 million), and basic accounts (EUR 0.8 million).

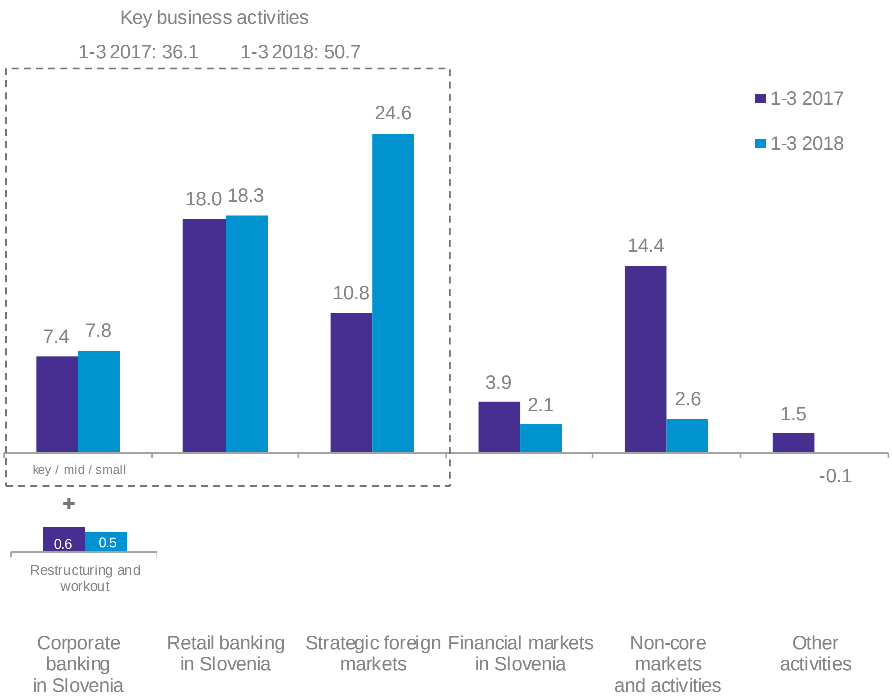
Notes:

[4] Non-recurring income in the Q1 2017: positive effect from sale of non-core equity participation (EUR 9.5 million), a court settlement with Zavarovalnica Triglav (EUR 1.2 million).
Non-recurring income in the Q1 2018: positive effect from sale of core subsidiary NLB Nov penziski fond, Skopje (EUR 12.2 million).

Table 3: Net fees and commission income of the NLB Group by type of transaction (in EUR million)

in EUR million	1-3 2017	1-3 2018	Change YoY		Q1 18	Q4 17	Change QoQ
	NLB Group						
Net fees and commissions	**37.4**	**39.3**	**1.9**	**5%**	**39.3**	**40.2**	**-2%**
Payment transactions	12.2	12.1	-0.2	-1%	12.1	13.4	-10%
Cards and ATM operations	5.2	6.2	1.0	19%	6.2	5.8	8%
Basic accounts	10.2	11.1	0.8	8%	11.1	11.1	0%
Guarantees	2.7	2.6	-0.1	-5%	2.6	2.7	-6%
Investment banking	1.0	1.7	0.7	68%	1.7	1.3	29%
Investment funds	4.1	4.3	0.2	6%	4.3	4.5	-3%
Bancassurance	1.1	1.0	0.0	-2%	1.0	1.0	4%
Other	0.8	0.3	-0.5	-60%	0.3	0.4	-24%

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



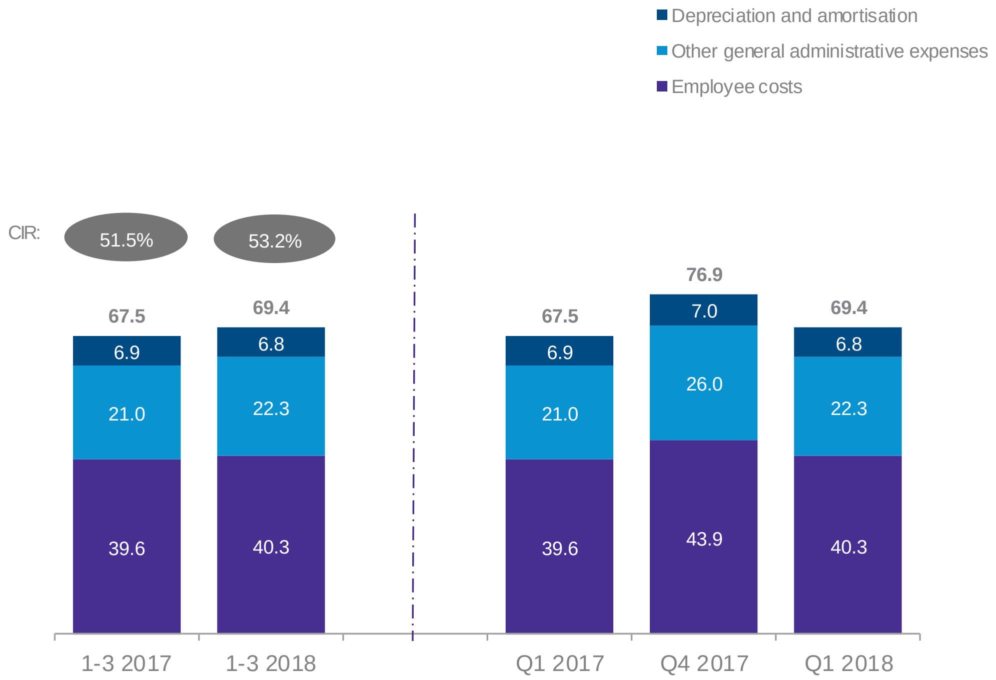
Net non-interest income of Key business activities increased by EUR 14.5 million or 40% YoY, almost exclusively due to the contribution of the Strategic foreign markets:

- Strategic foreign markets net non-interest income increased substantially by EUR 13.8 million or 128% YoY, of which EUR 12.2 million represents non-recurring income from the sale of the NLB Nov penziski fond, Skopje;
- Corporate banking in Slovenia realised EUR 8.4 million of net non-interest income, of which EUR 7.1 million were net fees and commission income;
- Retail banking in Slovenia recorded a slight increase in net non-interest income of EUR 0.3 million (1%) with increase of net fees and commission (6%) mainly related to basic accounts and card operation business (due to the new currency exchange fee for card operations introduced at the beginning of 2018);
- Financial markets in Slovenia recorded a decrease in net non-interest income by EUR 1.8 million, mainly due to the sale of debt securities in Q1 2017 (which contributed to increased net non-interest income in that period);

- Non-core markets and activities contribution to the Group's net non-interest income was significantly lower compared to Q1 2017 (EUR 11.8 million less), mainly due to the Q1 2017 non-recurring events (EUR 10.7 million; refer to note 9) which had positive impact on the result.

Total costs

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



Total costs amounted to EUR 69.4 million (of which EUR 0.1 million were costs of restructuring), and are thus by EUR 1.9 million or 3% higher YoY. A major growth was recorded in general and administrative costs (EUR 1.3 million or 6%) in relation to accelerated marketing/promotion and renovation of business premises.

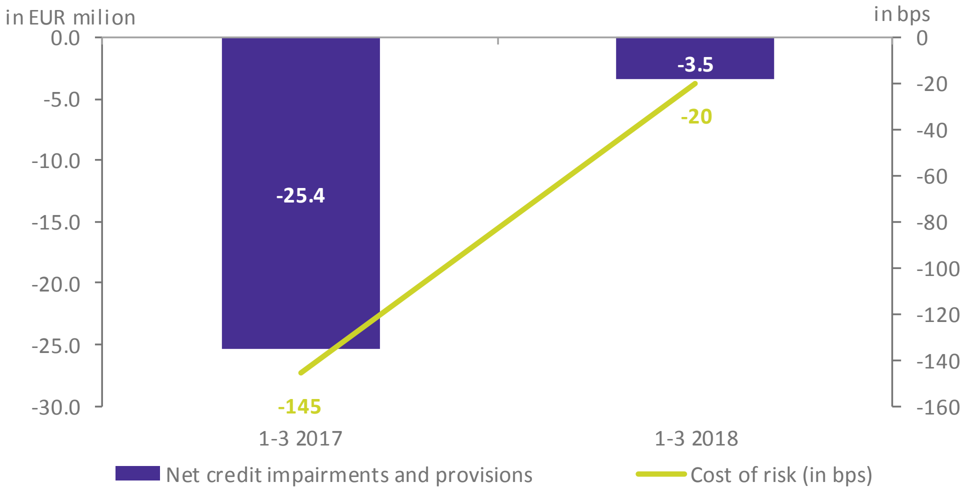
CIR increased by 1.7 p.p. to 53.2%, while CIR normalised[5] increased by 2.8 p.p. to 58.7%.

Notes:

[5] Non-recurring items from note 1 are excluded.

Net impairments and provisions

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



In the Q1 2018 credit impairments and provisions were net released in the amount of EUR 3.5 million (EUR 21.9 million lower YoY). The release in Q1 2017 was to a large extent affected by the release of pool provisions in the amount of approx. EUR 21 million in that period, mainly in the corporate client segment. Consequently, the cost of risk increased from -145 bps to -20 bps.

Financial position of NLB Group[6]

Table 4: Statement of the financial position of NLB Group

	NLB Group				
in EUR million	31 March 2018	31 Dec 2017	31 March 2017	Change YoY	Change YtD
Cash, cash balances at central banks, and other demand deposits at banks	1,341.4	1,256.5	1,520.5	-12%	7%
Loans to banks	553.2	510.1	411.1	35%	8%
Loans to customers	6,935.3	6,994.5	7,004.7	-1%	-1%
Gross loans	7,500.9	7,641.2	7,876.3	-5%	-2%
- corporate	3,555.8	3,705.0	3,901.5	-9%	-4%
- individuals	3,515.7	3,470.2	3,258.6	8%	1%
- state	429.4	466.0	716.3	-40%	-8%
Impairments	-565.6	-646.8	-871.6	-35%	-13%
Financial assets (securities)	3,070.3	2,963.4	2,630.7	17%	4%
- Trading	47.9	72.2	74.5	-36%	-34%
- Non-trading	3,022.4	2,891.2	2,556.2	18%	5%
Investments in subsidiaries, associates and joint ventures	43.5	43.8	44.4	-2%	-1%
Property and equipment, investment property	239.2	240.2	276.3	-13%	0%
Intangible assets	33.6	35.0	32.5	3%	-4%
Other assets	208.1	194.4	170.3	22%	7%
Total assets	**12,424.6**	**12,237.7**	**12,090.4**	**3%**	**2%**
Deposits from customers	9,938.9	9,879.0	9,514.3	4%	1%
- corporate	2,199.6	2,260.1	2,191.3	0%	-3%
- individuals	7,464.6	7,362.9	6,977.3	7%	1%
- state	274.7	256.0	345.7	-21%	7%
Deposits from banks and central banks	36.4	40.6	35.3	3%	-10%
Debt securities in issue	0.0	0.0	279.9	-	-
Borrowings	342.9	353.9	407.3	-16%	-3%
Other liabilities	286.8	248.7	228.5	25%	15%
Subordinated liabilities	27.3	27.4	27.4	0%	0%
Equity	1,752.8	1,653.6	1,564.6	12%	6%
Non-controlling interests	39.5	34.6	33.2	19%	14%
TOTAL LIABILITIES AND EQUITY	**12,424.6**	**12,237.8**	**12,090.4**	**3%**	**2%**

Total assets increased by EUR 186.8 million in Q1 2018 YtD, and totaled EUR 12,424.6 million. The increase was driven mainly by the continued inflows of retail deposits (EUR 101.7 million) and by effects of implementation, IFRS 9 rules (EUR 59 million).

At the end of Q1 2018, the LTD ratio (net) was 69.8% on the Group level; a decrease of 1.0 p.p. YtD as a result of the growing, but still moderate demand for loans and increased deposits.

Notes:

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

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

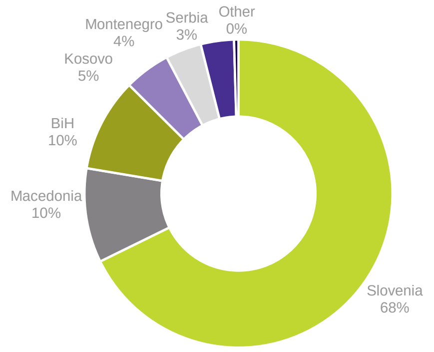
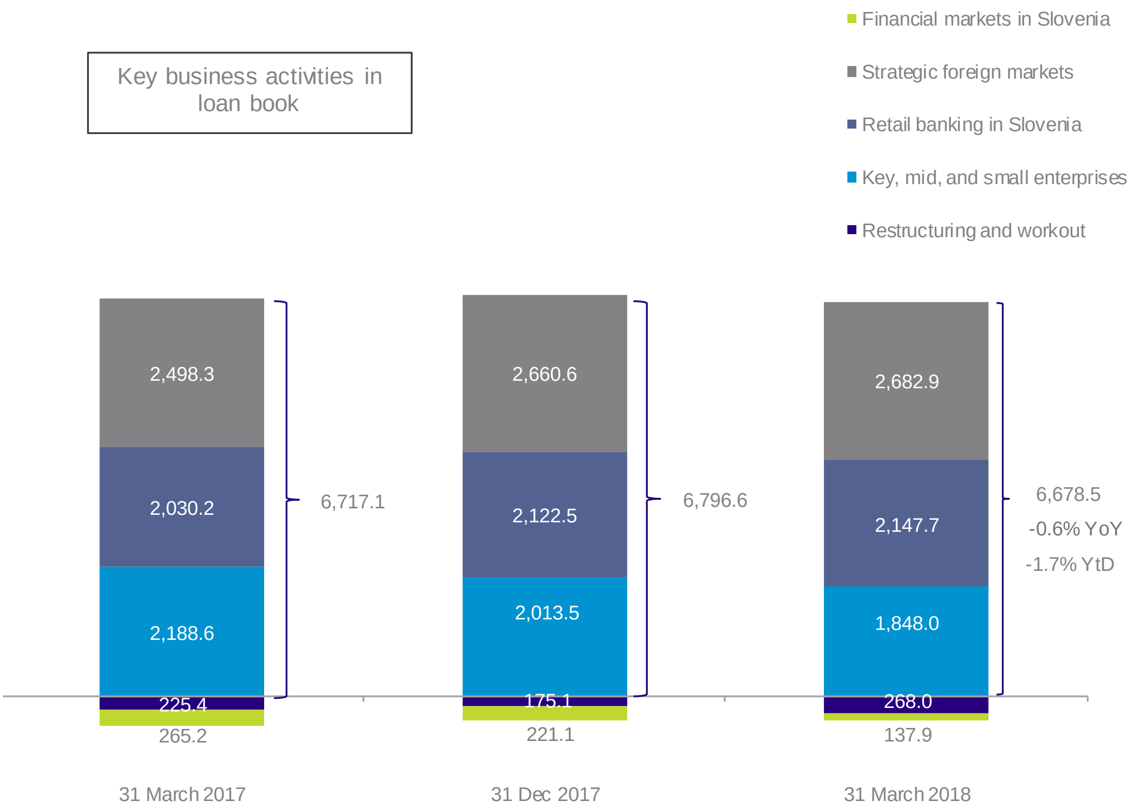


Figure 12: Gross loans to customers by core segment (in EUR million)



At the end Q1 2018, the total gross loans to the non-banking sector amounted to EUR 7,500.9 million and were 2% or EUR 140.3 million lower YtD. Key business activities recorded a 2% decrease YtD to EUR 6,678.5 million. The significant decrease (EUR 165.5 million YtD) was recorded in the Key/mid/small enterprises segment due to

Notes:

[7] Geographical analysis based on location of assets of the Group.

the transfer of some of key clients to the Restructuring unit (EUR 93.0 million YtD), and because of the higher total of matured loans (approx. EUR 106 million YtD). YtD increases of gross loans to customers were recorded in the Retail segment in Slovenia (EUR 25.2 million) and in Strategic foreign markets (EUR 22.2 million). The drop in loan volume in the Financial markets was primarily due to reclassification of some bonds that were in accordance with IAS 39 included within loans and advances, while under IFRS 9 they are presented within non-trading securities.

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

The share of customers' deposits continued to increase and accounted for 93% of the total funding of the Group at the end of the Q1 2018. The YtD increase derives from retail deposits exclusively (EUR 101.6 million or 1%), while corporate deposits decreased (EUR 60.5 million or 3%).

Deposits from customers in Key business activities increased by 6% YoY. On the YtD basis a slight decrease of deposits was recorded in the Key/mid/small enterprises segment in Slovenia (EUR 9 million), while Strategic foreign markets and Retail banking in Slovenia recorded an increase in deposits (EUR 9.0 million and EUR 56.6 million, respectively).

Segment analysis

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

The Core markets and activities include:

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

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

- Financial markets in Slovenia, which include treasury activities, trading in financial instruments, and also presents the result of asset and liabilities management (ALM). Investment banking as a part of Financial markets in Slovenia that includes brokerage, custody of securities, as well as financial consulting is represented as a separate segment within Corporate banking in Slovenia;

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

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

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

Retail banking in Slovenia

Financial highlights

- Net interest income was still under pressure given the continued low interest rates environment; nevertheless, it increased (6% YoY) due to growth in retail loan portfolio.
- Net fees and commission income increased by 6% YoY mainly on basic account and card operation (due to the introduction of a new currency exchange fee for card operations from 2018 onwards).
- Higher costs and additional impairments and provisions contributed to the lower profit before tax by 11% YoY.
- Growth of 1% YtD in retail loan balances.

Business highlights

- Mobile wallet NLB Pay, an advanced method of payment, enabling clients to pay for goods and services with their mobile phones, was launched.
- a new package offer for individuals was introduced to simplify the most commonly used banking services.
- Face ID for Klikin login was implemented.
- NLB Skladi's (asset management company) market share exceeded 30%.
- Record sale of the NLB Investment Vita Multi.

Table 5: Key financials of Retail banking in Slovenia

in EUR million consolidated	Retail banking in Slovenia				
	1-3 2018	**1-3 2017**	**Change YoY**	**Q4 17**	**Change QoQ**
Net interest income	18.2	17.2	6%	18.9	-4%
Net non-interest income	18.3	18.0	1%	17.7	3%
Total net operating income	**36.4**	**35.2**	**3%**	**36.6**	**-1%**
Total costs	-25.5	-24.3	5%	-26.8	-5%
Result before impairments and provisions	**10.9**	**10.9**	**1%**	**9.8**	**12%**
Impairments and provisions	-1.2	0.2	-	-1.7	-27%
Net gains from investments in subsidiaries, associates, and JVs'	1.2	1.1	8%	1.0	13%
Result before tax	**10.9**	**12.2**	**-11%**	**9.1**	**19%**

	31 March 2018	**31 Dec 2017**	**Change YtD**	
Net loans to customers	2,119.6	2,083.9	35.7	2%
Gross loans to customers	2,147.7	2,122.5	25.2	1%
Housing loans	1,336.8	1,324.6	12.2	1%
Consumer loans	543.6	525.0	18.6	4%
Other	267.2	272.8	-5.6	-2%
Deposits from customers	5,593.7	5,537.1	56.6	1%

The Bank maintained a leading position, with a market share in retail lending of 23.5% (2017: 23.4%) and 30.5% (2017: 30.7%) in deposit-taking.

An increase in the demand of consumer loans was recorded in Q1 2018. The Bank approved a total of EUR 83 million in consumer loans, a 19.3% growth YoY. The housing loans portfolio continues to increase, reaching EUR 1,336.8 million by the end of the Q1 2018, a 1% growth YtD.

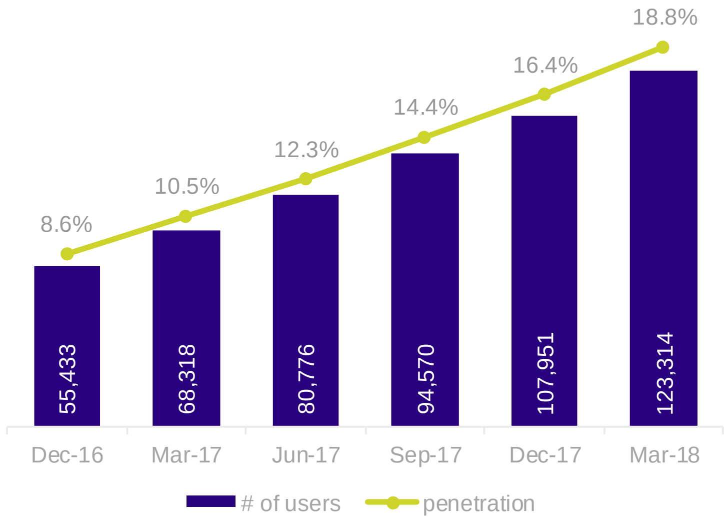
In the beginning of 2018, the Bank launched mobile wallet NLB Pay, which enables contactless, simple, fast, and safe payments on suitable POSs (in Slovenia and abroad) solely by using mobile phones. The solution is based on Near Field Communication (NFC) technology, allowing clients to pay with NLB MasterCard and Maestro cards, stored in the NLB Pay app.

New packages were offered to individuals (Basic Package, Young Package, Active Package, and Premium Package), which include the most commonly used and needed banking products, and greatly simplified the client's experience of daily banking services.

According to the analysis of an independent research company, the Bank remained the most digitally developed bank with a focus on user-friendly business for the fourth consecutive year. According to the analysis, online bank 'NLB Klik' is ranked first among online banks in Slovenia.

The use of the mobile bank Klikin continues to grow, in Q1 2018 gaining 16,450 new users and reaching 18.8% of all Bank's customers at the end of Q1 2018 (an 8.3 percentage point increase YoY). The Bank continues to follow its digital agenda. The mobile bank Klikin implemented new a login option - Face ID.

Figure 14: Klikin penetration (in %) and number of users



The NLB Skladi market share increased to over 30% (Q1 2017: 28%). Ranked first in the amount of net-inflows of EUR 24.2 million (Q1 2017: EUR 26 million), the company consolidated the position of the largest asset management company in Slovenia, and the largest mutual funds management company as well. Total assets under management in mutual funds and in the discretionary portfolio were EUR 1.2 billion (Q1 2017: EUR 1.1 billion) at the end Q1 2018.

In Q1 2018, NLB Vita charged EUR 23 million in gross written premiums (22% increase YoY; Q1 2017: EUR 18.8 million), and the estimated balance sheet of the insurance company was EUR 454 million (6.4% increase YoY, Q1 2017: EUR 427 million). The market share of the insurance company, excluding pension companies, at the end of Q1 2018 stood at 17.2% (Q1 2017: 13.9%), which ranked NLB Vita second among classic life insurance products in Slovenia. A record sale of the NLB Investment Vita Multi (EUR 12.1 million) contributed significantly to the positive result.

Corporate and Investment banking in Slovenia

Financial highlights

- The segment contributed EUR 6.3 million in profit before tax in Q1 2018, showing a decrease by EUR 5.6 million or 47% YoY, mainly due to the release of impairments and provisions in Q1 2017 (new percentages of pool provisions calculated).
- Net operating income and costs remained stable YoY.
- A decrease in gross loans due to the size of matured loans in Key enterprises (approx. EUR 106 million in Q1 2018), while Small enterprises continues to grow (+6% YtD).

Business highlights

- Group-wide payment offer was launched for companies.
- NLB Business Account can now be opened online.
- New package offer for companies was introduced.
- Face ID for Klikpro login was implemented.
- Successful organization of the bond issuance for Titus Group.

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Table 6: Key financials of Corporate banking of Slovenia

in EUR million consolidated	Corporate banking in Slovenia				
	1-3 2018	1-3 2017	Change YoY	Q4 17	Change QoQ
Net interest income	9.6	10.0	-4%	12.6	-24%
Net non-interest income	8.4	8.0	4%	8.3	1%
Total net operating income	**17.9**	**18.0**	**-1%**	**20.9**	**-14%**
Total costs	-10.5	-10.4	1%	-11.2	-6%
Result before impairments and provisions	**7.4**	**7.6**	**-3%**	**9.6**	**-24%**
Impairments and provisions	-1.1	4.2	-	14.3	108%
Result before tax	**6.3**	**11.9**	**-47%**	**23.9**	**-74%**

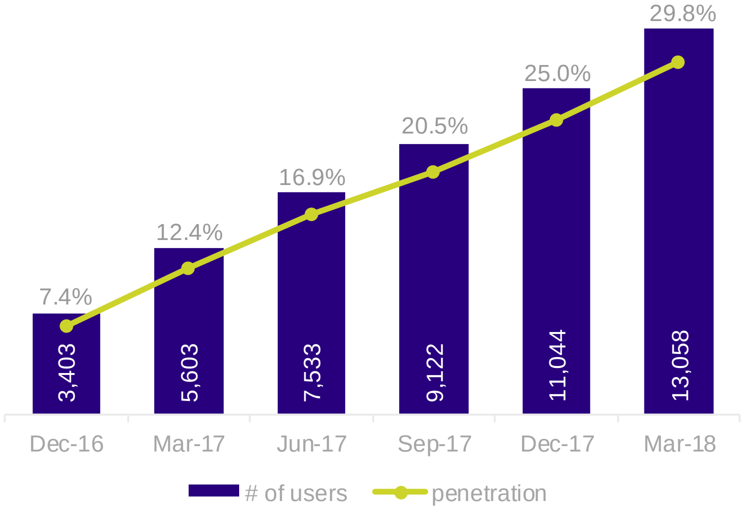
	31 March 2018	31 Dec 2017	Change YtD	
Net loans to customers	1,973.8	2,026.3	-52.4	-3%
Gross loans to customers	2,116.0	2,188.6	-72.5	-3%
- corporate	1,896.4	1,939.3	-42.9	-2%
-o/w Restructuring and Workout	*261.6*	*168.6*	93.0	*55%*
- state	219.1	248.7	-29.6	-12%
Deposits from customers	1,071.5	1,080.9	-9.4	-1%

The Bank retained its 19.6% market share in corporate loans (2017: 20.8%) and 25.0% in trade finance (2017: 25.6%).

Legal entities, entrepreneurs and private individuals can now submit the order to open an NLB Business Account online. All they have to do is to send a filled-in web form, and the rest is arranged by the NLB client advisors, who visit the clients at the place of their choice (or the client may choose the documentation needed to be left at the closest NLB branch office).

The further digitalisation push is also shown in Klikpro advances, which now enables also Face ID login. The 133% YoY increase in Klikpro users brings the popularity of the platform close to a third of the Bank's total corporate clients.

Figure 15: Klikpro penetration (in %) and number of users



To simplify and ease every day banking for small enterprises, the Bank prepared a new package of offers for legal entities as well. NLB Business Start Basic, NLB Business Start Mobile, NLB Business Start Advanced, NLB Business Package Basic, and NLB Business Package Comprehensive combine the most common daily banking products and are tailored to different client segments' needs.

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

Table 7: Key financials of Investment banking and custody services of Slovenia

in million EUR consolidated	Investment banking				
	1-3 2018	1-3 2017	Change YoY	Q4 17	Change QoQ
Net non-interest income	**2.3**	**2.7**	-15%	**2.5**	**-8.9%**
Total costs	-1.5	-1.4	3%	-1.5	-1.6%
Result before tax	**0.9**	**1.3**	**-35%**	**1.3**	**-31.9%**

Investment banking and custody services revenues and result decreased YoY mainly due to fewer merger and acquisition (M&A) projects closed in Q1 2018 and a lower number of interest rate hedge transactions with clients.

At the end of Q1 2018, the total asset value under custody exceeded EUR 14.8 billion, a 7.1% increase YoY.

The Bank is unique on the Slovenian financial market in offering a broad spectrum of options to raise funds for its clients. A continuous track record of providing support and adjusting to clients' needs was enriched with arranging the issue of bonds for the Titus Group in the amount of EUR 15 million in January 2018.

Strategic foreign markets

Financial highlights

- Profit before tax amounted to EUR 39.0 million, and includes non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje in the positive amount of EUR 12.2 million.
- Despite the competitive market environment and high pressure on interest rates, net interest income increased by 2% YoY.
- Strong growth in net non-interest income, especially in fees and commission income (9.6% YoY).
- Cost of risk remained low.

Business highlights

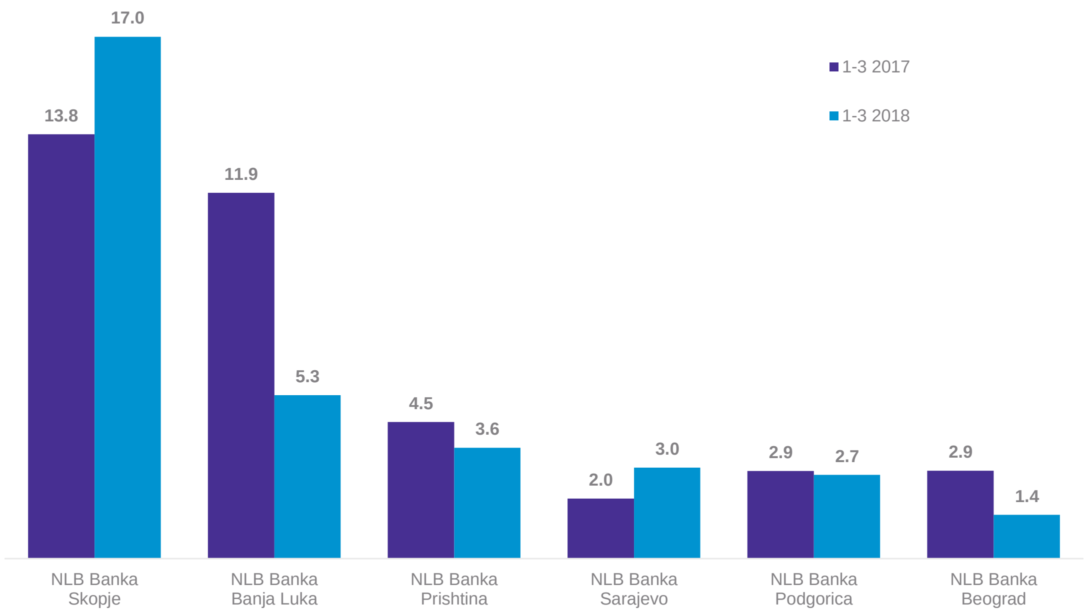
- The subsidiary banks generated a net profit mainly as a result of strong loan production.
- 100% of the shares of NLB Nov penziski fond, Skopje were sold.
- Starting with 2018, NLB Banka, Sarajevo and NLB Banka, Banja Luka, have introduced unified web page to reflect NLB brand and image.

Table 8: Key financials of Strategic foreign markets

in EUR million consolidated	Strategic foreign markets				
	1-3 2018	**1-3 2017**	**Change YoY**	**Q4 17**	**Change QoQ**
Net interest income	35.5	34.9	2%	36.4	-2%
Net non-interest income	12.4	10.8	15%	13.3	-7%
Total net operating income	**47.9**	**45.6**	**5%**	**49.7**	**-4%**
Total costs	-24.1	-22.9	5%	-26.6	-10%
Result before impairments and provisions	**23.8**	**22.8**	**5%**	**23.0**	**3%**
Non-recurring items	12.2	-	-	-	-
Impairments and provisions	3.0	17.4	83%	-9.3	-132%
Result before tax	**39.0**	**40.1**	**-3%**	**13.7**	**184%**
o/w Result of minority shareholders	3.0	2.7	10%	1.0	214%

	31 March 2018	**31 Dec 2017**	**Change YtD**	
Net loans to customers	2,458.6	2,393.5	65.1	3%
Gross loans to customers	2,682.9	2,660.6	22.2	1%
Deposits from customers	3,087.3	3,078.3	9.0	0%

Figure 16: Profit after tax of strategic NLB Group banks (on standalone basis) (in EUR million)



All subsidiary banks generated a profit after tax. This was mainly the result of strong loan production and the sale of NLB Nov penziski fond, Skopje (having a positive impact on the NLB Banka, Skopje result). Namely, on 13 March 2018, the Bank and NLB Banka, Skopje sold 100% of the shares of NLB Nov penziski fond, Skopje to the reinsurance company Sava Re d.d. Ljubljana.

Lending activity in the segment of the non-banking sector was intensified, especially by NLB Banka, Beograd (38% increase YoY) and NLB Banka, Prishtina (14% increase YoY).

The positive performance was supported by corporate governance and synergies extraction improvements, as well as by a strategic focus on digitalisation across subsidiary banks.

NLB Banka, Sarajevo and NLB Banka, Banja Luka further improved cooperation by unifying the organisational structure and intensifying a joint-principle approach towards clients, aligning the marketing activities, established joint procurement, and together with the Bank employed efforts to raise the quality of real-estate appraisals the banks use in its lending activities.

For positioning NLB Banka, Sarajevo in the SME segment the bank became a main partner in the project organised by the University of Sarajevo of fast-growing companies in Bosnia and Herzegovina.

The subsidiary banks efforts were recognised and awarded for various achievements. NLB Banka, Skopje received the ‘Zlatna Bubamara’ award for the best commercial TV Spot for NLB Happy Card, and NLB Banka, Prishtina was awarded for its contribution to the economic development and creation of jobs in the Republic of Kosovo.

Financial markets in Slovenia[8]

Financial highlights

- Profit before tax amounted to EUR 6.9 million, lower 26% YoY.
- Lower net interest income due to continued lower reinvestment yields.
- Lower net non-interest income as a consequence of positive one-off effects from divestments of debt securities in Q1 2017.
- A decrease in gross loans as the result of reclasification of certain corporate bonds measured at an amortized cost from loans and advances, to non-trading financial assets (result of IFRS 9 implementation).

Business highlights

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

Table 9: Key financials of Financial markets in Slovenia

in million EUR consolidated	Financial markets Slovenia				
	1-3 2018	1-3 2017	Change YoY	Q4 17	Change QoQ
Net interest income	8.6	9.5	-9%	8.2	5%
Net non-interest income	-0.2	1.2	-115%	-0.3	-50%
Total net operating income	**8.5**	**10.7**	**-21%**	**7.9**	**8%**
Total costs	-1.6	-1.5	6%	-1.6	-2%
Result before impairments and provisions	**6.8**	**9.2**	**-26%**	**6.2**	**10%**
Impairments and provisions	0.0	0.0	-	0.0	-
Result before tax	**6.9**	**9.3**	**-26%**	**6.4**	**8%**

	31 March 2018	31 Dec 2017	Change YtD	
Gross loans to customers	137.7	221.1	-83.4	-38%
Borrowings	259.8	260.7	-0.9	0%

In January 2018 the Bank was among the group of banks which lead managed the 10-year EUR 1.5 billion bond issue for the Ministry of Finance of RoS. The awarded mandate was a confirmation for the Bank being active as primary dealer and a market maker of RoS eurobonds.

Notes:

[8] Investment banking as a part of Financial markets in Slovenia that includes brokerage, custody of securities, as well as financial consulting is represented as a separate segment within Corporate banking in Slovenia.

Non-core markets and activities

Financial highlights

- The Non-core result before tax was EUR 3.2 million – a significant drop YoY (79%) due to non-recurring income impacting the Q1 2017 result[9].
- The cost base was reduced by 11% YoY to EUR 4.7 million due to the continued divestment process.
- Segment assets decreased by 6% YtD.

Business highlights

- In Q1 2018 the Group was continuing with the controlled wind-down of the remaining non-core segment, including credit business with foreign clients, operations of non-strategic Group members, the Bank's equity participations, as well as active management of real-estate assets (contributing to the reduction of the Group's NPLs).
- In addition to the 2017 achievements, non-strategic subsidiaries continued with the collections of claims, leading to a further decrease of the Group non-core assets.

Table 10: Key financials of Non-core markets and activities

in EUR million consolidated	Non-core markets and activities				
	1-3 2018	1-3 2017	Change YoY	Q4 17	Change QoQ
Net interest income	3.1	3.7	-18%	4.2	-27%
Net non-interest income	2.6	14.4	-82%	1.8	44%
Total net operating income	**5.7**	**18.1**	**-69%**	**6.0**	**-6%**
Total costs	-4.7	-5.3	11%	-5.4	-13%
Result before impairments and provisions	**0.9**	**12.8**	**-93%**	**0.6**	**58%**
Impairments and provisions	2.3	2.7	16%	-0.1	-
Result before tax	**3.2**	**15.5**	**-79%**	**-0.4**	**-**

	31 March 2018	31 Dec 2017	Change YtD	
Segment assets	**367.4**	**391.3**	**-23.9**	**-6%**
Net loans to customers	245.6	269.9	-24.3	-9%
Gross loans to customers	416.5	448.5	-31.9	-7%
Investment Property and Property & Equipment received for repayment of loans	80.5	81.6	-1.1	-1%
Other assets	41.3	39.9	1.4	4%
Deposits from customers	8.7	10.2	-1.5	-15%

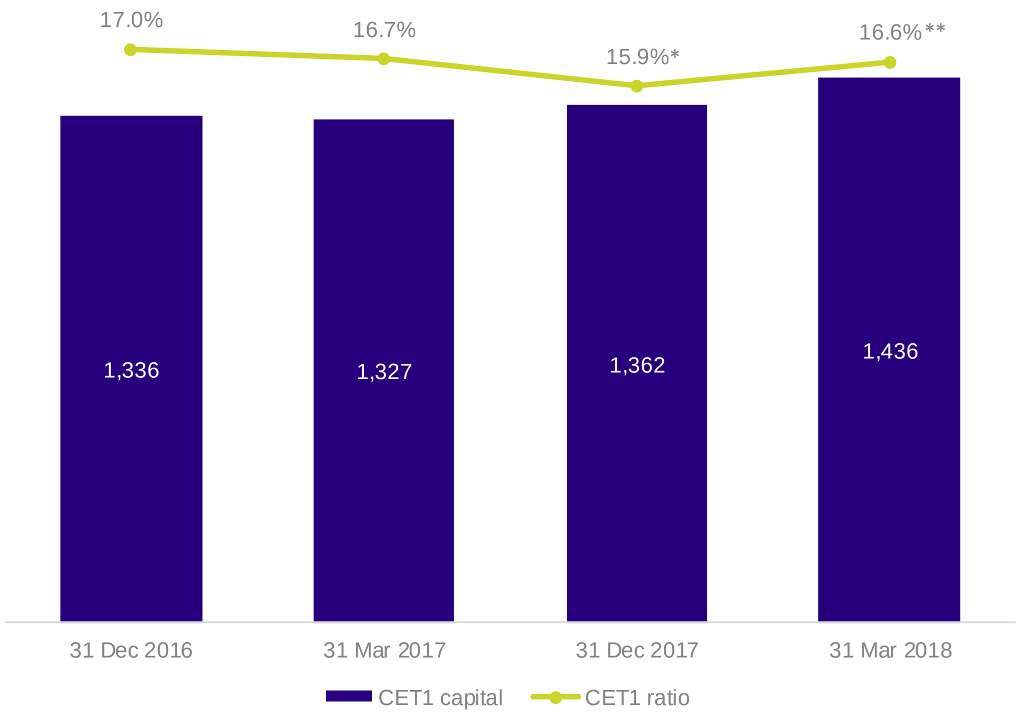
Notes:

[9] Non-recurring items in the Q1 2017: positive effects from non-core equity participation (EUR 9.5 million) and a court settlement with Zavarovalnica Triglav (EUR 1.2 million).

Capital and Liquidity

Capital adequacy

Figure 17: NLB Group CET 1 capital (in EUR million) and CET 1 ratio (in %)



* Envisaging dividend payment in 100% profit after tax of the Bank (EUR 189 million).
** Including IFRS9 implementation effect (EUR 43.8 million).

In March 2018, the overall capital requirement (OCR) amounted to 13.375% for the Bank on the consolidated level, consisting of:

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

The applicable OCR requirement for 2018 has increased from 12.75% in 2017 to 13.375% (due solely to the gradual phase-in of the capital conservation buffer as prescribed by law).

The capital of the Bank and the Group consists predominantly of the components of top quality common equity tier 1 (CET 1) capital, which is why all three capital ratios (CET 1 ratio, Tier 1 capital ratio, and the Total capital ratio) are the same. It remained strong, at a level which covers all current and announced regulatory capital requirements, including capital buffers and other currently known requirements, as well as the Pillar 2 Guidance. Moreover, it is within the stated risk appetite limit and above the EU average, as published by the EBA (Q4 2017: 16.2%).

At the end of Q1 2018, the capital ratios for the Group stood at 16.6% (or 0.7 p.p. higher than at the end of 2017) and for the Bank at 22.8% (or 1.0 percentage point higher than at the end of 2017). The improvement of capital adequacy derives from higher capital, mainly due to 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 conclusion of transitional arrangements.

Table 11: Total risk exposure (in EUR million) for NLB Group

	31 Mar 2018	31 Dec 2017	31 Dec 2016	YtD
Total risk exposure amount (RWA)	**8,634**	**8,546**	**7,862**	**1.0%**
RWA for credit risk	7,130	7,096	6,865	0.5%
RWA for market risks + CVA	550	501	105	9.9%
RWA for operational risk	953	949	893	0.5%

The RWA for credit risk increased (EUR 34.1 million YtD) mainly due to lower coverage by impairments and provisions resulting from transition to IFRS 9 (mainly for corporate and retail exposures). However, another reason for higher RWA on the retail segment (EUR 49.8 million) is consumer and housing loans growth, while regular repayments on corporate segment in Q1 2018 contributed to the RWA reduction (EUR -42.5 million). The increase in RWA for market risks and credit value adjustments (CVA) (EUR 49.6 million) is mainly the result of more open positions in domestic currencies of non-euro subsidiary banks. The increase in the RWA for operating risks (EUR 4.0 million) arises from the higher three-year average of income, which represents the basis for the calculation.

Liquidity

The liquidity position of the Group remains very strong, with a LTD ratio of 69.8%, meeting liquidity indicators high above regulatory requirements, and confirming the low liquidity risk tolerance of the Group.

Liquid assets of the Group at the end of Q1 2018 amounted to EUR 5.56 billion (44.8% of total assets; 2017 year-end: EUR 5.45 billion, 44.6% of total assets), of which EUR 0.39 billion (2017 year-end: EUR 0.43 billion) were encumbered for operational and regulatory purposes. Liquid assets are comprised of cash (EUR 273 million), placements with central banks (EUR 879 million)[10], placements with banks (EUR 709 million), securities (EUR 2,999 million), and ECB eligible loans (EUR 700 million). The financial assets portfolio, which represents 53.9% of the Group's liquid assets at the end of Q1 2018 (2017 year-end: 54.5%), was dispersed appropriately in relation to the type of instruments, issuers, countries, and remaining maturity, with the aim of managing liquidity and interest risk.

Driven by the low interest rate environment, the main change in the funding structure of the Group was the continued transformation of term to sight customer deposits, representing the key funding base. Sight customer deposits represented 60.7% of total assets at the end of Q1 2018 (2017 year-end: 59.9%), and still proved to be stable according to the internal methodology.

Notes:

[10] Including obligatory reserves.

Risk management

The key goal of Risk Management is to assess, monitor, and manage risks within the Group in line with the Group's Risk Appetite and Risk Strategy, which are its fundamental risk management documents. Moreover, the Group is constantly enhancing its robust risk management framework in order to proactively support business decision-making, thereby ensuring comprehensive steering and mitigation processes by incorporating internal capital adequacy assessment process (ICAAP), the internal liquidity adequacy assessment process (ILAAP), the Recovery plan, and other internal stress-testing capabilities.

The activities related to International Financial Reporting Standard (IFRS) 9 requirements, which entered into force in the beginning of 2018, including methodological adaptations and calculation of quantitative impacts, were fully implemented at the end of the year 2017, including internal validation and an external pre-audit methodological review. Due to very favorable macroeconomic trends and the improved quality of the credit portfolio, the cumulative effects on the Group basis in the amount of EUR 43.8 million (as at 1 January 2018) were recognised (as the difference between IFRS 9 and IAS 39), arising mainly from collective impairments. These effects strengthened the Group's capital basis in Q1 2018.

One of the key aims of Risk Management is to ensure that the Group's capital adequacy is managed prudently. The Group monitors its capital adequacy at both the Group and subsidiary bank levels within the framework of the established ICAAP process under normal conditions (regulatory capital adequacy) and stressed conditions. As at 31 March 2018, the Group had a strong level of capital adequacy (CET 1) of 16.6%, which is well within the stated risk appetite limit, and above the EU average published by the EBA (Q4 2017: 16.2%). The reported capital adequacy ratio includes the requested correction of the treatment of FX position on the consolidated level, referring to the treatment of structural positions arising from equity investments in non-euro subsidiary banks. The Bank will try to partly or fully exclude this position from an open FX position in the future. In line with the Supervisory Review and Evaluation Process (SREP), CET 1, the total capital requirement for the Group in 2018 is currently fulfilled in the current and fully loaded requirements.

The second key aim is to maintain a solid liquidity level and structure. The Group holds a strong liquidity position at both the Group and subsidiary bank levels, well above the risk appetite, with the liquidity coverage ratio (LCR) (according to the delegated act) of 315%, and unencumbered eligible reserves in the amount of EUR 5,175 million. Even if the stress scenario was to occur, the Group has sufficiently high liquidity reserves in place in the form of placements at the ECB, prime debt securities, and money market placements. The main funding base of the Group at the Group and individual subsidiary bank levels predominately entails customer deposits with a comfortable level of LTD in the amount of 69.8%, giving the Group the potential for further customer loan placements.

Preserving high credit portfolio quality represents the third and most important key aim, with a focus on the quality of new placements leading to a diversified portfolio of customers. The Group is actively present on the market, financing existing and new creditworthy clients. The lower indebtedness of companies and 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 current structure of the credit portfolio (gross loans) consists of retail clients (39%), large corporate clients (18%), SMEs, and micro companies (24%), with the remainder of the portfolio made up of other liquid assets.

Figure 18: NLB Group structure of the credit portfolio by segment as at 31 March 2018[11]

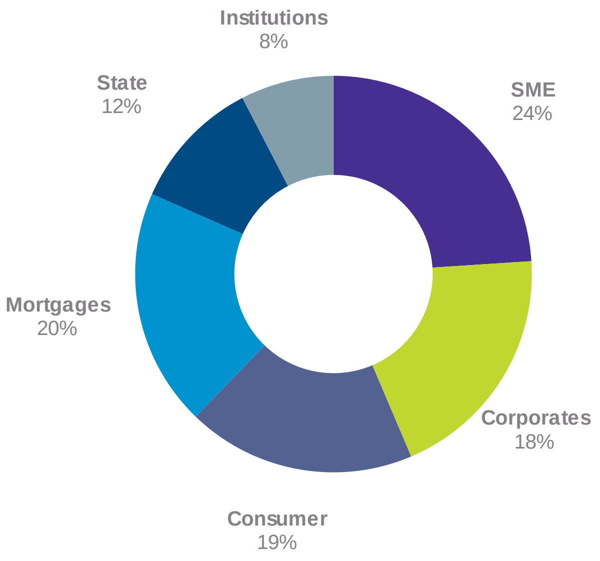
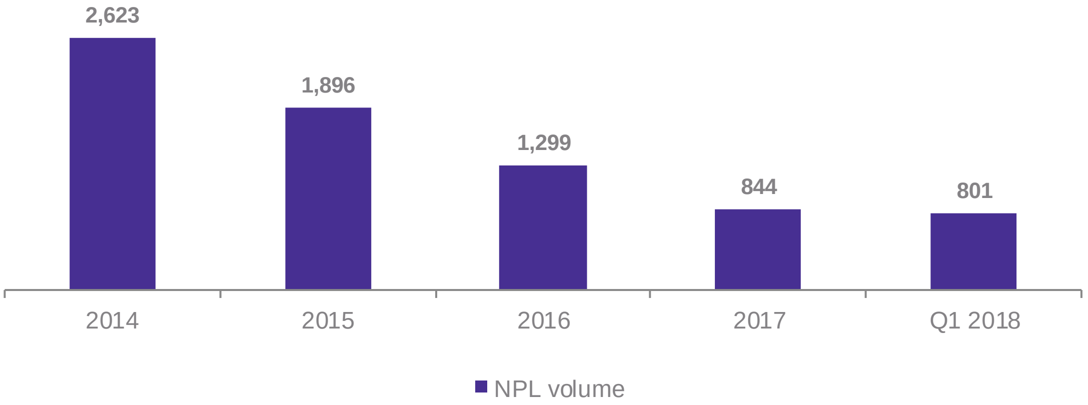


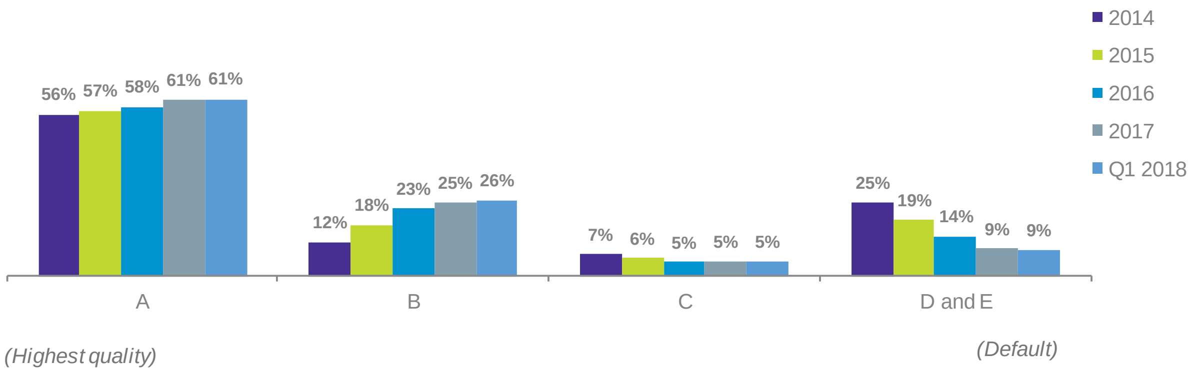
Figure 19: NLB Group NPL volume (in EUR million)



Notes:

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

Figure 20: Structure of NLB Group credit portfolio by client credit ratings (in %)



The Group's primary objective is to provide comprehensive services to clients by utilising prudent risk management principles. 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 practices to further enhance existing risk management tools, while at the same time enabling faster responsiveness towards clients. In Q1 2018, efforts continued with the cumulatively very low new non-performing loans (NPL) formation from new business (Q1 2018: 0.1% of gross loan portfolio, which equals EUR 13.6 million). In addition, the favorable macroeconomic environment across the region resulted in the negative cost of risk, whose evolution was otherwise very stable and sustainably 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 resolving. The Group's strong commitment to reducing the NPE legacy is maintained by precisely set targets and constantly monitoring progress. The existing non-performing credit portfolio stock in the Group was additionally reduced in the Q1 2018 to EUR 801 million (2017 year-end: EUR 844 million). The share of NPLs decreased in Q1 2018 to 8.8% (2017 year-end: 9.2%), while the internationally more comparable NPE ratio based on EBA methodology fell to already 6.2% (2017 year-end: 6.7%).

The coverage ratio, which remains high at 70.8%, represents an important strength for the Group. The Group's direct NPL coverage ratio stands at 61.9%, which is well above the EU average published by the EBA (44.5% for Q4 2017). As such, this means a further reduction in NPLs can be made without significantly influencing the cost of risk in the years ahead. Moreover, it proves that the past reduction was done, on average without a negative impact to profit and loss.

Figure 21: NLB Group NPE (NPE % by the EBA) and NPL ratio

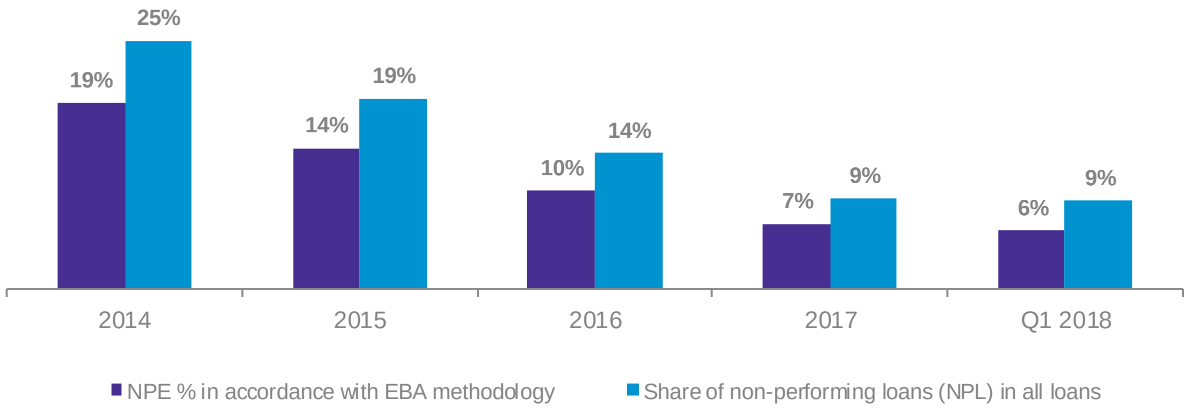
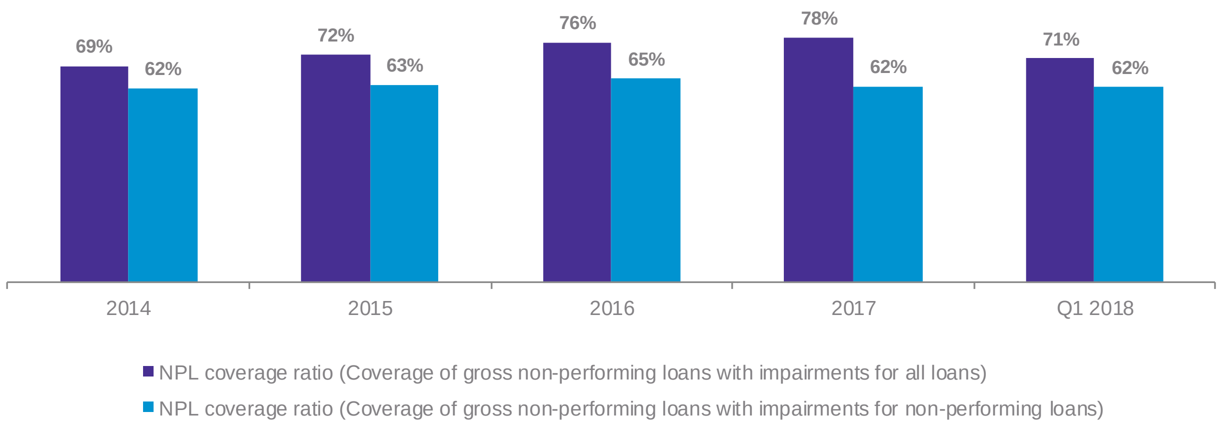


Figure 22: NLB Group Coverage ratio[12] and NPL Coverage ratio[13]



When considering market risks, the Group pursues the orientation that such risks should not significantly affect a single Group subsidiary or the whole Group's operations. The Group's net open FX position arising from transactional risk is very low, and amounts to less than 1.3% of the total capital.

The exposure to interest rate risk on the Group level is relatively low, but has increased moderately in the recent period as a result of long term investments in banking book securities, the increased volume of fixed interest rate loans, and transformation of term to sight deposits. The Group's net interest income sensitivity in the case of a Euribor decrease of 50 bps would amount to EUR 15.1 million, taking into account the zero floor clauses in place.

Notes:

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

Moreover, the basis point value (BPV) sensitivity (with inclusion of sight deposit allocation and all other interest rate risk components) of 200 bps equals 6.3% of capital.

In the area of operational risks, additional efforts were made regarding proactive prevention and the minimisation of potential damage in the future. Special attention was dedicated to the established stress-testing system, based on modelling data on loss events, and scenario analysis referring to potential high severity, low frequency events. Furthermore, key risk indicators as an early warning system for the broader field of operational risks are regularly monitored with the aim of improving the existing internal controls and reacting on time when necessary.

Condensed Interim Financial Statements of NLB Group and NLB

as at 31 March 2018

Prepared in accordance with
International accounting standard 34
"Interim financial reporting"

Contents

Condensed income statement

in EUR thousand

		NLB Group		NLB	
		three months ended		three months ended	
	Notes	March 2018	March 2017	March 2018	March 2017
Interest and similar income	4.1.	86,870	90,357	44,002	47,813
Interest and similar expenses	4.1.	(11,865)	(15,026)	(6,009)	(8,476)
Net interest income		**75,005**	**75,331**	**37,993**	**39,337**
Dividend income	4.2.	11	9	8,535	11,202
Fee and commission income	4.3.	51,607	48,811	31,901	30,440
Fee and commission expenses	4.3.	(12,275)	(11,410)	(7,091)	(6,240)
Net fee and commission income		**39,332**	**37,401**	**24,810**	**24,200**
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	4.4.	406	11,694	152	11,292
Gains less losses from financial assets and liabilities held for trading	4.5.	1,586	2,516	134	1,269
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	4.6.	620	-	955	-
Gains less losses from financial assets and liabilities designated at fair value through profit or loss		(6)	80	(6)	-
Fair value adjustments in hedge accounting		19	(923)	19	(923)
Foreign exchange translation gains less losses		86	829	(45)	599
Gains less losses on derecognition of assets other than held for sale		490	298	(88)	217
Other operating income	4.7.	4,316	7,400	1,715	4,300
Other operating expenses	4.8.	(3,697)	(3,761)	(623)	(704)
Administrative expenses	4.9.	(62,604)	(60,625)	(38,299)	(37,364)
Depreciation and amortisation		(6,794)	(6,874)	(4,349)	(4,439)
Provisions for other liabilities and charges	4.10.	2,175	2,301	(623)	1,123
Impairment charge	4.11.	633	22,217	(1,077)	10,956
Gains less losses from investments in associates and joint ventures (accounted for using the equity method)		1,178	1,094	-	-
Gains less losses from non-current assets held for sale	4.12.	12,198	123	8,860	123
Profit before income tax		**64,954**	**89,110**	**38,063**	**61,188**
Income tax	4.13.	(4,257)	(4,807)	(1,567)	(2,262)
Profit for the period		**60,697**	**84,303**	**36,496**	**58,926**
Attributable to owners of the parent		57,683	81,555	36,496	58,926
Attributable to non-controlling interests		3,014	2,748	-	-
Earnings per share/diluted earnings per share (in EUR per share)		2.88	4.08	1.82	2.95

Condensed statement of comprehensive income

in EUR thousand

	Note	NLB Group		NLB	
		three months ended		three months ended	
		March 2018	March 2017	March 2018	March 2017
Net profit for the period after tax		**60,697**	**84,303**	**36,496**	**58,926**
Other comprehensive income/(loss) after tax		**(2,326)**	**(12,216)**	**(2,202)**	**(13,187)**
Items that will not be reclassified to income statement					
Share of other comprehensive income/(losses) of entities accounted for using the equity method		**13**	**(2)**	**-**	**-**
Fair value changes of equity instruments measured at fair value through other comprehensive income		**1,489**	**-**	**62**	**-**
Income tax relating to components of other comprehensive income	5.16.	**(13)**	**-**	**(12)**	**-**
Items that may be reclassified subsequently to income statement					
Foreign currency translation		**(378)**	**560**	**-**	**-**
Translation gains/(losses) taken to equity		(378)	560	-	-
Available-for-sale financial assets		**-**	**(15,894)**	**-**	**(16,280)**
Valuation gains/(losses) taken to equity		-	(4,200)	-	(4,988)
Transferred to income statement	4.4. and 4.11.	-	(11,694)	-	(11,292)
Debt instruments measured at fair value through other comprehensive income		**(2,264)**	**-**	**(2,780)**	**-**
Valuation gains/(losses) taken to equity		(2,261)	-	(2,791)	-
Transferred to income statement		(3)	-	11	-
Other transfers					
Share of other comprehensive income of entities accounted for using the equity method		**(1,822)**	**63**	**-**	**-**
Income tax relating to components of other comprehensive income	5.16.	**649**	**3,057**	**528**	**3,093**
Total comprehensive income for the period after tax		**58,371**	**72,087**	**34,294**	**45,739**
Attributable to owners of the parent		55,419	69,256	34,294	45,739
Attributable to non-controlling interests		2,952	2,831	-	-

Condensed statement of financial position

in EUR thousand

	Notes	NLB Group 31 Mar 2018	NLB Group 1 Jan 2018	NLB Group 31 Dec 2017	NLB 31 Mar 2018	NLB 1 Jan 2018	NLB 31 Dec 2017
Cash, cash balances at central banks and other demand deposits at banks	5.1.	1,341,425	1,255,824	1,256,481	680,175	569,943	570,010
Financial assets held for trading	5.2.	47,903	72,189	72,189	47,881	72,180	72,180
Non-trading financial assets mandatorily at fair value through profit or loss	5.3.a)	26,983	31,404	-	26,903	31,239	-
Financial assets designated at fair value through profit or loss		-	-	5,003	-	-	634
Financial assets measured at fair value through other comprehensive income	5.4.	1,794,699	1,656,365	-	1,411,726	1,285,276	-
Financial assets measured at amortised cost							
- debt securities	5.6.a)	1,222,230	1,301,413	-	1,094,180	1,178,088	-
- loans and advances to banks	5.6.b)	553,169	509,970	-	489,566	461,830	-
- loans and advances to customers	5.6.c)	6,913,797	6,956,362	-	4,521,094	4,594,286	-
- other financial assets	5.6.d)	84,661	67,046	-	66,046	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		1,994	1,188	1,188	1,994	1,188	1,188
Fair value changes of the hedged items in portfolio hedge of interest rate risk		573	719	719	573	719	719
Investments in subsidiaries		-	-	-	349,945	349,945	349,945
Investments in associates and joint ventures		43,473	43,765	43,765	6,932	6,932	6,932
Tangible assets							
Property and equipment		186,399	188,355	188,355	86,198	87,051	87,051
Investment property	5.10.	52,805	51,838	51,838	9,212	9,257	9,257
Intangible assets		33,574	34,974	34,974	22,858	23,911	23,911
Current income tax assets		676	599	2,795	-	-	2,196
Deferred income tax assets	5.12.	20,727	19,745	18,603	20,830	20,318	19,758
Other assets	5.11.	95,403	93,349	93,349	12,944	8,692	8,692
Non-current assets classified as held for sale		4,085	11,631	11,631	1,446	2,564	2,564
TOTAL ASSETS		**12,424,576**	**12,296,736**	**12,237,745**	**8,850,503**	**8,742,334**	**8,712,832**
Trading liabilities	5.2.	9,446	9,502	9,502	9,383	9,398	9,398
Financial liabilities measured at fair value through profit or loss	5.3.	5,174	5,815	635	5,058	5,166	635
Financial liabilities measured at amortised cost							
- deposits from banks and central banks	5.14.	36,371	40,602	40,602	59,699	72,072	72,072
- borrowings from banks and central banks	5.14.	277,523	279,616	279,616	259,774	260,747	260,747
- due to customers	5.14.	9,938,270	9,878,378	9,878,378	6,864,302	6,810,967	6,810,967
- borrowings from other customers	5.14.	92,689	101,636	101,636	5,327	5,726	5,726
- other financial liabilities	5.14.b)	139,341	111,019	111,019	104,509	71,534	71,534
Derivatives - hedge accounting		24,608	25,529	25,529	24,608	25,529	25,529
Provisions	5.15.	91,170	93,989	88,639	67,090	67,232	70,817
Current income tax liabilities		3,002	3,908	2,894	1,277	1,014	-
Deferred income tax liabilities	5.12.	2,569	2,558	1,096	-	-	-
Other liabilities	5.17.	12,107	9,467	9,596	6,290	4,057	4,181
TOTAL LIABILITIES		**10,632,270**	**10,562,459**	**10,549,582**	**7,407,317**	**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		22,468	24,812	26,753	22,486	24,688	25,699
Profit reserves		13,522	13,522	13,522	13,522	13,522	13,522
Retained earnings		645,437	587,674	541,900	335,800	299,304	270,627
		1,752,805	**1,697,386**	**1,653,553**	**1,443,186**	**1,408,892**	**1,381,226**
Non-controlling interests		39,501	36,891	34,610	-	-	-
TOTAL EQUITY		**1,792,306**	**1,734,277**	**1,688,163**	**1,443,186**	**1,408,892**	**1,381,226**
TOTAL LIABILITIES AND EQUITY		**12,424,576**	**12,296,736**	**12,237,745**	**8,850,503**	**8,742,334**	**8,712,832**

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	-	-	-	-	57,683	57,683	3,014	60,697
- Other comprehensive income	-	-	(2,264)	-	-	(2,264)	(62)	(2,326)
Total comprehensive income after tax	-	-	(2,264)	-	57,683	55,419	2,952	58,371
Other*	-	-	(12)	-	12	-	(342)	(342)
Balance as at 31 March 2018	**200,000**	**871,378**	**22,468**	**13,522**	**645,437**	**1,752,805**	**39,501**	**1,792,306**

* 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	29,969	13,522	380,444	1,495,313	30,347	1,525,660
- Net profit for the period	-	-	-	-	81,555	81,555	2,748	84,303
- Other comprehensive income	-	-	(12,299)	-	-	(12,299)	83	(12,216)
Total comprehensive income after tax	-	-	(12,299)	-	81,555	69,256	2,831	72,087
Balance as at 31 March 2017	**200,000**	**871,378**	**17,670**	**13,522**	**461,999**	**1,564,569**	**33,178**	**1,597,747**

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	-	-	-	-	36,496	36,496
- Other comprehensive income	-	-	(2,202)	-	-	(2,202)
Total comprehensive income after tax	-	-	(2,202)	-	36,496	34,294
Balance as at 31 March 2018	**200,000**	**871,378**	**22,486**	**13,522**	**335,800**	**1,443,186**

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	-	-	-	-	58,926	58,926
- Other comprehensive income	-	-	(13,187)	-	-	(13,187)
Total comprehensive income after tax	-	-	(13,187)	-	58,926	45,739
Balance as at 31 March 2017	**200,000**	**871,378**	**21,394**	**13,522**	**204,239**	**1,310,533**

Condensed statement of cash flows

in EUR thousand

	NLB Group three months ended March 2018	NLB Group three months ended March 2017	NLB three months ended March 2018	NLB three months ended March 2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	106,552	106,658	61,936	65,006
Interest paid	(10,984)	(13,274)	(5,790)	(6,733)
Dividends received	11	9	5	5
Fee and commission receipts	52,343	49,026	32,184	30,296
Fee and commission payments	(13,475)	(12,784)	(7,452)	(6,951)
Realised gains from financial assets and financial liabilities not measured at fair value through profit or loss	412	11,815	158	11,413
Net gains/(losses) from financial assets and liabilities held for trading	1,652	(673)	230	(1,828)
Payments to employees and suppliers	(69,114)	(65,074)	(44,486)	(42,921)
Other income	7,216	8,796	3,901	5,008
Other expenses	(3,125)	(3,906)	(274)	(1,379)
Income tax paid	(8,574)	(5,769)	(1,296)	(1,900)
Cash flows from operating activities before changes in operating assets and liabilities	**62,914**	**74,824**	**39,116**	**50,016**
(Increases)/decreases in operating assets	**(84,730)**	**133,903**	**(69,563)**	**168,370**
Net (increase)/decrease in trading assets	24,088	17,292	24,088	17,292
Net (increase)/decrease in financial assets designated at fair value through profit or loss	-	(85)	-	-
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss	3,277	-	5,228	-
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income	(147,096)	-	(138,209)	-
Net (increase)/decrease in available-for-sale financial assets	-	77,011	-	83,741
Net (increase)/decrease in loans and receivables measured at amortised cost	33,448	42,633	39,342	67,148
Net (increase)/decrease in other assets	1,553	(2,948)	(12)	189
Increases/(decreases) in operating liabilities	**89,893**	**87**	**83,416**	**(1,215)**
Net increase/(decrease) in deposits and borrowings measured at amortised cost	90,085	463	83,504	(990)
Net increase/(decrease) in other liabilities	(192)	(376)	(88)	(225)
Net cash from operating activities	**68,077**	**208,814**	**52,969**	**217,171**
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts from investing activities	**146,234**	**56,726**	**90,282**	**55,727**
Proceeds from sale of property and equipment	60	1,000	2	1
Proceeds from disposals of subsidiaries and associates	18,671	-	9,921	-
Proceeds from disposals of debt securities measured at amortised cost	127,446	-	80,302	-
Proceeds from disposals of held-to-maturity financial assets	-	55,403	-	55,403
Proceeds from sale of non-current assets held for sale	57	323	57	323
Payments from investing activities	**(71,271)**	**(18,964)**	**(15,320)**	**(17,900)**
Purchase of property and equipment	(5,485)	(1,698)	(3,873)	(1,006)
Purchase of intangible assets	(3,418)	(3,447)	(3,119)	(2,255)
Purchase of subsidiaries and increase in subsidiaries' equity	-	-	-	(820)
Purchase of debt securities measured at amortised cost	(62,368)	-	(8,328)	-
Purchase of held-to-maturity financial assets	-	(13,819)	-	(13,819)
Net cash from investing activities	**74,963**	**37,762**	**74,962**	**37,827**
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments from financing activities	**(14)**	**-**	**-**	**-**
Dividends paid	(14)	-	-	-
Net cash from financing activities	**(14)**	**-**	**-**	**-**
Effects of exchange rate changes on cash and cash equivalents	(2,676)	640	(3,211)	(803)
Net increase/(decrease) in cash and cash equivalents	**143,026**	**246,576**	**127,931**	**254,998**
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	**1,616,064**	**1,696,491**	**787,139**	**924,877**

in EUR thousand

		NLB Group		NLB	
	Notes	31 Mar 2018	31 Dec 2017	31 Mar 2018	31 Dec 2017
Cash and cash equivalents comprise:					
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	1,342,050	1,256,481	680,254	570,010
Loans and advances to banks with original maturity up to 3 months		202,710	148,784	106,885	92,409
Financial assets measured at fair value through other comprehensive income		71,304	-	-	-
Available for sale financial assets with original maturity up to 3 months		-	70,449	-	-
Total		**1,616,064**	**1,475,714**	**787,139**	**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 31 March 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 has not yet been endorsed by EU but nevertheless, it will 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 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 was put on new and non-standardised characteristics of the loan agreements.

At transition to IFRS 9, as at 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

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 – performing portfolio: no significant increase of credit risk since initial recognition, NLB Group recognises an allowance based on a 12-month period,
- Stage 2 – underperforming portfolio: significant increase in credit risk since initial recognition, NLB Group recognises an allowance for a 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 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 takes into account 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 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 (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 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, 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. Summary of the effects at 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	24,641	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	1,604,932	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	1,760	1,760	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. 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 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 threfore 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 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 missmatch 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 31 March 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 at 31 March 2018	522,866	445,811
Fair value gain/loss that would have been recognised during the year in OCI if the financial assets had not been reclassified	1,705	1,818

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).

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 Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018).

- 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 of 31 December 2017 and effects for three months ended 31 March 2017), and classification and IFRS 9 (for balances as of 1 January 2018 and 31 March 2018 and effects for three months ended 31 March 2018).

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 and presentation of subordinated liabilities in the Statement of Financial Position. Comparative amounts have been adjusted to reflect these changes in presentation.

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” 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 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”.

In the Statement of Financial Position, subordinated liabilities in these financial statemetns are disclosed within the relevant line item of “Financial liabilities measured at amortised cost”, depending on the sectorization of the liability. In financial statements for the year ended 31 December 2017, subordinated liabilities were disclosed on the face of the Statement of Financial Position within “Financial liabilities measured at amortised cost” as a separate line item.

3. Changes in NLB Group

Three months ended 31 March 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.

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		
	three months ended			three months ended		
	March 2018	March 2017	change	March 2018	March 2017	change
Interest and similar income						
Loans and advances to customers at amortised cost	73,685	-	-	33,880	-	-
Securities measured at amortised cost	5,722	-	-	4,709	-	-
Financial assets measured at fair value through other comprehensive income	5,051	-	-	3,071	-	-
Loans and advances to banks measured at amortised cost	536	-	-	581	-	-
Non-trading financial assets mandatorily at fair value through P&L	84	-	-	111	-	-
Loans and advances to customers	-	76,605	-		37,164	-
Available-for-sale financial assets	-	7,513	-		4,307	-
Held-to-maturity investments	-	4,256	-		4,256	-
Loans and advances to banks and central banks	-	302	-	-	501	-
Financial assets held for trading	1,514	1,508	0%	1,514	1,508	0%
Deposits with central banks and banks	277	173	60%	135	77	75%
Derivatives - hedge accounting	1	-	-	1	-	-
Total	**86,870**	**90,357**	-4%	**44,002**	**47,813**	-8%
Interest and similar expenses						
Due to customers	6,555	8,082	-19%	1,642	2,669	-38%
Derivatives - hedge accounting	1,950	1,232	58%	1,950	1,232	58%
Financial liabilities held for trading	1,345	1,304	3%	1,345	1,304	3%
Borrowings from banks and central banks	403	673	-40%	313	504	-38%
Subordinated liabilities	391	393	-1%	-	-	-
Borrowings from other customers	333	423	-21%	-	-	-
Deposits from banks and central banks	57	41	39%	50	27	85%
Debt securities in issue	-	2,134	-100%	-	2,134	-100%
Other financial liabilities	831	744	12%	709	606	17%
Total	**11,865**	**15,026**	-21%	**6,009**	**8,476**	-29%
Net interest income	**75,005**	**75,331**	0%	**37,993**	**39,337**	-3%

4.2. Dividend income

in EUR thousand

	NLB Group			NLB		
	three months ended			three months ended		
	March 2018	March 2017	change	March 2018	March 2017	change
Financial assets measured at fair value through other comprehensive income	11	-	-	5	-	-
Investments in subsidiaries, assoiciates, and joint ventures	-	-	-	8,530	11,197	-24%
Available-for-sale financial assets	-	9	-100%	-	5	-100%
Total	**11**	**9**	**22%**	**8,535**	**11,202**	**-24%**

4.3. Fee and commission income and expenses

in EUR thousand

	NLB Group			NLB		
	three months ended			three months ended		
	March 2018	March 2017	change	March 2018	March 2017	change
Fee and commission income						
Credit cards and ATMs	15,305	13,558	13%	9,949	8,886	12%
Payments	13,380	13,508	-1%	6,824	6,873	-1%
Customer transaction accounts	11,176	10,337	8%	8,374	7,866	6%
Investment funds	4,344	4,116	6%	1,118	1,222	-9%
Guarantees	2,619	2,780	-6%	1,690	1,828	-8%
Investment banking	2,531	1,606	58%	2,160	1,265	71%
Agency of insurance products	1,038	1,063	-2%	1,036	1,035	0%
Other services	1,214	1,843	-34%	750	1,465	-49%
Total	**51,607**	**48,811**	6%	**31,901**	**30,440**	5%
Fee and commission expenses						
Credit cards and ATMs	9,080	8,318	9%	5,687	5,013	13%
Payments	1,309	1,284	2%	199	219	-9%
Investment banking	856	610	40%	550	353	56%
Insurance for holders of personal accounts and golden cards	401	478	-16%	356	358	-1%
Guarantees	38	58	-34%	25	39	-36%
Other services	591	662	-11%	274	258	6%
Total	**12,275**	**11,410**	8%	**7,091**	**6,240**	14%
Net fee and commission income	**39,332**	**37,401**	5%	**24,810**	**24,200**	3%

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	
	three months ended		three months ended	
	March 2018	March 2017	March 2018	March 2017
Financial assets measured at fair value through other comprehensive income	155	-	155	-
Financial assets measured at amortised cost	(3)	-	(3)	-
Available-for-sale financial assets	-	11,694	-	11,292
Financial liabilities measured at amortised cost	254	-	-	-
Total	**406**	**11,694**	**152**	**11,292**

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

in EUR thousand

	NLB Group		NLB	
	three months ended		three months ended	
	March 2018	March 2017	March 2018	March 2017
Foreign exchange trading	2,231	2,185	713	898
Derivatives	(376)	249	(310)	289
Debt instruments	(269)	82	(269)	82
Total	**1,586**	**2,516**	**134**	**1,269**

4.6. Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss

in EUR thousand

	NLB Group		NLB	
	three months ended		three months ended	
	March 2018	March 2017	March 2018	March 2017
Equity securities	(112)	-	5	-
Loans and advances to customers	732	-	950	-
Total	**620**	**-**	**955**	**-**

4.7. Other operating income

in EUR thousand

	NLB Group			NLB		
	three months ended			three months ended		
	March 2018	March 2017	change	March 2018	March 2017	change
Income from non-banking services	2,572	2,929	-12%	1,314	1,876	-30%
Rental income from investment property	928	1,434	-35%	106	90	18%
Other operating income	816	3,037	-73%	295	2,334	-87%
Total	**4,316**	**7,400**	-42%	**1,715**	**4,300**	-60%

4.8. Other operating expenses

in EUR thousand

	NLB Group			NLB		
	three months ended			three months ended		
	March 2018	March 2017	change	March 2018	March 2017	change
Deposit guarantee	1,960	2,222	-12%	-	-	-
Other taxes and compulsory public levies	830	628	32%	168	278	-40%
Membership fees and similar fees	198	228	-13%	79	139	-43%
Expenses related to issued service guarantees	72	92	-22%	72	92	-22%
Revaluation of investment property to fair value	92	-	-	45	-	-
Other operating expenses	545	591	-8%	259	195	33%
Total	**3,697**	**3,761**	-2%	**623**	**704**	-12%

4.9. Administrative expenses

in EUR thousand

	NLB Group			NLB		
	three months ended			three months ended		
	March 2018	March 2017	change	March 2018	March 2017	change
Employee costs	40,288	39,630	2%	25,172	25,066	0%
Other general and administrative expenses	22,316	20,995	6%	13,127	12,298	7%
Total	**62,604**	**60,625**	3%	**38,299**	**37,364**	3%

4.10. Provisions for other liabilities and charges

in EUR thousand

	NLB Group		NLB	
	three months ended		three months ended	
	March 2018	March 2017	March 2018	March 2017
Guarantees and commitments	(2,248)	(2,336)	623	(1,123)
Provisions for legal issues	79	35	-	-
Provisions for restructuring	(6)	-	-	-
Total	**(2,175)**	**(2,301)**	**623**	**(1,123)**

4.11. Impairment charge

in EUR thousand

	NLB Group		NLB	
	three months ended		three months ended	
	March 2018	March 2017	March 2018	March 2017
Impairment of financial assets				
Cash balances at central banks, and other demand deposits at banks	52	-	12	-
Loans and advances to banks measured at amortised cost (note 5.8.a)	55	-	(60)	-
Loans and advances to customers measured at amortised cost (note 5.8.a)	(4,175)	-	1,178	-
Debt securities measured at fair value through other comprehensive income (note 5.8.b)	152	-	166	-
Debt securities measured at amortised cost (note 5.8.b)	189	-	(171)	-
Other financial assets measured at amortised cost (note 5.8.a)	2,715	-	(48)	-
Loans and advances to customers (note 5.8.d)	-	(23,049)		(11,388)
Loans and advances to banks (note 5.8.d)	-	(311)		-
Held-to-maturity financial assets	-	(11)	-	(11)
Other financial assets (note 5.8.d)	-	324		368
Impairment of investments in subsidiaries, associates, and joint ventures				
Investments in subsidiaries	-	-	-	75
Impairment of other assets				
Other assets	379	830	-	-
Total	**(633)**	**(22,217)**	**1,077**	**(10,956)**

In the first quarter of 2017, NLB Group recalculated PDs for collective provisions. The effect of release of impairments on NLB Group level in the segment of corporate clients amounted to approximately EUR 21 million, and in NLB approximately EUR 9 million. Recalculation of risk factors in 2018 is expected in the second quarter of 2018.

4.12. Gains less losses from non-current assets held for sale

in EUR thousand

	NLB Group		NLB	
	three months ended		three months ended	
	March 2018	March 2017	March 2018	March 2017
Gains less losses on derecognition of subsidiaries	12,178	-	8,840	-
Gains less losses from property and equipment	20	123	20	123
Total	**12,198**	**123**	**8,860**	**123**

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		
	three months ended			three months ended		
	March 2018	March 2017	change	March 2018	March 2017	change
Current income tax	4,921	4,776	3%	1,563	2,040	-23%
Deferred tax (note 5.12.)	(664)	31	-	4	222	-98%
Total	**4,257**	**4,807**	-11%	**1,567**	**2,262**	-31%

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		
	31 Mar 2018	31 Dec 2017	Change	31 Mar 2018	31 Dec 2017	Change
Balances and obligatory reserves with central banks	879,127	798,758	10%	458,149	350,804	31%
Cash	273,271	269,696	1%	147,003	143,726	2%
Demand deposits at banks	189,652	188,027	1%	75,102	75,480	-1%
	1,342,050	**1,256,481**	7%	**680,254**	**570,010**	19%
Allowance for impairment	(625)	-	-	(79)	-	-
Total	**1,341,425**	**1,256,481**	7%	**680,175**	**570,010**	19%

5.2. Financial instruments held for trading

a) Trading assets

in EUR thousand

	NLB Group			NLB		
	31 Mar 2018	31 Dec 2017	Change	31 Mar 2018	31 Dec 2017	Change
Derivatives, excluding hedging instruments						
Swap contracts	11,108	11,739	-5%	11,104	11,734	-5%
Forward contracts	1,185	439	170%	1,167	435	168%
Options	495	847	-42%	495	847	-42%
Total derivatives	**12,788**	**13,025**	-2%	**12,766**	**13,016**	-2%
Securities						
Treasury bills	35,115	55,047	-36%	35,115	55,047	-36%
Bonds	-	4,117	-100%	-	4,117	-100%
Total securities	**35,115**	**59,164**	-41%	**35,115**	**59,164**	-41%
Total	**47,903**	**72,189**	-34%	**47,881**	**72,180**	-34%

b) Trading liabilities

in EUR thousand

	NLB Group			NLB		
	31 Mar 2018	31 Dec 2017	Change	31 Mar 2018	31 Dec 2017	Change
Derivatives, excluding hedging instruments						
Swap contracts	8,158	8,855	-8%	8,095	8,751	-7%
Forward contracts	1,075	371	190%	1,075	371	190%
Options	213	276	-23%	213	276	-23%
Total	**9,446**	**9,502**	-1%	**9,383**	**9,398**	0%

5.3. Non-trading financial instruments measured at fair value through profit or loss

a) Finacial instruments mandatorily at fair value through profit or loss

in EUR thousand

	NLB Group	NLB
	31 Mar 2018	31 Mar 2018
Assets		
Equity securities	5,338	1,189
Debt securities	101	-
Loans and advances to companies	21,544	25,714
Total	**26,983**	**26,903**
Liabilities		
Loans and advances to companies	4,533	4,417

b) Finacial instruments designated at fair value through profit or loss

in EUR thousand

	NLB Group		NLB	
	31 Mar 2018	31 Dec 2017	31 Mar 2018	31 Dec 2017
Assets	-	5,003	-	634
Liabilities	641	635	641	635

5.4. Financial assets measured at fair value through other comprehensive income

in EUR thousand

	NLB Group	NLB
	31 Mar 2018	31 Mar 2018
Bonds	1,472,764	1,315,284
Commercial bills	146,448	-
Treasury bills	122,550	50,081
National Resolution Fund	44,545	44,545
Shares	8,392	1,816
Total	**1,794,699**	**1,411,726**
Allowance for impairment	(4,646)	(2,356)

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
	31 Mar 2018	31 Mar 2018
Debt securities	1,222,230	1,094,180
Loans and advances to banks	553,169	489,566
Loans and advances to customers	6,913,797	4,521,094
Other financial assets	84,661	66,046
Total	**8,773,857**	**6,170,886**

a) Debt securities

in EUR thousand

	NLB Group	NLB
	31 Mar 2018	31 Mar 2018
Government	803,662	674,385
Companies	90,418	90,433
Banks	322,974	322,974
Other	7,530	7,515
	1,224,584	**1,095,307**
Allowance for impairment (note 5.8.b)	(2,354)	(1,127)
Total	**1,222,230**	**1,094,180**

b) Loans and advances to banks

in EUR thousand

	NLB Group	NLB
	31 Mar 2018	31 Mar 2018
Time deposits	519,929	465,026
Purchased receivables	1,326	1,326
Loans	2,997	23,646
Reverse sale and repurchase agreements	29,685	-
	553,937	**489,998**
Allowance for impairment (note 5.8.a)	(768)	(432)
Total	**553,169**	**489,566**

c) Loans and advances to customers

in EUR thousand

	NLB Group	NLB
	31 Mar 2018	31 Mar 2018
Loans	6,859,274	4,526,147
Overdrafts	313,730	181,675
Finance lease receivables	155,035	-
Credit card business	114,042	58,078
Called guarantees	9,142	7,203
	7,451,223	**4,773,103**
Allowance for impairment (note 5.8.a)	(537,426)	(252,009)
Total	**6,913,797**	**4,521,094**

d) Other financial assets

in EUR thousand

	NLB Group	NLB
	31 Mar 2018	31 Mar 2018
Receivables in the course of collection	15,076	12,415
Credit card receivables	28,906	24,965
Debtors	8,708	754
Fees and commissions	5,335	3,239
Receivables to brokerage firms and others for the sale of securities and custody services	9,490	9,483
Prepayments	2,185	-
Accrued income	1,235	1,525
Receivables from purchase agreements for equity securities	163	163
Dividends	44	8,574
Other financial assets	24,409	7,466
	95,551	**68,584**
Allowance for impairment (note 5.8.a)	(10,890)	(2,538)
Total	**84,661**	**66,046**

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	NLB
	31 Dec 2017	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	NLB
	31 Dec 2017	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	NLB
	31 Dec 2017	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	-	43	37	112	-	-	-
Transfers	-	4,927	(4,593)	(334)	-	-	-
Impairment (note 4.11.)	55	(5,915)	5,895	957	140	7	2,638
Write-offs	-	(25)	(1)	(13,642)	-	-	(2,763)
Exchange differences	-	-	-	74	-	-	-
Balance as at 31 March 2018	**768**	**33,648**	**35,541**	**468,237**	**311**	**32**	**10,547**
Repayment of write-offs (note 4.11.)	-	-	-	5,112	-	-	70

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	-	1,139	(878)	(261)	-	-	-
Impairment (note 4.11.)	(60)	(1,375)	2,515	1,980	73	-	(51)
Write-offs	-	(25)	(1)	(3,532)	-	-	(150)
Exchange differences	-	-	-	(11)	-	-	-
Balance as at 31 March 2018	**432**	**15,551**	**7,952**	**228,506**	**97**	**5**	**2,436**
Repayment of write-offs (note 4.11.)	-	-	-	1,942	-	-	70

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 credit-impaired
Balance as at 1 January 2018	2,169	3,689	798
Exchange differences on opening balance	(4)	7	-
Impairment (note 4.11.)	189	152	-
Balance as at 31 March 2018	**2,354**	**3,848**	**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 credit-impaired
Balance as at 1 January 2018	1,298	1,392	798
Impairment (note 4.11.)	(171)	166	-
Balance as at 31 March 2018	**1,127**	**1,558**	**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	6,927	4,833	30,504
Exchange differences on opening balance	(30)	(12)	-
Transfers	1,250	(1,117)	(133)
Impairment (note 4.10.)	(1,284)	36	(1,000)
Exchange differences	-	-	(2)
Balance as at 31 March 2018	**6,863**	**3,740**	**29,369**

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	46	15	(61)
Impairment (note 4.10.)	135	132	356
Exchange differences	-	-	(2)
Balance as at 31 March 2018	**3,127**	**597**	**27,569**

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	771	46
Impairment (note 4.11.)	(311)	(23,049)	324
Write-offs	-	(11,218)	(316)
Repayment of write-offs	10	1,862	28
Exchange differences	1	(54)	1
Other	-	(87)	-
Balance as at 31 March 2017	**51**	**871,626**	**15,536**

in EUR thousand

	NLB		
	Banks	Customers	Other financial assets
Balance as at 1 January 2017	-	504,748	3,771
Impairment (note 4.11.)	-	(11,388)	368
Write-offs	-	(4,994)	(274)
Repayment of write-offs	-	162	6
Exchange differences	-	24	-
Balance as at 31 March 2017	**-**	**488,552**	**3,871**

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		
	31 Mar 2018	31 Dec 2017	Change	31 Mar 2018	31 Dec 2017	Change
Buildings	47,557	46,908	1%	8,528	8,553	0%
Land	5,248	4,930	6%	684	704	-3%
Total	**52,805**	**51,838**	2%	**9,212**	**9,257**	0%

5.11. Other assets

in EUR thousand

	NLB Group			NLB		
	31 Mar 2018	31 Dec 2017	Change	31 Mar 2018	31 Dec 2017	Change
Assets, received as collateral	75,205	77,500	-3%	4,720	4,811	-2%
Inventories	7,321	8,879	-18%	335	335	0%
Deferred expenses	9,885	4,324	129%	7,040	2,886	144%
Prepayments	1,453	971	50%	576	285	102%
Claim for taxes and other dues	1,539	1,675	-8%	273	375	-27%
Total	**95,403**	**93,349**	2%	**12,944**	**8,692**	49%

5.12. Deferred tax

in EUR thousand

	NLB Group			NLB		
	31 Mar 2018	31 Dec 2017	Change	31 Mar 2018	31 Dec 2017	Change
Deferred income tax assets						
Valuation of financial instruments and capital investments	25,371	25,513	-1%	25,336	25,475	-1%
Impairment provisions	1,007	170	492%	664	2	-
Employee benefit provisions	3,963	4,018	-1%	3,359	3,432	-2%
Depreciation and valuation of non-financial assets	1,282	976	31%	160	162	-1%
Total deferred income tax assets	**31,623**	**30,677**	3%	**29,519**	**29,071**	2%
Deferred income tax liabilities						
Valuation of financial instruments	9,039	10,077	-10%	7,996	9,067	-12%
Depreciation and valuation of non-financial assets	1,084	1,097	-1%	245	246	0%
Impairment provisions	3,342	1,996	67%	448	-	-
Total deferred income tax liabilities	**13,465**	**13,170**	2%	**8,689**	**9,313**	-7%
Net deferred income tax assets	**20,727**	**18,603**	11%	**20,830**	**19,758**	5%
Net deferred income tax liabilities	**(2,569)**	**(1,096)**	134%	**-**	**-**	-

in EUR thousand

	NLB Group		NLB	
	three months ended		three months ended	
	March 2018	March 2017	March 2018	March 2017
Included in the income statement for the current year	**664**	**(31)**	**(4)**	**(222)**
- valuation of financial instruments and capital investments	68	(153)	70	(177)
- impairment provisions	330	216	-	-
- employee benefit provisions	(54)	(44)	(73)	(43)
- depreciation and valuation of non-financial assets	320	(50)	(1)	(2)
Included in other comprehensive income for the current period	**297**	**3,060**	**516**	**3,093**
- valuation and impairment provisions of financial assets measured at fair value through other comprehensive income	297	**-**	516	**-**
- valuation of available-for-sale financial assets	-	3,060	-	3,093
Impact of transition on IFRS9	**(319)**	**-**	**560**	**-**

As at 31 March 2018, NLB recognised EUR 29,519 thousand deferred tax assets (31 December 2017: EUR 29,071 thousand). Unrecognised deferred tax assets amount to EUR 275,616 thousand (31 December 2017: EUR 277,325 thousand), of which EUR 202,758 thousand (31 December 2017: EUR 204,657 thousand) relates to unrecognised deferred tax assets from tax loss, and EUR 72,858 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 consideration 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, was 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		
	31 Mar 2018	31 Dec 2017	Change	31 Mar 2018	31 Dec 2017	Change
Deposits from banks and central banks	36,371	40,602	-10%	59,699	72,072	-17%
- Deposits on demand	31,962	36,331	-12%	58,203	71,383	-18%
- Other deposits	4,409	4,271	3%	1,496	689	117%
Borrowings from banks and central banks	277,523	279,616	-1%	259,774	260,747	0%
Due to customers	9,938,270	9,878,378	1%	6,864,302	6,810,967	1%
- Deposits on demand	7,544,637	7,332,344	3%	5,655,517	5,455,657	4%
- Other deposits	2,393,633	2,546,034	-6%	1,208,785	1,355,310	-11%
Borrowings from other customers	92,689	101,636	-9%	5,327	5,726	-7%
Other financial liabilities	139,341	111,019	26%	104,509	71,534	46%
Total	**10,484,194**	**10,411,251**	1%	**7,293,611**	**7,221,046**	1%

a) Borrowings

in EUR thousand

	NLB Group			NLB		
	31 Mar 2018	31 Dec 2017	Change	31 Mar 2018	31 Dec 2017	Change
Loans						
- banks and central banks	277,523	279,616	-1%	259,774	260,747	0%
- other customers	65,382	74,286	-12%	5,327	5,726	-7%
Subordinated liabilities						
- other customers	27,307	27,350	0%	-	-	-
Total	**370,212**	**381,252**	-3%	**265,101**	**266,473**	-1%

Subordinated liabilities

in EUR thousand

NLB Group				31 Mar 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.	11,997	12,000	12,221	12,000
	EUR	30.6.2020	6-month EURIBOR + 7.7% p. a.	5,221	5,000	5,132	5,000
	EUR	26.6.2025	6-month EURIBOR + 6.25% p. a.	10,089	10,000	9,997	10,000
Total				**27,307**	**27,000**	**27,350**	**27,000**

b) Other financial liabilities

in EUR thousand

	NLB Group			NLB		
	31 Mar 2018	31 Dec 2017	Change	31 Mar 2018	31 Dec 2017	Change
Items in the course of payment	35,865	20,931	71%	22,219	4,393	406%
Debit or credit card payables	43,448	36,578	19%	40,584	32,132	26%
Accrued expenses	14,494	11,343	28%	7,123	4,456	60%
Accrued salaries	10,903	9,665	13%	6,586	6,662	-1%
Liabilities to brokerage firms and others for securities purchase and custody services	11,247	1,327	748%	10,156	212	4691%
Suppliers	6,673	14,826	-55%	4,669	11,146	-58%
Fees and commissions due	126	1,682	-93%	71	1,627	-96%
Other financial liabilities	16,585	14,667	13%	13,101	10,906	20%
Total	**139,341**	**111,019**	26%	**104,509**	**71,534**	46%

5.15. Provisions

in EUR thousand

	NLB Group			NLB		
	31 Mar 2018	31 Dec 2017	Change	31 Mar 2018	31 Dec 2017	Change
Employee benefit provisions	20,672	20,440	1%	16,846	16,712	1%
Provision for legal issues	15,689	15,786	-1%	4,958	4,958	0%
Restructuring provisions	14,623	15,284	-4%	13,790	14,687	-6%
Provisions for commitments and guarantees	39,972	36,915	8%	31,293	34,257	-9%
Stage 1	6,863	-	-	3,127	-	-
Stage 2	3,740	-	-	597	-	-
Stage 3	29,369	-	-	27,569	-	-
Other provisions	214	214	0%	203	203	0%
Total	**91,170**	**88,639**	3%	**67,090**	**70,817**	-5%

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 three claims (as explained bellow in details) in favour of the plaintiff. NLB then filed a constitutional appeal in the case from May 2015 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. 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 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 a ruling became final and enforceable and recognising 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.

In May 2018 NLB has received in another case the final judgment 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 PBZ plus interest, which exceeds the principal amount and litigation costs. NLB will challenge the judgment with all available remedies.

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.

Provisions for these claims are not formed, since NLB believes there are no legal grounds for them.

5.16. Income tax relating to components of other comprehensive income

in EUR thousand

	NLB Group					
	31 Mar 2018			31 Mar 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	(775)	297	(478)	-	-	-
Available-for-sale financial assets	-	-	-	(15,894)	3,060	(12,834)
Share of associates and joint ventures	(1,809)	339	(1,470)	63	(3)	60
Total	**(2,584)**	**636**	**(1,948)**	**(15,831)**	**3,057**	**(12,774)**

in EUR thousand

	NLB					
	31 Mar 2018			31 Mar 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	(2,718)	516	(2,202)	-	-	-
Available-for-sale financial assets	-	-	-	(16,280)	3,093	(13,187)
Total	**(2,718)**	**516**	**(2,202)**	**(16,280)**	**3,093**	**(13,187)**

5.17. Other liabilities

in EUR thousand

	NLB Group			NLB		
	31 Mar 2018	31 Dec 2017	Change	31 Mar 2018	31 Dec 2017	Change
Taxes payable	4,011	3,409	18%	2,985	2,770	8%
Deferred income	5,227	3,101	69%	3,014	1,034	191%
Payments received in advance	2,869	3,086	-7%	291	377	-23%
Total	**12,107**	**9,596**	26%	**6,290**	**4,181**	50%

5.18. Book value per share

The book value of a NLB share on a consolidated level as at 31 March 2018 was EUR 87.6 (31 December 2017: EUR 82.7), and on solo level it was EUR 72.2 (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	
	31 Mar 2018	31 Dec 2017	31 Mar 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	371,970	296,773	110,210	81,533
Profit or loss eligible - from current year	-	29,280	-	-
Accumulated other comprehensive income	14,297	(11,450)	22,486	(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	(1,883)	(2,389)	(1,495)	(1,886)
(-) Goodwill	(3,529)	(3,529)	-	-
(-) Other intangible assets	(30,045)	(31,445)	(22,858)	(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	-		(243)	
COMMON EQUITY TIER 1 CAPITAL (CET1)	**1,435,710**	**1,362,140**	**1,193,000**	**1,140,616**
Additional Tier 1 capital	-	-	-	-
TIER 1 CAPITAL	**1,435,710**	**1,362,140**	**1,193,000**	**1,140,616**
Tier 2 capital	-	-	-	-
TOTAL CAPITAL (OWN FUNDS)	**1,435,710**	**1,362,140**	**1,193,000**	**1,140,616**
RWA for credit risk	7,130,484	7,096,413	4,363,208	4,369,557
RWA for market risks	549,213	499,726	270,601	269,988
RWA for credit valuation adjustment risk	950	850	950	850
RWA for operational risk	953,482	949,493	596,586	593,750
TOTAL RISK EXPOSURE AMOUNT (RWA)	**8,634,129**	**8,546,482**	**5,231,345**	**5,234,145**
Common Equity Tier 1 Ratio	16.6%	15.9%	22.8%	21.8%
Tier 1 Ratio	16.6%	15.9%	22.8%	21.8%
Total Capital Ratio	16.6%	15,9%	22.8%	21.8%

* 31 December 2017 capital ratios envisaging dividend payment in 100% profit after tax of NLB (EUR 189 million)

At the end of March 2018, the capital ratios for NLB Group stood at 16.6% (or 0.7 percentage points higher than at the end of 2017), and for NLB at 22.8% (or 1.0 percentage point lower than at the end of 2017). The improvement of capital adequacy derives from higher capital, mainly due to 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.

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. On 5 April 2018, NLB received the final decision on this matter, making any distributions of dividends by NLB to its shareholders subject to ECB's consent. Details on legal issues are disclosed in note 5.15.

5.20. Off-balance sheet liabilities

in EUR thousand

	NLB Group			NLB		
	31 Mar 2018	31 Dec 2017	Change	31 Mar 2018	31 Dec 2017	Change
Commitments to extend credit	1,088,790	1,130,250	-4%	860,784	898,927	-4%
Non-financial guarantees	410,030	427,028	-4%	325,808	339,669	-4%
Financial guarantees	299,982	314,512	-5%	170,647	178,335	-4%
Letters of credit	15,436	14,614	6%	3,614	375	864%
Other	3,128	4,109	-24%	69	69	0%
	1,817,366	**1,890,513**	-4%	**1,360,922**	**1,417,375**	-4%
Provisions (note 5.15.)	(39,972)	(36,915)	8%	(31,293)	(34,257)	-9%
Total	**1,777,394**	**1,853,598**	-4%	**1,329,629**	**1,383,118**	-4%

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			
31 Mar 2018	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Financial instruments held for trading	35,115	12,507	281	47,903	35,115	12,485	281	47,881
Debt instruments	*35,115*	-	-	*35,115*	*35,115*	-	-	35,115
Derivatives	-	*12,507*	*281*	*12,788*	-	*12,485*	*281*	12,766
Derivatives - hedge accounting	-	*1,994*	-	1,994	-	1,994	-	1,994
Non-trading financial assets mandatorily at fair value through profit or loss	5,370	21,544	69	26,983	1,120	25,714	69	26,903
Loans and advances to customers	-	21,544	-	21,544	-	25,714	-	25,714
Debt instruments	101	-	-	101	-	-	-	-
Equity instruments	5,269	-	69	5,338	1,120	-	69	1,189
Financial assets measured at fair value through other comprehensive income	1,530,490	258,829	5,380	1,794,699	1,345,560	64,350	1,816	1,411,726
Debt instruments	*1,530,328*	*211,434*	-	*1,741,762*	*1,345,560*	*19,805*	-	1,365,365
Equity instruments	*162*	*47,395*	*5,380*	*52,937*	-	*44,545*	*1,816*	46,361
Financial liabilities								-
Financial instruments held for trading	-	9,446	-	9,446	-	9,383	-	9,383
Derivatives	-	*9,446*	-	*9,446*	-	*9,383*	-	9,383
Derivatives - hedge accounting	-	*24,608*	-	24,608	-	*24,608*	-	24,608
Financial liabilities measured at fair value through profit or loss	-	*5,174*	-	5,174	-	*5,058*	-	5,058
Non-financial assets								
Investment properties	-	52,805	-	52,805	-	9,212	-	9,212
Non-current assets classified as held for sale	-	4,085	-	4,085	-	1,446	-	1,446

in EUR thousand

	NLB Group				NLB			
31 Dec 2017	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	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 three months ended 31 March 2018 and 31 March 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

NLB Group	Trading assets	Financial assets available-for-sale	Financial assets measured at fair value	Non-trading financial assets mandatorily at fair value through profit or loss	Total financial assets
	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	-	-	(22)	-	(22)
Valuation:					
- through profit or loss	(290)	-	-	-	(290)
- recognised in other comprehensive income	-	-	40	-	40
Balance as at 31 March 2018	**281**	**-**	**5,380**	**69**	**5,730**

in EUR thousand

NLB Group	Trading assets	Available-for-sale financial assets	Total financial assets
	Derivatives	Equity instruments	
Balance as at 1 January 2017	405	5,903	6,308
Effects of translation of foreign operations to presentation currency	-	15	15
Valuation:			
- through profit or loss	111	-	111
- recognised in other comprehensive income	-	141	141
Balance as at 31 March 2017	**516**	**6,059**	**6,575**

in EUR thousand

NLB	Trading assets	Financial assets available-for-sale	Financial assets measured at fair value	Non-trading financial assets mandatorily at fair value through profit or loss	Total financial assets
	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	(290)	-	-	-	(290)
- recognised in other comprehensive income	-	-	32	-	32
Balance as at 31 March 2018	**281**	**-**	**1,816**	**69**	**2,166**

in EUR thousand

NLB	Trading assets	Available-for-sale financial assets	Total financial assets
	Derivatives	Equity instruments	
Balance as at 1 January 2017	405	1,810	2,215
Valuation:			
- through profit or loss	111	-	111
- recognised in other comprehensive income	-	145	145
Balance as at 31 March 2017	**516**	**1,955**	**2,471**

e) Fair value of financial instruments not measured at fair value in financial statements

in EUR thousand

	NLB Group				NLB			
	31 Mar 2018		31 Dec 2017		31 Mar 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	1,222,230	1,271,641	-	-	1,094,180	1,140,410	-	-
- loans and advances to banks	553,169	567,229	-	-	489,566	495,817	-	-
- loans and advances to customers	6,913,797	6,910,228	-	-	4,521,094	4,523,766	-	-
- other financial assets	84,661	84,661	-	-	66,046	66,046	-	-
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	36,371	36,348	40,602	40,608	59,699	59,699	72,072	72,072
- borrowings from banks and central banks	277,523	286,662	279,616	287,165	259,774	268,541	260,747	267,866
- due to customers	9,938,270	9,953,861	9,878,378	9,892,052	6,864,302	6,870,080	6,810,967	6,817,618
- borrowings from other customers	92,689	92,411	101,636	101,600	5,327	5,330	5,726	5,728
- other financial liabilities	139,341	139,341	111,019	111,019	104,509	104,509	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.

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 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			
31 Mar 2018	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at amortised cost								
- debt securities	-	1,271,641	-	1,271,641	-	1,140,410	-	1,140,410
- loans to banks	-	567,229	-	567,229	-	495,817	-	495,817
- loans and advances to customers	-	6,910,228	-	6,910,228	-	4,523,766	-	4,523,766
- other financial assets	-	84,661	-	84,661	-	66,046	-	66,046
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	36,348	-	36,348	-	59,699	-	59,699
- borrowings from banks and central banks	-	286,662	-	286,662	-	268,541	-	268,541
- due to customers	-	9,953,861	-	9,953,861	-	6,870,080	-	6,870,080
- borrowings from other customers	-	92,411	-	92,411	-	5,330	-	5,330
- other financial liabilities	-	139,341	-	139,341	-	104,509	-	104,509

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		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	
	31 Mar 2018	31 Dec 2017	31 Mar 2018	31 Dec 2017	31 Mar 2018	31 Dec 2017	31 Mar 2018	31 Dec 2017
Loans and deposits issued	1,963	2,021	405	413	284	242	431	435
Loans and deposits received	1,799	1,981	596	769	902	593	272	240
Other financial assets	1	-	-	-	-	-	-	-
Other financial liabilities	2,406	2,408	-	-	8	7	-	-
Guarantees issued and commitments to extend credit	219	224	79	76	59	116	30	31

	three months ended		three months ended		three months ended		three months ended	
	March 2018	March 2017	March 2018	March 2017	March 2018	March 2017	March 2018	March 2017
Interest income	8	9	2	2	1	2	3	-
Interest expenses	(1)	(3)	-	(1)	-	-	-	-
Fee income	3	2	-	1	2	2	-	-
Other expenses	(1)	(1)	-	-	(12)	-	-	-

In EUR thousand

	NLB Group Ultimate parent		NLB Ultimate parent	
	31 Mar 2018	31 Dec 2017	31 Mar 2018	31 Dec 2017
Loans and deposits issued measured at amortised cost	124,927	127,781	121,018	123,659
Investments in securities (banking book)	813,920	901,511	738,644	826,362
Investments in securities (trading book)	35,115	-	35,115	-
Other financial assets	4,465	18	4,465	18
Other financial liabilities	16	8	16	8
Guarantees issued and commitments to extend credit	917	932	917	932

	three months ended		three months ended	
	March 2018	March 2017	March 2018	March 2017
Interest income	5,810	7,580	5,786	7,354
Interest expenses	-	(2)	-	(2)
Fee income	474	37	476	37
Fee expenses	(6)	(10)	(6)	(10)
Other income	21	1	21	1
Other expenses	(5)	(1)	(5)	(1)
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	86	-	86	-
Gains less losses from financial assets and liabilities for trading	(193)	-	(193)	-

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		Number of significant transactions concluded during the period	
	1.1. - 31.3.2018	1. 1. - 31.12.2017	1.1. - 31.3.2018	1. 1. - 31.12.2017
Loans	-	117,924	-	1

	Balance of all significant transactions at end of the period		Number of significant transactions at end of the period	
	31 Mar 2018	31 Dec 2017	31 Mar 2018	31 Dec 2017
Loans	587,963	575,024	5	5
Debt securities classified as loans and advances	77,605	82,133	1	1
Borrowings, deposits, and business accounts	135,060	135,006	2	2

	Effects in income statement during the period three months ended	
	March 2018	March 2017
Interest income from loans	1,281	1,484
Effects from net interest income and net valuation from debt securities classified as loans and receivables	(81)	2,132
Interest expense from borrowings, deposits and business accounts	(63)	(21)
Interest income from commitments to extend credit	-	432

in EUR thousand

	NLB Group			
	Associates		Joint ventures	
	31 Mar 2018	31 Dec 2017	31 Mar 2018	31 Dec 2017
Loans and deposits issued	1,258	1,296	4,098	4,333
Loans and deposits received	5,268	4,958	10,229	6,856
Other financial assets	8	27	209	347
Other financial liabilities	113	1,109	94	103
Guarantees issued and commitments to extend credit	37	38	28	29

	three months ended		three months ended	
	March 2018	March 2017	March 2018	March 2017
Interest income	10	11	11	19
Interest expenses	-	-	(8)	(44)
Fee income	30	30	926	885
Fee expenses	(1,958)	(2,024)	(616)	(568)
Other income	45	65	34	21
Other expenses	(166)	(179)	(24)	(13)

in EUR thousand

	NLB					
	Subsidiaries		Associates		Joint ventures	
	31 Mar 2018	31 Dec 2017	31 Mar 2018	31 Dec 2017	31 Mar 2018	31 Dec 2017
Loans and deposits issued	302,018	314,534	1,258	1,296	4,045	4,272
Loans and deposits received	52,760	56,129	5,268	4,958	8,560	4,855
Derivatives						
Fair value	(25)	-	-	-	-	-
Contractual amount	2,121	-	-	-	-	-
Other financial assets	368	730	8	27	209	347
Other financial liabilities	53	61	54	1,008	3	25
Guarantees issued and commitments to extend credit	18,780	25,718	37	38	27	28
Received loan commitments and financial guarantees	1,200	1,000	-	-	-	-

	three months ended		three months ended		three months ended	
	March 2018	March 2017	March 2018	March 2017	March 2018	March 2017
Interest income	1,179	1,586	10	11	10	19
Interest expenses	(35)	(13)	-	-	-	(43)
Fee income	1,294	1,398	30	30	897	857
Fee expenses	(9)	(7)	(1,622)	(1,719)	(356)	(358)
Other income	127	97	45	65	34	21
Other expenses	(192)	(606)	(101)	(118)	(24)	(13)
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	(30)	-	-	-	-	-
Gains less losses from financial assets and liabilities for trading	259	-	-	-	-	-

Key management compensation

in EUR thousand

	Management Board		Other key management personnel	
	three months ended		three months ended	
NLB Group and NLB	March 2018	March 2017	March 2018	March 2017
Short-term benefits	167	162	1,173	1,214
Cost refunds	1	1	23	27
Long-term bonuses				
- other benefits	2	1	17	19
Total	**170**	**164**	**1,213**	**1,260**

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 include supplementary voluntary pension insurance and jubilee bonuses and variable part of 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 three months ended 31 March 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	17,914	36,422	10,825	60,101	5,678	(108)	-	130,832
Net income from external customers	*19,017*	*37,310*	*8,206*	*60,309*	*5,646*	*(121)*	-	*130,366*
Intersegment net income	*(1,103)*	*(887)*	*2,619*	*(208)*	*32*	*13*	-	*466*
Net interest income	9,563	18,168	8,699	35,526	3,073	(24)	-	75,005
Net interest income from external customers	*10,666*	*19,130*	*6,085*	*35,916*	*3,245*	*(37)*	-	*75,005*
Intersegment net interest income	*(1,103)*	*(962)*	*2,614*	*(390)*	*(172)*	*13*	-	*(0)*
Administrative expenses	(9,502)	(22,908)	(2,824)	(21,822)	(4,372)	(1,642)	-	(63,070)
Depreciation and amortisation	(1,041)	(2,576)	(273)	(2,281)	(372)	(251)	-	(6,794)
Reportable segment profit/(loss) before impairment and provision charge	**7,371**	**10,938**	**7,728**	**35,998**	**935**	**(2,001)**	**-**	**60,968**
Gains less losses from capital investment in associates and joint ventures	-	1,178	-	-	-	-	-	1,178
Impairment and provisions charge	(1,089)	(1,244)	50	2,970	2,281	(161)	-	2,808
Profit/(loss) before income tax	**6,282**	**10,872**	**7,778**	**38,968**	**3,216**	**(2,162)**	**-**	**64,954**
Owners of the parent	*6,282*	*10,872*	*7,778*	*35,954*	*3,216*	*(2,162)*	-	61,940
Non-controlling interests	-	-	-	*3,014*	-	-	-	3,014
Income tax	-	-	-	-	-	-	(4,257)	(4,257)
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**57,683**
31.3.2018								
Reportable segment assets	2,000,983	2,240,879	3,655,397	3,921,029	367,401	195,414	-	12,381,103
Investments in associates and joint ventures	-	43,473	-	-	-	-	-	43,473
Reportable segment liabilities	1,133,433	5,601,327	507,707	3,268,591	17,236	103,976	-	10,632,270

The three months ended 31 March 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	18,020	35,197	13,506	45,632	18,142	1,336	-	131,833
Net income from external customers	*20,364*	*35,194*	*9,962*	*46,065*	*17,970*	*1,443*	-	*130,997*
Intersegment net income	*(2,344)*	*3*	*3,544*	*(433)*	*172*	*(106)*	-	*836*
Net interest income	10,000	17,209	9,639	34,870	3,737	(123)	-	75,331
Net interest income from external customers	*12,343*	*17,278*	*6,105*	*35,344*	*4,280*	*(20)*	-	*75,331*
Intersegment net interest income	*(2,344)*	*(69)*	*3,533*	*(474)*	*(543)*	*(103)*	-	-
Administrative expenses	(9,318)	(21,780)	(2,711)	(20,635)	(4,918)	(2,100)	-	(61,461)
Depreciation and amortisation	(1,078)	(2,555)	(255)	(2,225)	(405)	(356)	-	(6,874)
Reportable segment profit/(loss) before impairment and provision charge	**7,624**	**10,862**	**10,540**	**22,772**	**12,819**	**(1,119)**	**-**	**63,498**
Gains less losses from capital investment in subsidiaries, associates and joint ventures	-	1,094	-	-	-	-		1,094
Impairment and provisions charge	4,238	235	(33)	17,355	2,708	16	-	24,518
Profit/(loss) before income tax	**11,862**	**12,191**	**10,506**	**40,127**	**15,527**	**(1,103)**	**-**	**89,110**
Owners of the parent	*11,862*	*12,191*	*10,506*	*37,379*	*15,527*	*(1,103)*	-	86,362
Non-controlling interests	-	-	-	*2,748*	-	-	-	2,748
Income tax	-	-	-	-	-	-	-	(4,807)
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**81,555**
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 three months ended March 2018	Revenues three months ended March 2017	Net income three months ended March 2018	Net income three months ended March 2017	Non-current assets 31 Mar 2018	Non-current assets 31 Dec 2017	Total assets 31 Mar 2018	Total assets 31 Dec 2017
Slovenia	**79,330**	**81,030**	**78,164**	**84,330**	**187,561**	**189,928**	**8,415,382**	**8,293,381**
South East Europe	**58,905**	**58,126**	**52,230**	**46,550**	**128,457**	**128,768**	**3,981,062**	**3,913,015**
Macedonia	20,610	20,867	20,018	15,779	31,895	32,320	1,230,200	1,235,163
Serbia	6,915	5,877	6,010	5,143	24,287	24,394	433,679	406,959
Montenegro	6,573	6,475	5,184	5,268	29,495	29,686	469,395	466,155
Croatia	-	45	603	291	2,874	1,923	28,743	29,312
Bosnia and Herzegovina	16,193	16,492	13,214	13,026	26,547	26,876	1,218,163	1,190,435
Kosovo	8,614	8,370	7,201	7,043	13,359	13,569	600,882	584,991
Western Europe	**253**	**21**	**(28)**	**117**	**233**	**236**	**27,939**	**31,140**
Germany	-	1	(200)	88	217	218	1,510	1,876
Switzerland	253	20	172	29	16	18	26,429	29,264
Czech Republic	**-**	**-**	**(1)**	**-**	**-**	**-**	**193**	**209**
Total	**138,488**	**139,177**	**130,365**	**130,997**	**316,251**	**318,932**	**12,424,576**	**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 31 March 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	Republika Srbija	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 - 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

No events took place after 31 March 2018 that would have had a materially significant influence on the presented condensed interim financial statements.