

# Interim Report September 2016

NLB d.d., <b>Ljubljana</b>	
Number of branches	113
Number of employees	2,948
Market share (in %)	24.0
Number of active clients	702,585
Total assets (in EUR million)	8,722

NLB Skladi, <b>Ljubljana</b>	
Number of employees	39
Market share <sup>1</sup> (in %)	26.3
Assets under management (in EUR million)	987

<sup>1</sup> Market share of assets under management in mutual funds

NLB Banka, <b>Belgrade</b>	
Number of branches	34
Number of employees	449
Market share (in %)	1.0
Number of active clients	133,098
Total assets (in EUR million)	261

NLB Vita, <b>Ljubljana</b>	
Number of employees	41
Market share <sup>2</sup> (in %)	10.8
Assets of covered funds without own resources (in EUR million)	391

<sup>2</sup> Market share in traditional life insurances

	NLB Banka, <b>Banja Luka</b>	NLB Banka, <b>Sarajevo</b>
Number of branches	63	38
Number of employees	497	447
Market share (in %)	18.9 <sup>3</sup>	5.4 <sup>4</sup>
Number of active clients	234,727	136,699
Total assets (in EUR million)	638	481

<sup>3</sup> Market share in the Republic of Srpska

<sup>4</sup> Market share in the Federation of BiH

NLB Banka, <b>Podgorica</b>	
Number of branches	18
Number of employees	331
Market share (in %)	13.3
Number of active clients	56,691
Total assets (in EUR million)	494

NLB Banka, <b>Skopje</b>	
Number of branches	51
Number of employees	840
Market share (in %)	16.0
Number of active clients	349,156
Total assets (in EUR million)	1,092

NLB Banka, <b>Prishtina</b>	
Number of branches	45
Number of employees	492
Market share (in %)	14.4
Number of active clients	179,397
Total assets (in EUR million)	496

NLB Nov penziski fond, <b>Skopje</b>	
Number of employees	31
Market share of mandatory pension insurance (in %)	47.8
Market share of voluntary pension insurance (in %)	40.2
Net value of pension funds (in EUR million)	348



## KEY FINANCIAL *and operating data*

**Table 1:** Key financial and operating data for NLB Group and NLB d.d.

Key income statement data (in EUR million)	NLB Group			NLB d.d.		
	1.1. - 30.9.2016	1.1. - 30.9.2015	Change YoY	1.1. - 30.9.2016	1.1. - 30.9.2015	Change YoY
Net operating income <sup>1</sup>	357.6	363.1	-2%	245.5	254.9	-4%
Costs	-214.2	-216.9	-1%	-135.1	-137.6	-2%
Result before impairments and provisions <sup>1</sup>	143.5	146.2	-2%	110.4	117.3	-6%
Impairments and provisions	-37.5	-60.9	-39%	-49.9	-61.3	-19%
Result after tax	91.5	77.7	18%	53.9	50.3	7%
<b>Key financial indicators</b>						
Return on equity after tax (ROE a.t.)	8.2%	7.5%	0.7 p.p.	5.6%	5.4%	0.1 p.p.
Return on assets after tax (ROA a.t.)	1.0%	0.9%	0.1 p.p.	0.8%	0.8%	0.0 p.p.
Costs to income ratio (CIR)	59.9%	59.7%	0.1 p.p.	55.0%	54.0%	1.1 p.p.
Interest margin (on interest bearing assets) <sup>2</sup>	2.59%	2.67%	-0.1 p.p.	2.04%	2.35%	-0.3 p.p.
Interest margin (on total assets - BoS ratio)	2.68%	2.87%	-0.2 p.p.	2.00%	2.40%	-0.4 p.p.

Key financial position statement data (in EUR million)	NLB Group			NLB d.d.		
	30.09.2016	31.12.2015	Change YTD	30.09.2016	31.12.2015	Change YTD
Total assets	11,898	11,822	1%	8,722	8,707	0%
Loans to customers (net)	6,998	7,088	-1%	4,999	5,221	-4%
Deposits from customers	9,268	9,026	3%	6,520	6,298	4%
Total equity	1,487	1,423	5%	1,260	1,242	1%
Loans to customers/deposits from customers (L/D) <sup>3</sup>	72.1%	75.1%	-3.0 p.p.	71.8%	78.0%	-6.1 p.p.
Common Equity Tier 1 Ratio <sup>5</sup>	16.9%	16.2%	0.7 p.p.	24.3%	22.6%	1.7 p.p.
Total capital ratio	16.9%	16.2%	0.7 p.p.	24.3%	22.6%	1.7 p.p.
<b>Asset quality indicators</b>						
NPL- Gross (in EUR million)	1,391	1,896	-27%	757	1,101	-31%
Coverage ratio	77.7%	72.2%	5.5 p.p.	75.5%	67.9%	7.6 p.p.
NPL ratio - Gross	14.5%	19.3%	-4.8 p.p.	11.7%	16.5%	-4.8 p.p.
NPL ratio - Net	5.6%	8.3%	-2.7 p.p.	4.8%	7.6%	-2.8 p.p.
NPE ratio <sup>4</sup>	10.8%	14.3%	-3.5 p.p.	8.6%	12.1%	-3.5 p.p.
<b>Employees</b>						
Number of employees	6,291	6,372	-1%	2,948	3,028	-3%

<sup>1</sup> NLB d.d. includes dividends from subsidiaries, associates and joint ventures.

<sup>2</sup> Further analysis of interest margins are based on interest bearing assets.

<sup>3</sup> Net loans to customers (without BAMC bond)/Deposits from customers.

<sup>4</sup> EBA definition.

<sup>5</sup> It does not include interim result.

International credit ratings NLB d.d.	30.9.2016	31.12.2015	Outlook
Standard & Poor's	BB-	BB-	Positive
Fitch	BB-	B+	Stable

# Contents

<b>BUSINESS REPORT.....</b>	<b>5</b>
Macroeconomic environment.....	5
Business operations.....	6
Overview of NLB Group's financial performance .....	9
Risk management.....	23
<b>FINANCIAL STATEMENTS.....</b>	<b>25</b>

## **MACROECONOMIC** *environment*

Central bank policies have remained at the forefront of financial markets throughout the year. They have a key role in soothing markets in times of unfavourable conditions, resulting from the numerous economic, political and banking system disturbances. As markets transition into the final quarter of the year, speculation surrounding the potential extension and tapering of the European Central Bank's asset purchase program and the expected interest rate increase in the United States will continue to impart significant influence on markets and the interest rate environment.

Economic data in the Euro-area has remained resilient on Britain's decision to leave the European Union. Current expectations for 2016 point to region's economic recovery at a pace slightly above 1.5%. Positive trends in the regions labor market are expected to continue supporting domestic demand, which continues to grow in importance to the sustainability of economic growth, while the global economy continues to show signs of slowing, as evinced by the numerous global growth forecast downgrades in the year. A continuation of the region's positive economic trends remains the base scenario as we move into the final quarter of the year, however, uncertainties regarding Britain's exit from the European Union, Italy's December referendum, next year's elections in Europe and a further deterioration in the global economy are notable factors which could negatively impact positive expectations.

### **Outlook**

Slovenia's economy growth is expected to reach above 2% in 2016. In addition to growth rate forecast upgrades from numerous institutions, in the third quarter Fitch raised the county's credit rating by one notch to 'A-', with a stable outlook, while Moody's increased the country's macroeconomic rating and upgraded the credit rating outlook to 'positive'. The government is expected to continue the notable progress it has made in decreasing its deficit. The nation's public debt is expected to decrease in the current year, for the first time since 2008. In addition to strong trade performance, domestic demand is projected to make notable gains in the near-term. Considerable labour market progress, with a notable 1.5 percentage point fall of unemployment levels to 10.8%, as of July, combined with growing wages and the nascent recovery of the real-estate market should have a continued positive impact on private consumption. Although the significant progress made in recent years is expected to continue, Slovenia's economic recovery remains dual natured. Export oriented sectors of the economy have experienced significant advances, while domestically oriented sectors remain substantially below their pre-crisis levels. The successful revival of the construction sector remains a key milestone of the economic sustainability.

### **Banking System**

The local banking system continues to make significant headway. The system's capital adequacy is among the highest in the European Union, while a notable improvement of credit quality has been achieved. Non-performing loans decreased to 6.7% as of August, a decrease of 2.2 percentage points in the year. As the quality of the credit portfolio improves, the release of reservations and impairments continues to benefit the systems profitability, in the first eight months of the year the system generated a ROE of 11.75%, a 63% increase when compared with the same period in 2015, despite falling interest margins. Supported by the recovery of the real estate market and low interest rates, loans to households continue to be the sole credit category experiencing growth, while systemic overcapacities and a high deposit base continue to depress private sector loans. Household deposits increased by 4.7% in the first eight months of the year. A competitive pressures within the Slovenian banking system has resulted in the continued downward trend of interest rates through the year, with interest rates on loans to the corporate sector experiencing a particularly notable fall. The high degree of competition and the resulting interest rate pressure will continue to depress earnings in the mid-term, a factor pointing towards a need for further consolidation within the system.

## Sales

In 2016 NLB Group is continuing with an overall improvement in business results and further intensified sales and sales support activities:

- A proactive approach to sales activities is bringing results in the form of a **maintained market share** in retail (23.4%) and corporate loans (22.9%) while NLB pursues the achievement of profitability before volume of business. With trade finance products (including guarantees, letters of credit and other instruments), due to intensified sales efforts and the high quality team in Slovenia it grew by 2.0 of a percentage point to as much as 28.6%.
- NLB d.d. **successfully organised three issues of corporate debt securities** in a total amount exceeding EUR 150 million (Gorenje, d.d. and Mercator, d.d. commercial papers and Telekom Slovenije d.d. bonds).
- The Bank as a co-agent and co-organiser **facilitated the biggest international syndicated loan in the last few years, totalling EUR 300 million** (Telekom Slovenije d.d.).
- In the first half of the year, NLB d.d. as a sales side financial consultant for the bank syndicate and the Republic of Slovenia **successfully divested a non-strategic equity investment** in the Trimo Group. This sale is one of the biggest transactions of this type in 2016 in Slovenia and one of the largest ever organised by Slovenian financial consultants.
- In securities trading, the volume of business increased by 60% compared to the same period of 2015 (7,034 client orders in a total amount of EUR 604 million), while the **value of assets in custody exceeded EUR 10 billion** for the first time since NLB d.d. has been providing custodian services.
- A team of mobile bankers was launched in retail to provide clients with tailored services and a professional, efficient and discreet relationship through the convenience of the timing and venue of meetings.
- Clients can now open an NLB Personal Account online in only a few steps, supported by mobile advisors.
- An offer of NLB Personal loan without collateral and fee for risk assessment was introduced.
- The process of loan approval for small enterprises was automatized enabling an offer of »Quick financing«.
- The number of Klikin (a mobile app for private individuals) users has been growing quickly and, by the end of September 2016, already reached 47,000.
- As one of the first banks in Slovenia to do so, the ePero (E-pen) solution was introduced in the branch network, enabling digital signing via tablets and the storing of signed documents in NLB Klik. ePero combined with the streamlining of credit process and the abolition of paper documentation was introduced in a record eight months.
- A new mobile app NLB Klikpro for companies and small businesses for smart mobile devices was introduced in June, enabling basic banking transactions to be carried out in a simple and quick 24/7 way.
- In 2016 NLB d.d. is continuing to refurbish and optimise the traditional branches. In H1+3Q 2016, six were refurbished following an open-space concept to boost sales, while on 1 June, eight insufficiently profitable or geographically overlapping ones were closed to responsibly

manage the costs. This has been a regular process and will be continued diligently and decisively. Routine and transactional banking services will be further simplified, standardised and moved to online channels, while traditional channels and personal contacts will be used for extending advisory services and thereby for fostering long-term relationships and loyalty.

- In order to boost housing loan sales and demonstrate our commitment to corporate social responsibility, a marketing campaign with donation support for Slovenian maternity hospitals was carried out. From each housing loan concluded in June, the Bank put aside EUR 100 into the respective pool for the purchase of necessary medical equipment. The campaign was very successful and a total of EUR 55,400 was donated to six Slovenian hospitals.
- During the charity concert which was organized by the Slovenian Red Cross, NLB Contact Centre's volunteers were participating and collected via phone more than EUR 61,500 of donations.
- NLB d.d. opened a mini bank branch in the creative playing centre Minicity in BTC in Ljubljana. Here through playing children learn about the bank's operations and the profession of a banker, as well as about money and how to handle it.
- NLB received special praise for the e-newsletter Osebnost, as well as the finalist nominations for the Trade Finance Content Campaign, e- newsletter Pogled and magazine Osebnost on the 7<sup>th</sup> POMP conference.
- **Supporting development of the business environment:** the NLB Centre of Innovative Entrepreneurship is in full operation, partnering with young and other entrepreneurs to build a business community. Overall 121 educational and corporate events with a total of 3,591 participants were held, along with many other daily visits by entrepreneurs who used the reserved meeting rooms for individual work or business meetings.
- For NLB clients the next very **notable** and very well-attended **client events** were organised:
  - the 2<sup>nd</sup> Investment forum for individuals and corporates, addressing investment challenges and opportunities in the current environment;
  - a meeting of mayors and representatives of Slovenian municipalities;
  - the 3<sup>rd</sup> NLB Business Forum with a focus on regional business development and the active participation of all banking members of NLB Group from the core region.
  - MID corporates meeting took place in different Slovenian regions about the risk assessment in the financing and about advantages of the purchasing of receivables in NLB.
- NLB Group further **strengthened its position outside of Slovenia:** In the western Serbia within less than 2 months, three new branches were opened in cities of Čačak, Šabac and Užice, thus decisively repositioning NLB Group in the Serbian market. NLB Banka Beograd was, in addition, one of the top three banks in terms of the absolute production of new loans to clients in the market in first quarter of 2016. Parallel to this, a new branch was opened on Ferhadija Street in the very centre of Sarajevo, allowing NLB Group to further strengthen its appearance in FBiH after moving its headquarters from Tuzla to Sarajevo.
- **Activities** of NLB Banka Banja Luka and NLB Banka Sarajevo related to **synergies**, best practices and business conditions in FBiH:
  - Joint campaign to promote mobile and e-banking;
  - Sponsorship of the BiH Olympic team promoted in all BiH media;
  - Arrangements for joint participation in financing of RMU Banovići, the largest coal mine in the BiH, upon tender for the construction of TE Banovići, continues.
- NLB Banka Prishtina implemented POS network, Mobile Banking and Comfort Card (Master Credit Card with Instalments) without interest rates through payments on NLB POSs.

- All Group banks are very active in regional markets through various promotional campaigns for their products with positive effects in sales results. New products were introduced with success.
- The rebranding of all subsidiary banks under the NLB Bank brand was finished in first half of 2016, finally facilitating the full exploitation of brand and activity synergies on NLB Group level.
- All Group banks have been highly active in pursuing business opportunities via a continued focus on clients, the effectiveness of the sales force and the launching of digitalised services and channels. In the next step, clients' experience and satisfaction will be addressed by converging service levels, to be performed via comparable look and feel front-end systems and client interfaces.

## Risk

- **The volume of non-performing loans** on the NLB Group level dropped by EUR 504 million and stood at EUR 1.391 billion at the end of September 2016. The share of non-performing loans decreased by 4.8 of a percentage point to 14.5%. While the majority of restructuring efforts was successfully completed in 2014 and 2015, monitoring of the restructured corporate and SME exposures continued and several clients were transferred back to front office as 'cured' clients. In addition to the organic decrease, NLB Group signed the sale of a portfolio of non-performing receivables to investors in two tranches (corporate and retail) in a gross claim value of approximately EUR 500 million, P&L effects have been mostly recognised already in first half year result. Derecognition of most assets have occurred in third quarter 2016, closing of the transaction is in final stage.
- NLB Group's risk management system is being constantly upgraded and improved in order to proactively co-steer and support NLB Group's strategic business model. Moreover, the restructuring and work-out capacities and approaches, which were built in the past period, are increasingly focused on actively solving new cases with a faster and more active approach to restructuring and work-out.

## Strategy of NLB Group

- NLB Group has successfully undertaken restructuring measures over the last 3 years thereby stabilising its franchise and returning to profit in all of its Core markets. However, NLB Group is fully conscious of the future challenges to its profitability and growth such as increased competition in a low interest rate environment, more demanding and knowledgeable clients with an increasing preference for digital channels, further regulatory interventions increasing complexity and cost of operations as well as geopolitical risks and volatility in financial markets.
- In order to best respond to its future challenges, NLB Group launched a review of its strategy in the second quarter of 2016. The renewed NLB Group's strategy 2016 - 2020 that was adopted by the Supervisory board of NLB d.d. in August 2016, is directed at improving customer experience, optimising product offering, simplifying Bank's systems and operations and enhancing distribution channels and capabilities. Part of the strategy aims at delivering of modernised IT capabilities by establishing or updating key elements of NLB's IT application architecture. In addition to supporting target business improvements, NLB also aspires for a leaner, more agile and cost-effective IT architecture thus fit to respond to the main digital challenges of the industry. On the basis of the new strategy, NLB Group aims to achieve both immediate improvements to its results (increase ROE to above 10%, reduce CIR to approximately 50%) as well as build a basis for a better mid- to long-term competitive position.

## Other

- **Fitch** upgraded the NLB's Long-term IDR to "**BB-**" from "**B+**" and its Viability Rating to "**bb-**" from "**b+**". The Outlook remains Stable (12.5.2016).

- **Standard & Poor's** affirmed the NLB's long-term counterparty credit rating "**BB-**". The stand-alone credit profile (SACP) was upgraded from "b+" to "bb-" due to the NLB's improved risk position. The agency revised its outlook on NLB d.d. to Positive from Stable (27.5.2016).

## OVERVIEW OF NLB GROUP'S *financial performance*

### Key developments

- **Net profit after tax** of EUR 91.5 million in the nine months of 2016 was 18% higher than in the third quarter of 2015. Profitability of all banks of NLB Group was improved. The return on equity (**ROE after tax**) increased by 0.7 of a percentage point to 8.2% YoY. Key business activities<sup>1</sup> showed improved results by EUR 16.5 million or 18% and total net revenues improved by EUR 1.2 million or 0.4% YoY.
- **Pre-provision profit** was EUR 143.5 million or 2% lower compared the same period of last year (2015: EUR 146.2 million). Positive one-off effects from successful divestments offset lower recurring revenues, mostly from lower interest income in Financial Markets business due to substantially reduced interest rates in the Eurozone. Key business activities showed positive developments with strong contribution from core banking subsidiaries while corporate and retail segment in Slovenia decreased. Non-recurring effects influenced the results in 2016 positively in amount of EUR 10.4 million, including effects from the sale of a non-core equity investment with positive effect of EUR 5.5 million and the Visa EU share transaction with positive effect of EUR 7.8 million, offset with non-recurring restructuring costs of EUR 2.9 million. In contrast to the previous year, the result in third quarter of 2016 includes the payment of NLB d.d. to the SRF<sup>2</sup> fund and DGS<sup>3</sup> in total amount of EUR 8.1 million.
- The agreement to sell a portfolio of non-performing loans ("Project Pine") influenced the nine months result with lower **interest income** by EUR 4.1 million and additional credit impairments in amount of EUR 25.5 million (EUR 2.7 million higher than estimated in first half year result, primarily due to off-setting of received payments for sold claims). A closing of a transaction is in final stage.
- **Net interest margin** decreased slightly from 2.67% to 2.59% YoY, normalised of the effects of the sale of non-performing loans the margin would have been 2.64%. Key business activities increased the net interest income for EUR 3.4 million or 1.9% YoY. The biggest drop was recorded in Financial markets in Slovenia where net interest income decreased by EUR 12.3 million or 26% YoY due to extremely low and partially negative interest rate environment for investable securities of the substantial liquidity reserve book (EUR 4,055 million).
- **Costs** dropped by 1% YoY due to a reduction in non-labour costs. CIR increased by 0.2 of a percentage point to 59.9%.
- Sustainable **credit risk provision** is a consequence of improving the quality of the credit portfolio. The cost of risk was impacted negatively by a non-recurring effect in amount of EUR 25.5 million from an agreement on the sale of a package of non-performing loans.
- **Gross loans** decrease by EUR 356.6 million of which EUR 233.3 million due to "Project Pine". The volume of loans in the Non-core segment of NLB Group was actively reduced, resulting in a drop of EUR 222.2 million YtD to the level of EUR 816 million. Gross loans in key business activities increased by EUR 61.9 million or 1% YtD (net of effects from "Project Pine" loans increased by EUR 118.3 or 1.9%).
- The **CET1 ratio** grew to 16.9% and comfortably exceeds the regulatory requirements.

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<sup>1</sup> Retail Slovenia, Key/Mid/Small corporate Slovenia and core subsidiaries in Foreign Strategic Markets

<sup>2</sup> Single Resolution Fund

<sup>3</sup> Deposit Guarantee Scheme

## Income statement

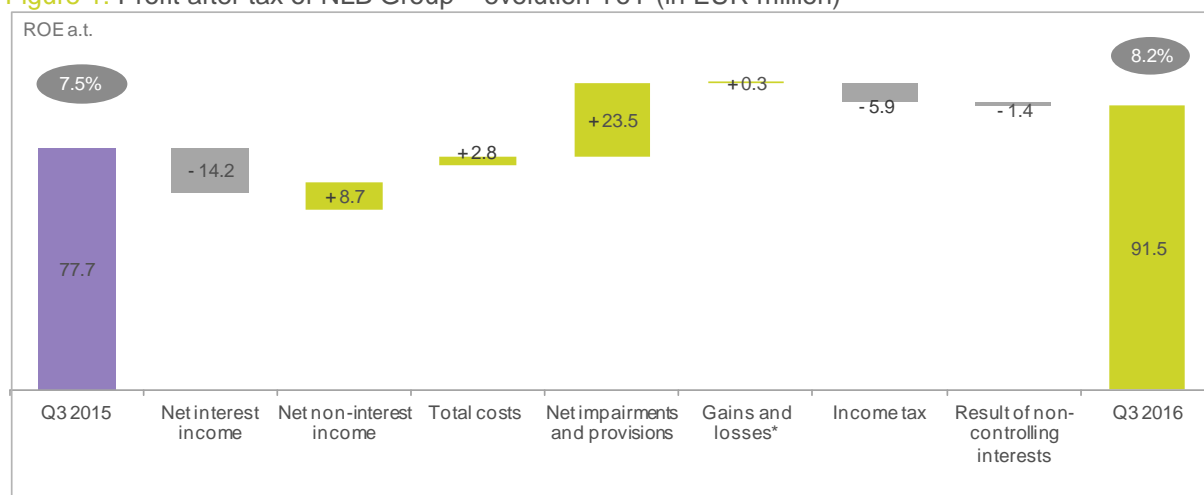
**Table 2:** Income statement of NLB Group and NLB d.d.

in EUR million	NLB Group			NLB d.d.		
	1.1. - 30.9.2016	1.1. - 30.9.2015	Change YoY	1.1. - 30.9.2016	1.1. - 30.9.2015	Change YoY
Net interest income	238.8	253.1	-6 %	132.5	157.1	-16 %
Net fee and commission income	107.8	109.5	-2 %	71.2	73.2	-3 %
Dividend income	1.2	1.3	-9 %	1.1	1.2	-11 %
Net income from financial transactions	18.2	1.5	-	14.1	7.9	79 %
Net other income	-8.4	-2.2	283 %	-2.2	1.7	-231 %
Net non-interest income	118.8	110.1	8 %	84.2	84.0	0 %
<b>Total net operating income</b>	<b>357.6</b>	<b>363.1</b>	<b>-2 %</b>	<b>216.7</b>	<b>241.2</b>	<b>-10 %</b>
Employee costs	-122.9	-120.4	2 %	-77.6	-76.2	2 %
Other general and administrative expenses	-69.9	-72.4	-3 %	-43.2	-45.1	-4 %
Depreciation and amortisation	-21.4	-24.2	-12 %	-14.3	-16.4	-12 %
<b>Total costs</b>	<b>-214.2</b>	<b>-216.9</b>	<b>-1 %</b>	<b>-135.1</b>	<b>-137.6</b>	<b>-2 %</b>
<b>Result before impairments and provisions</b>	<b>143.5</b>	<b>146.2</b>	<b>-2 %</b>	<b>81.6</b>	<b>103.5</b>	<b>-21 %</b>
Impairments of AFS and HTM financial assets	-0.1	0.1	-	-0.1	0.1	-
Credit impairments and provisions	-21.8	-44.4	-51 %	-18.5	-46.5	-60 %
Other impairments and provisions	-15.5	-16.7	-7 %	-31.3	-14.9	110 %
Impairments and provisions	-37.5	-60.9	-39 %	-49.9	-61.3	-19 %
Gains less losses from capital investments in subsidiaries, associates and joint ventures <sup>1</sup>	4.0	3.7	8 %	28.8	13.7	110 %
<b>Profit before income tax</b>	<b>110.0</b>	<b>88.9</b>	<b>24 %</b>	<b>60.5</b>	<b>56.0</b>	<b>8 %</b>
Income tax	-14.4	-8.5	70 %	-6.5	-5.7	14 %
Result of non-controlling interests	4.2	2.8	49 %	0.0	0.0	-
<b>Profit for the period</b>	<b>91.5</b>	<b>77.7</b>	<b>18 %</b>	<b>53.9</b>	<b>50.3</b>	<b>7 %</b>

<sup>1</sup>NLB d.d. includes dividends from subsidiaries, associates and joint ventures

## Profit

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



\* Gains less losses from capital investments in associates and joint ventures

**NLB Group recorded EUR 91.5 million profit after tax**, of which NLB d.d. contributed EUR 57.5 million, other banks in SEE EUR 49.8 million, while non-core members contributed negative effects. Profit after tax in 2016 was positively impacted by the lower costs (EUR 2.7 million) and non-recurring profits (EUR 10.4 million), whereas additional effects from the sale of a package of non-performing loans (EUR 29.6 million) and expenses from the payment of NLB d.d. to the SRF in amount of EUR 3.9 million and to the DGS in amount of EUR 4.2 million had a negative impact.

Figure 2: Contribution to NLB Group's results by members – profit after tax (in % and in EUR million)

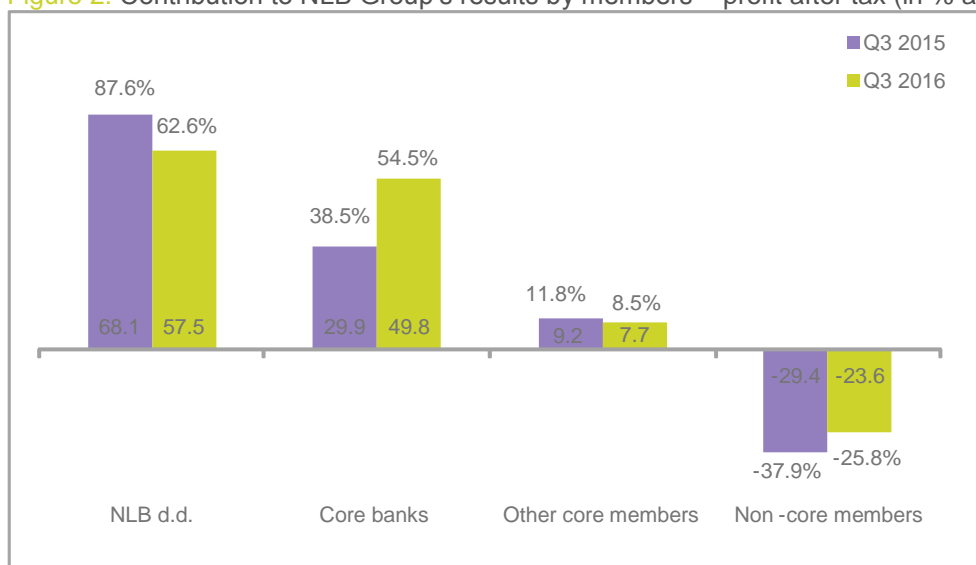
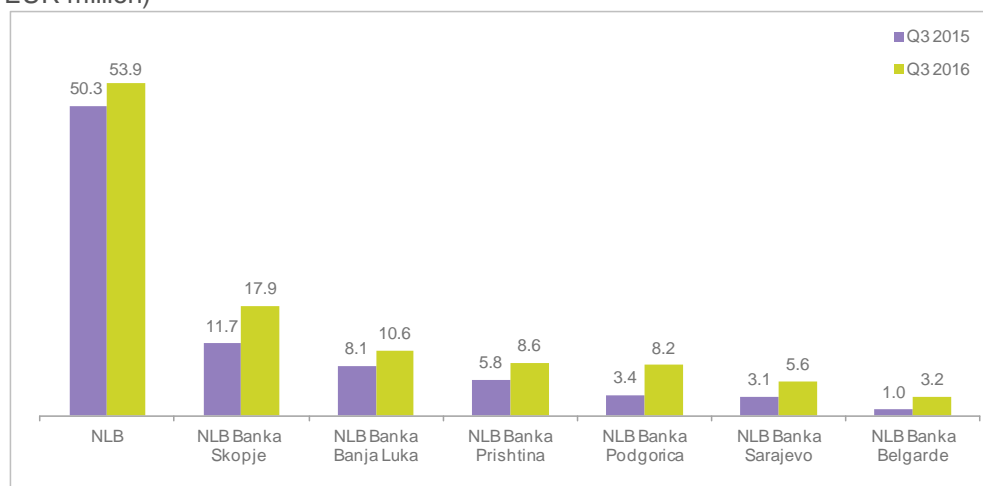


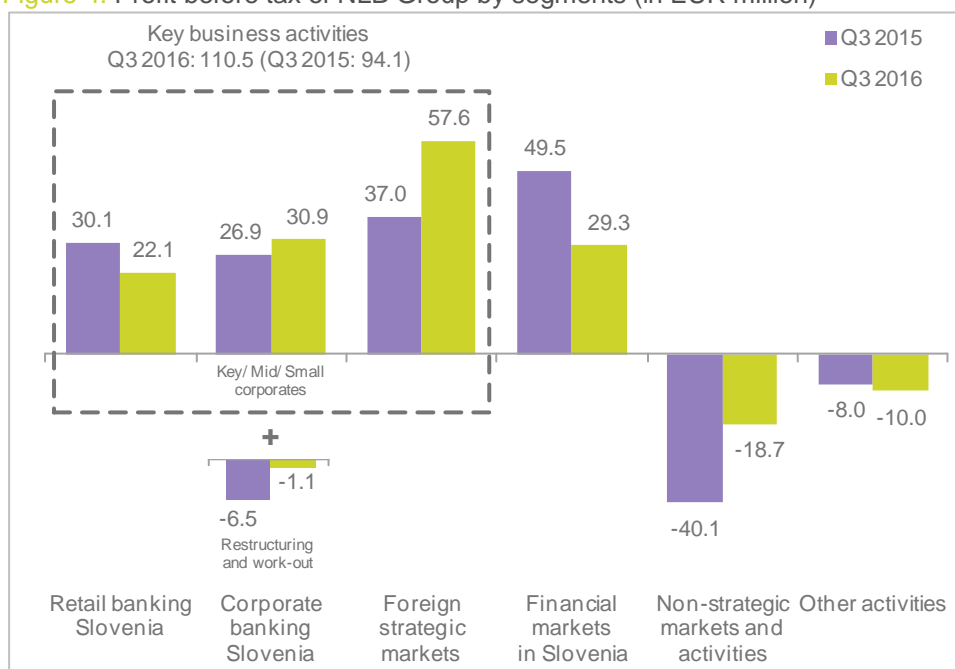
Figure 3: Profit after tax of the strategic NLB Group banks (on a stand-alone basis) - evolution YoY (in EUR million)



All banks of NLB Group increased the profit after tax compared to the same period last year. Result of NLB d.d. in 2016 includes dividends from core subsidiaries and associates in the amount of EUR 28.8 million. In August 2016 NLB d.d paid out dividend to the shareholder in the amount of EUR 43.9 million.

## Profit before tax – segment results

Figure 4: Profit before tax of NLB Group by segments (in EUR million)



Key business activities increased their profit before tax by EUR 16.5 million or 18% YoY due to net interest income growing by EUR 3.4 million or 1.9% YoY. Volume of loans in key business activities raised by EUR 118.3 million or 1.9% YtD (with the excluded effects from “Project Pine”).

- **Retail banking in Slovenia** ended the nine months of 2016 with profit before tax of EUR 22.1 million (EUR -8.0 million YoY). The result was burdened by negative effects of EUR 10.1 million due to an agreement on the sale of non-performing loans. Net interest income slightly decreased. In net fee and commission income a drop of EUR 5.8 million was recorded, mainly in card operations due to implementation of the EU card directive (MiFID).
- **Key/Mid/Small corporates in Slovenia** increased their profit before tax by EUR 4 million or 14.8% YoY based on positive loan volume growth of 1% and lower cost of risk.
- **Foreign strategic markets** continued their positive trend showing a profit of EUR 57.6 million in the third quarter of 2016, an increase of EUR 20.6 million or 56% YoY. The contribution to NLB Group result of the foreign banks in SEE thus increased to 55% (from 39% in the third quarter of 2015).

**Restructuring and work-out units** operated with a loss in amount of EUR 1.1 million including negative effects related to agreement on sale of non-performing loans in the amount of EUR 12.5 million. The segment shows also positive result from successful restructuring and repayments.

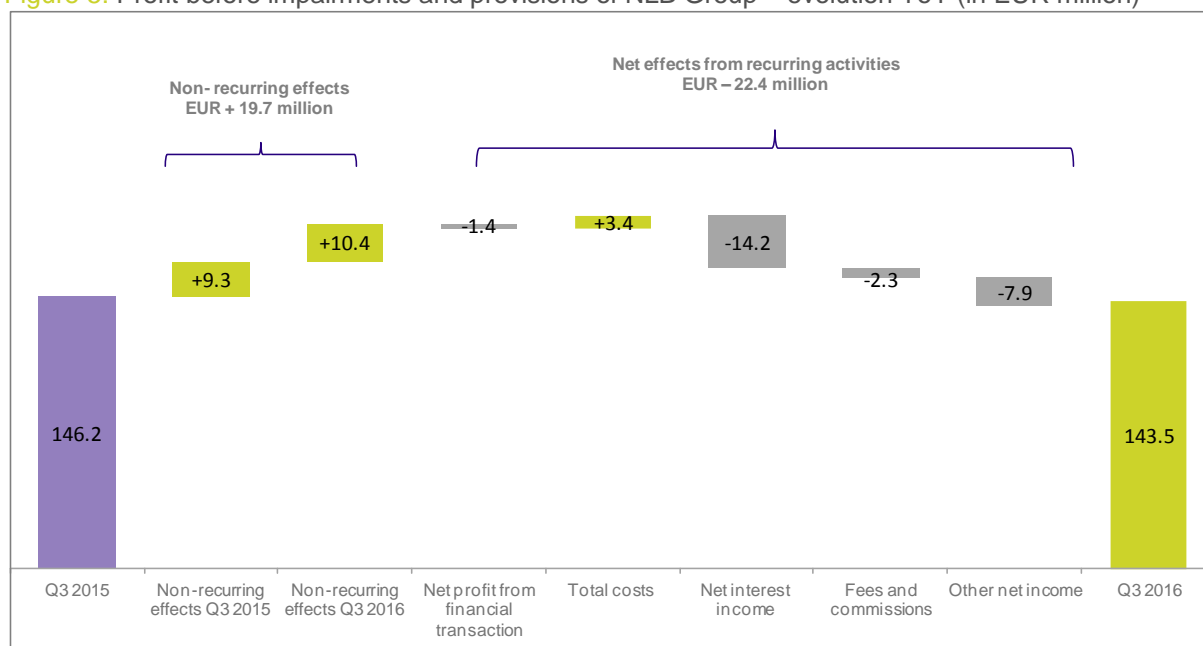
**Financial markets in Slovenia** recorded the profit before tax of EUR 29.3 million in the nine months of 2016 which is EUR 20.3 million lower YoY, largely due to lower interest income in amount of EUR 12.3 million YoY and positive non-recurring effects in 2015 from sales of RS bonds (EUR 5.2 million).

The **Non-strategic markets and activities** of NLB Group ended nine months of 2016 with a loss of EUR 18.7 million including positive effects of the sale of an equity investment totalling EUR 5.5 million, negative effects of EUR 7.0 million due to an agreement of the sale of non-performing loans and negative results from non-core subsidiaries. Costs were reduced by 16% YoY.

Within **Other activities**, NLB Group recorded non-recurring positive effects from the transaction of the Visa EU share in the amount of EUR 7.8 million and negative effects from the payments of NLB d.d. to the SRF and DGS in total amount of EUR 8.1 million, which is the main reason for the deviation of the result YoY.

## Profit before impairments and provisions

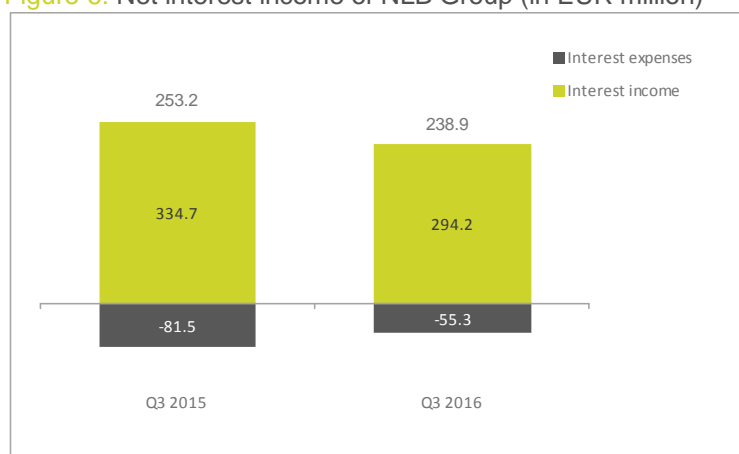
Figure 5: Profit before impairments and provisions of NLB Group – evolution YoY (in EUR million)



**Profit before impairments and provisions** of NLB Group totalled EUR 143.5 million, i.e. EUR 2.7 million lower YoY. Result in 2016 was positively impacted by **non-recurring events** from sale of an equity investment in the non-core part of NLB Group totalling EUR 5.5 million and the transaction of the Visa EU share totalling EUR 7.8 million and negatively from restructuring costs of EUR 2.9 million. Additionally the result before impairments and provisions was negatively impacted by lower interest income due to an agreement on the sale of non-performing loans (EUR 4.1 million) and payments of NLB d.d. to the SRF and DGS (EUR 8.1 million). Recurring costs were lower for EUR 3.4 million. By excluding non-recurring effects in 2015<sup>4</sup> and 2016 the result before impairments and provisions YoY decreased by 14% on the basis of lower net operating income (-7%) and a lower cost base (-2%). The drop in normalised operating income was mainly the result of decreasing yields on the securities portfolio, maturing of EUR 300 million of the BAMC bond (yield of 4.5%) and high level of excess liquidity recorded in segment Financial markets in Slovenia.

## Net interest income

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

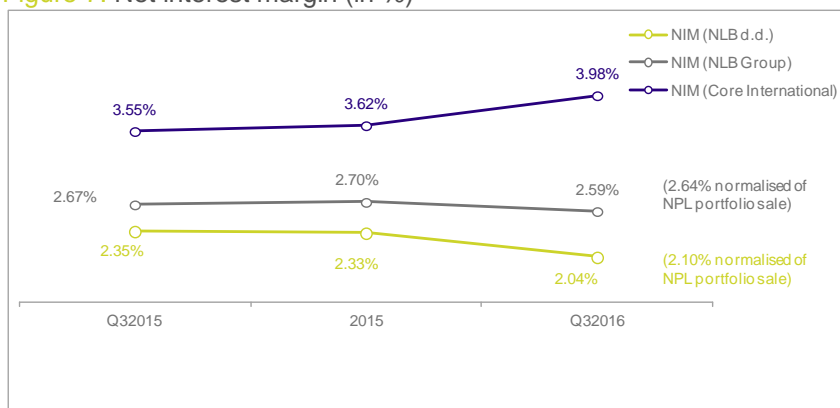


<sup>4</sup> Non-recurring events in 2015 were: negative effects from the CHF exchange rate and change of the deductible portion of VAT which was partly compensated by the positive effects of the sale of bonds of the Republic of Slovenia. A negative effect from restructuring costs amounted to EUR 1.4 million.

**Net interest income** of NLB Group accounted for 67% of the total net revenues of NLB Group or EUR 238.8 million in the nine months of 2016 and decreased by 6% YoY mostly due to decreasing yields on the securities portfolio, maturity of high yield BAMC bond, high level of excess liquidity recorded in segment Financial markets in Slovenia and lower net interest income due to an agreement of the sale of a package of non-performing loans.

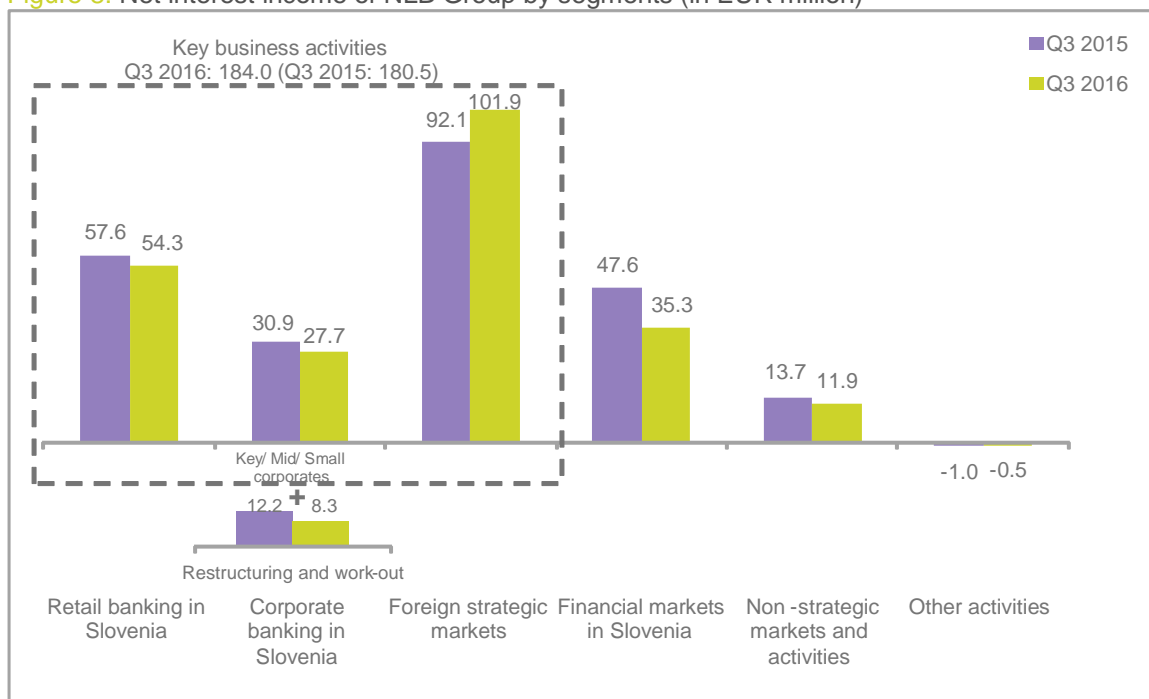
**Net interest margin (NIM)** decreased from 2.67% to 2.59% YoY. Margin improvements from 3.55% to 3.98% of core banks in SEE markets partially off-set a decline in margins in Slovenia from 2.35% to 2.04% YoY. Excluding the effect of lower interests in the amount of EUR 4.1 million related to the sale of a package of non-performing loans, the interest margin in NLB Group was 2.64%.

Figure 7: Net interest margin (in %)



### Net interest income – segment results

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



Key business activities increased net interest income by EUR 3.4 million or 1.9% YoY.

- **Retail banking in Slovenia** slightly decreased net interest income of EUR 3.2 million or 5.6%. This includes negative effects of EUR 2.0 million due to agreement of sale of non-performing loans.
- Net interest income in **Key/Mid/Small corporates in Slovenia** dropped by EUR 3.2 million or 10% YoY on slightly higher loan volumes (+1.3% YtD) due to intense competition and the low interest environment.

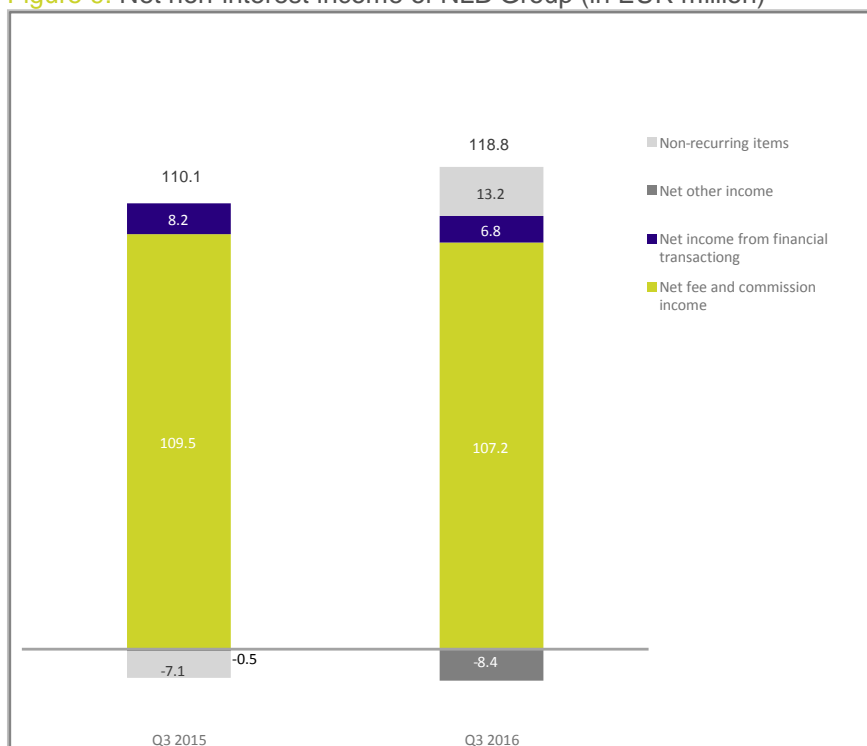
- In **Foreign strategic markets**, net interest income rose by EUR 9.8 million or 11% due to interest margins in the SEE region increasing by 0.42 of a percentage point YoY and the volume of loans increasing by 4% YtD.

Net interest income of the **Restructuring and work-out** units was affected by lower interest due to a sale of non-performing loans in the amount of EUR 2.0 million.

Net interest income in **Financial markets in Slovenia** decreased by EUR 12.3 million or 26% YoY due to decreasing yields in the securities portfolio, maturing of EUR 300 million of the BAMC bond (4.5% yield) and lower net interest income resulting from the high level of excess liquidity.

### Net non-interest income

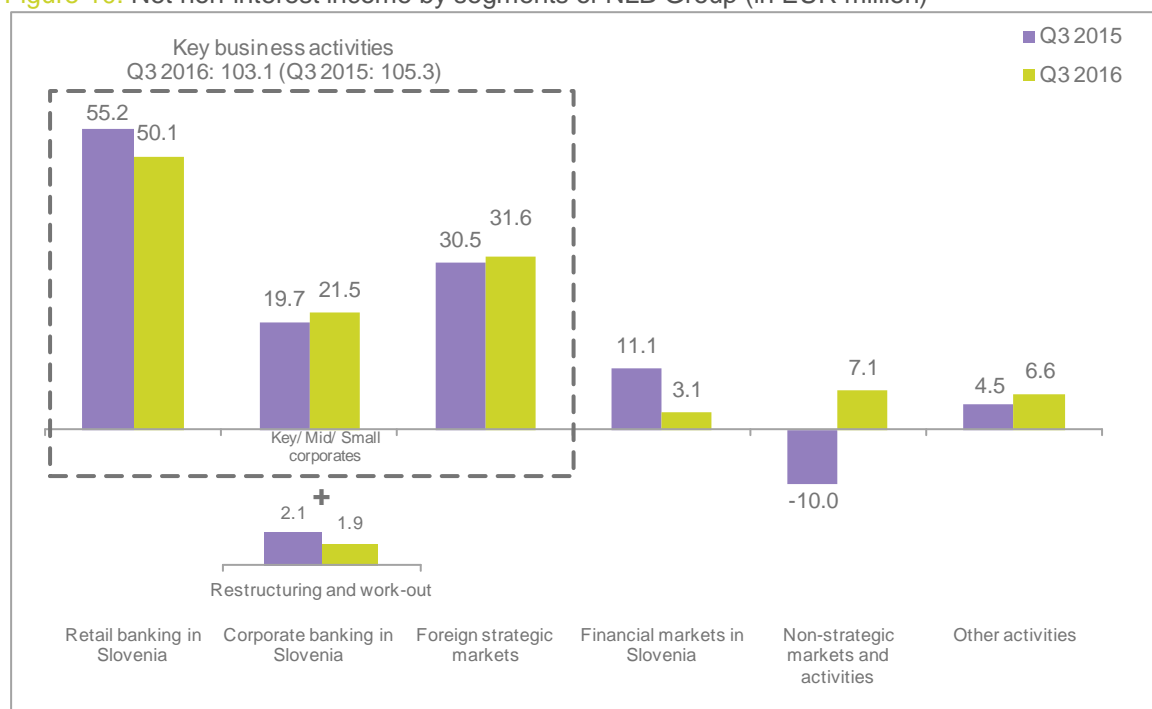
Figure 9: Net non-interest income of NLB Group (in EUR million)



**Net non-interest income** of NLB Group amounted to EUR 118.8 million, namely EUR 8.7 million or 8% higher YoY, due to the non-recurring proceeds from the sale of a non-core investment and the transaction of the Visa EU share. The most important and most stable source of net non-interest income are recurring **Net fees and commissions**, which amounted to EUR 107.2 million, namely EUR 2.3 million YoY lower. The strongest drop compared to the year before arose from card operations, mostly affected by implementation of the EU card directive (MiFID).

## Net non-interest income – segment results

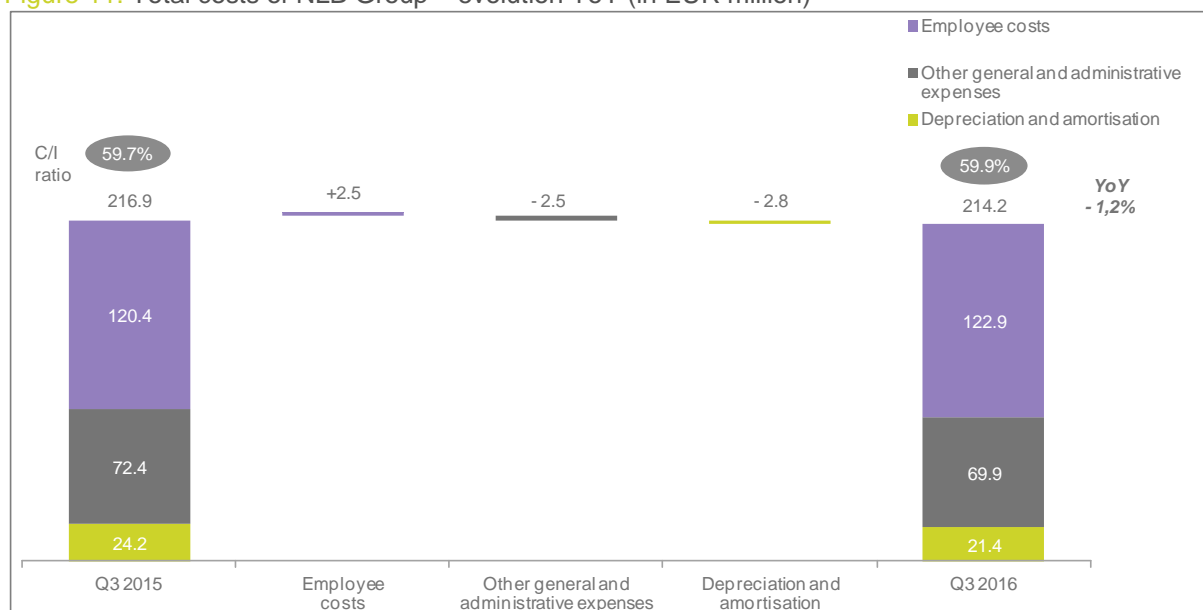
Figure 10: Net non-interest income by segments of NLB Group (in EUR million)



In **Retail banking in Slovenia** net non-interest income decreased by EUR 5.1 million or 9% with a drop in card operations (EUR 4.8 million), mainly due to implementation of EU card directive (MiFID). Net non-interest income in **Key/Mid/Small corporates in Slovenia** amounted to EUR 21.5 million in the nine months of 2016, which is EUR 1.8 million or 9% higher YoY. Net non-interest income in **Financial markets in Slovenia** is lower by EUR 8.1 million YoY, mainly, as the 2015 result included the profits from non-recurring event of selling RS bonds (EUR 5.2 million). The largest increase in this segment relates to advisory services for consortium of banks in relation to the sale of an equity investment in amount of EUR 0.6 million. **Non-strategic markets and activities** recorded a profit in amount of EUR 7.1 million resulting from non-recurring event in 2016 from the sale of equity investment in non-core part of NLB Group in amount of EUR 5.5 million, whereas 2015 result included a loss from a non-recurring event incurred upon the sudden change in the Swiss franc exchange rate. **Other activities** recorded a profit in amount of EUR 6.6 million from transaction of Visa EU share (EUR 7.8 million).

## Total costs

Figure 11: Total costs of NLB Group – evolution YoY (in EUR million)



**Total costs** amounted to EUR 214.2 million (of which EUR 2.9 million were non-recurring costs of restructuring) and were 1% lower YoY. The small increase in overall employee costs was compensated by reduced **general and administrative costs** and **depreciation costs**. Employee costs increased due to the results of the suspension of restructuring measures, while the headcount continues to decrease. Restructuring costs were 26% or EUR 0.7 million higher YoY due to costs related to the privatization.

**Cost/income ratio** increased by 0.2 of a percentage point to 59.9%.

## Net impairments and provisions

**Net impairments and provisions** amounted to EUR 37.5 million in the nine months of 2016 compared to EUR 60.9 million YoY. The net cost of risk decreased from 87 basis points to 43 basis points due to the continued improvement in the quality of the portfolio and the improved economic conditions in Slovenia despite the additional impairments related to the sale of non-performing loans ("Project Pine") in amount of EUR 25.5 million.

## Statement of financial position

**Table 3:** Statement of financial position of NLB Group and NLB d.d.

in EUR million	NLB Group			NLB d.d.		
	30.9.2016	31.12.2015	Change YtD	30.9.2016	31.12.2015	Change YtD
Cash, cash balances at central banks and other demand deposits at banks	1,294.6	1,162.0	11 %	635.0	496.8	28 %
Loans to banks	470.5	431.8	9 %	404.1	345.2	17 %
Loans to customers	6,998.0	7,088.2	-1 %	4,999.1	5,220.7	-4 %
Gross loans	7,994.4	8,351.0	-4 %	5,532.3	5,915.4	-6 %
- corporate	3,881.0	4,282.3	-9 %	2,733.2	3,063.0	-11 %
- individuals	3,123.0	3,050.8	2 %	1,938.0	1,957.9	-1 %
- state	670.4	708.3	-5 %	541.2	585.0	-7 %
- BAMC bonds	320.0	309.6	3 %	320.0	309.6	3 %
Impairments	-996.4	-1,262.8	-21 %	-533.2	-694.7	-23 %
Financial assets	2,600.0	2,577.7	1 %	2,145.3	2,086.7	3 %
- Held for trading	231.4	267.4	-13 %	231.9	267.9	-13 %
- Available-for-sale, held to maturity and designated at fair value through income statement	2,368.6	2,310.3	3 %	1,913.4	1,818.8	5 %
Investments in subsidiaries, associates and joint ventures	44.9	39.7	13 %	344.8	353.1	-2 %
Property and equipment, investment property	283.5	301.2	-6 %	98.1	103.2	-5 %
Intangible assets	33.8	39.3	-14 %	23.9	29.6	-19 %
Other assets	172.3	181.7	-5 %	71.4	71.5	0 %
<b>TOTAL ASSETS</b>	<b>11,897.7</b>	<b>11,821.6</b>	<b>1 %</b>	<b>8,721.8</b>	<b>8,706.8</b>	<b>0 %</b>
Deposits from customers	9,268.0	9,025.6	3 %	6,520.1	6,298.3	4 %
- corporate	2,180.3	2,168.5	1 %	1,448.5	1,416.0	2 %
- individuals	6,748.8	6,493.5	4 %	4,853.8	4,630.1	5 %
- state	338.9	363.6	-7 %	217.8	252.1	-14 %
Deposits from banks and central banks	51.7	58.0	-11 %	90.4	96.7	-7 %
Debt securities in issue	275.6	305.0	-10 %	275.6	305.0	-10 %
Borrowings	486.5	671.3	-28 %	363.0	536.1	-32 %
Other liabilities	272.3	284.1	-4 %	212.2	228.6	-7 %
Subordinated liabilities	27.5	27.3	1 %	-	-	-
Equity	1,487.1	1,422.8	5 %	1,260.5	1,242.2	1 %
Non-controlling interests	29.1	27.6	5 %	-	-	-
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>11,897.7</b>	<b>11,821.6</b>	<b>1 %</b>	<b>8,721.8</b>	<b>8,706.8</b>	<b>0 %</b>

## Assets

Figure 12: Total assets of NLB Group – Structure (in EUR million)

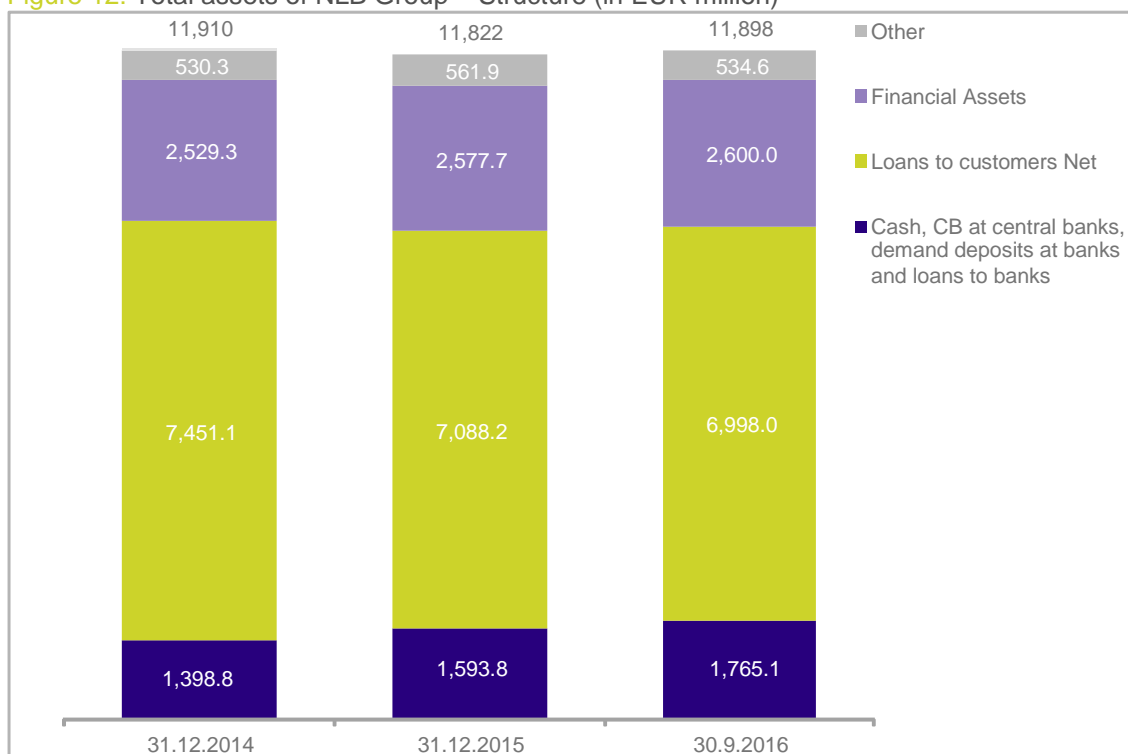
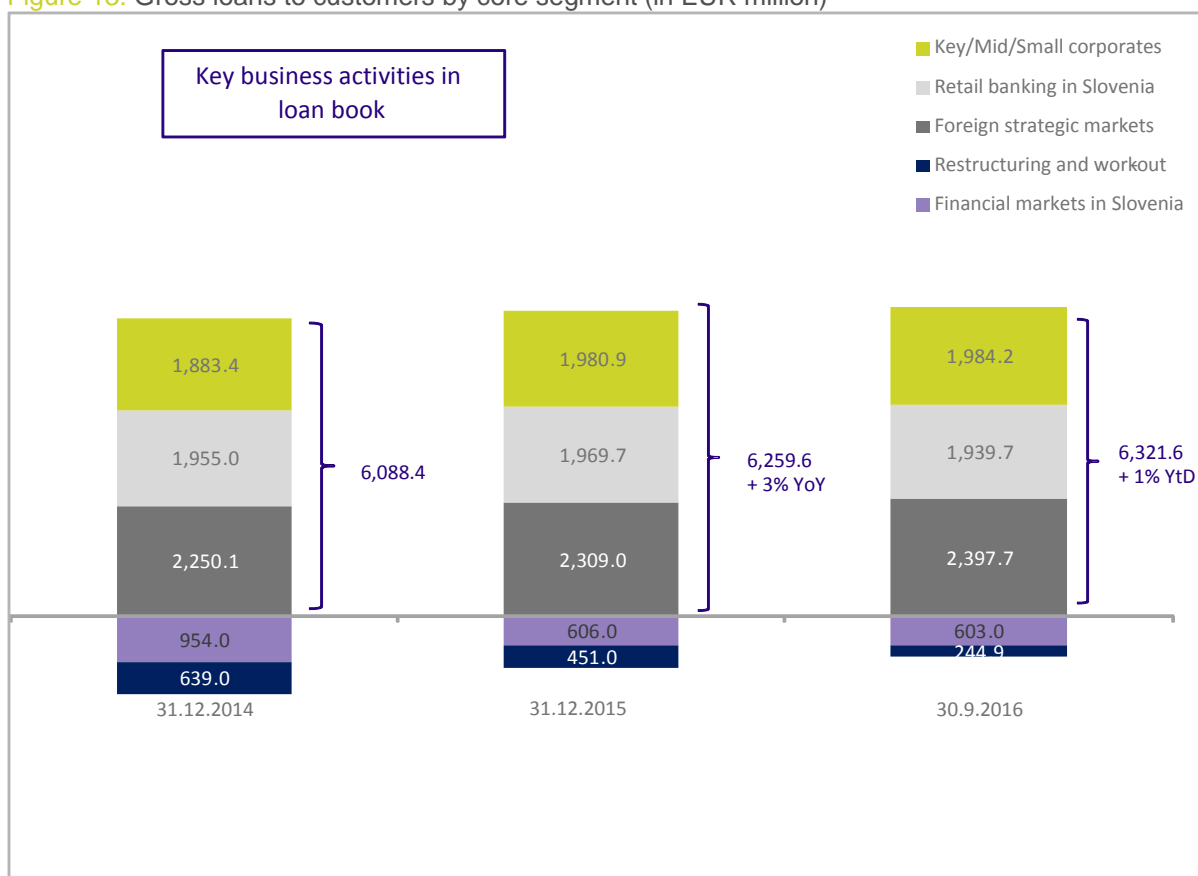


Figure 13: Gross loans to customers by core segment (in EUR million)



**Gross loans** in key business activities increased by EUR 61.9 million or 1% YtD (with excluding effects from “Project Pine” increased by EUR 118.3 million) mainly as the result of increase in gross loans in **Foreign strategic markets** by EUR 88.6 million or 4% YtD. Gross loans to Key/Mid/Small corporates in Slovenia slightly increased. Gross loans to Retail clients in Slovenia decreased by EUR 30 million mainly due to sale of non-performing loans (“Project Pine”). Without this effect retail loans increased by EUR 37.1 million.

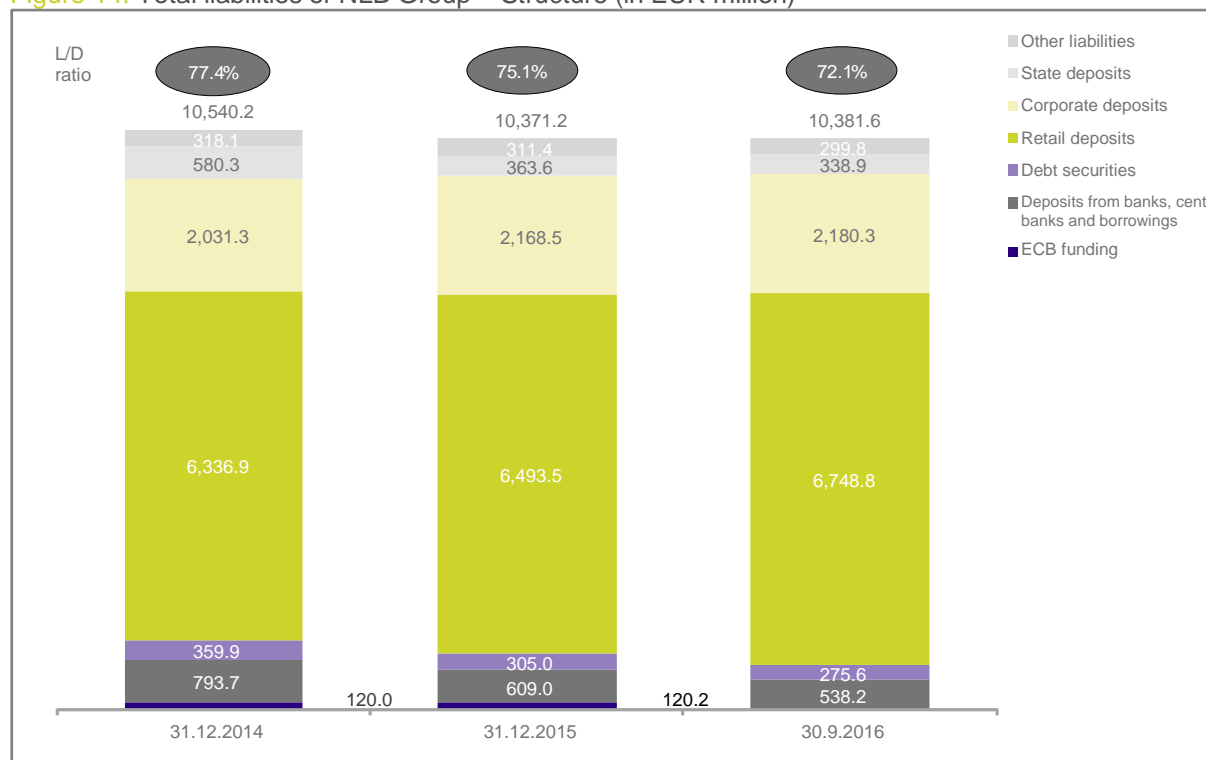
## Liabilities

**Total liabilities** increased to EUR 10,381.6 million compared to 31 December 2015, mainly due to deposits from customers.

**Deposits from customers** increased, accounting for 78% of the total funding of NLB Group. Retail segment deposits were 4% higher, corporate remained stable, while government deposits decreased. In June 2016, NLB d.d. introduced a fee on corporate deposits exceeding EUR 3 million.

**L/D ratio** (net) decreased by 3.0 of a percentage point compared to the end of 2015 as a result of the low demand for loans and the “cash-rich” retail and corporate sector.

Figure 14: Total liabilities of NLB Group – Structure (in EUR million)

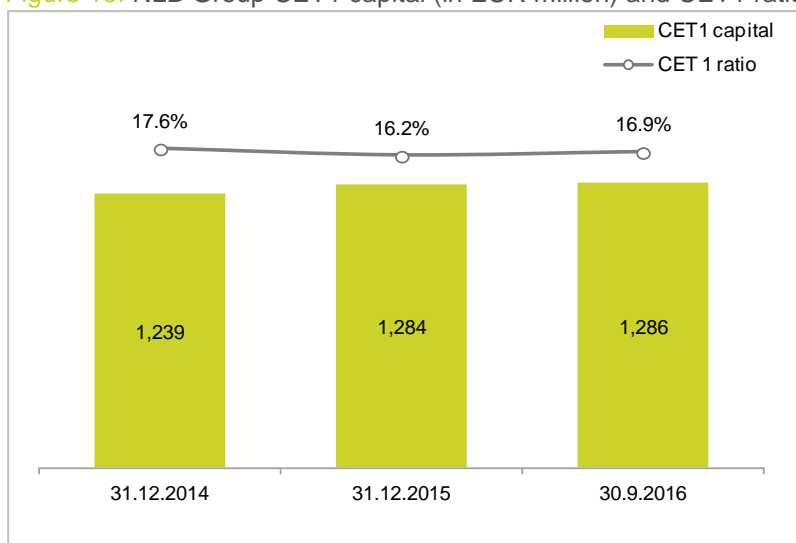


**Total equity**<sup>5</sup> increased by EUR 65.7 million to EUR 1,516.1 million as at 30 September 2016. Main differences relate to the inclusion of the nine months result and distribution of dividends to the shareholder.

<sup>5</sup> Including non-controlling interests

## Capital adequacy

Figure 15: NLB Group CET1 capital (in EUR million) and CET1 ratio (in %)



The **capital adequacy ratio** of NLB Group equalled 16.9%, increasing by 0.7 percentage point in 2016<sup>6</sup>. Capital of NLB Group consists of Common Equity Tier 1 (CET1) only, so total capital ratio is the same as CET1 ratio. The main driver of the improvement is a decrease in risk-weighted exposure amounts (RWA) for credit risk, at most in the non-performing loans.

<sup>6</sup> Interim results are not included in the calculation of Capital adequacy ratio and CET1 ratio.

## **RISK** *management*

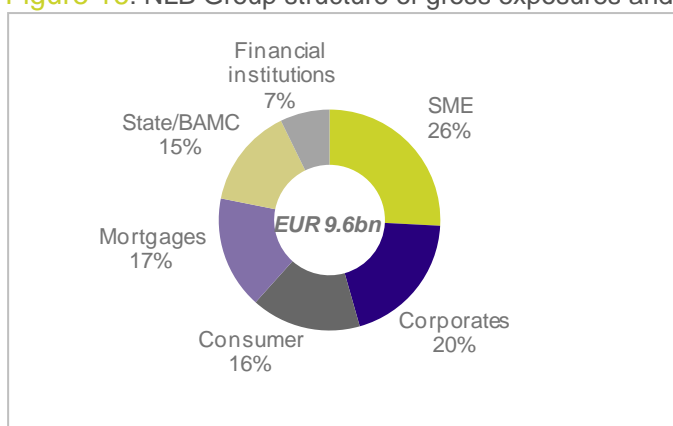
The key goal of Risk Management is to comprehensively assess, steer and monitor risks within NLB Group in line with the Group's Risk Appetite Statement and Risk Strategy. Moreover, the Group enhanced its risk management system in order to support the business decision-making process by upgrading the ICAAP, ILAAP, stress testing and steering processes.

One of the key aims of Risk Management is to preserve a prudent level of the Group's capital adequacy. NLB Group monitors its capital adequacy within the established ICAAP process, under both normal conditions (regulatory capital adequacy) and stressed conditions. As at 30 September 2016, NLB Group had a strong level of capital adequacy of 16.9% which is well within the stated risk appetite limit.

The second key aim is to maintain a solid level and structure of liquidity. NLB Group holds a strong liquidity position, which is well above the risk appetite with LCR (according to the Delegated act) of 460% and unencumbered eligible reserves in the amount of EUR 4,888 million. The main funding base of NLB Group predominately entails customer deposits with a conformable level of LTD in the amount of 72.1%, which allows the Group the potential for further customer loan placements.

The constantly improving quality of the credit portfolio represents the third and the still most important key aim, with a focus on the quality of new placements leading to a diversified portfolio of customers. The current structure of gross exposures (on- and off-balance sheet) consists of 33% of retail clients, 20% of large corporate clients, 26% of SME and micro companies, while the remainder of the portfolio entails other liquid assets.

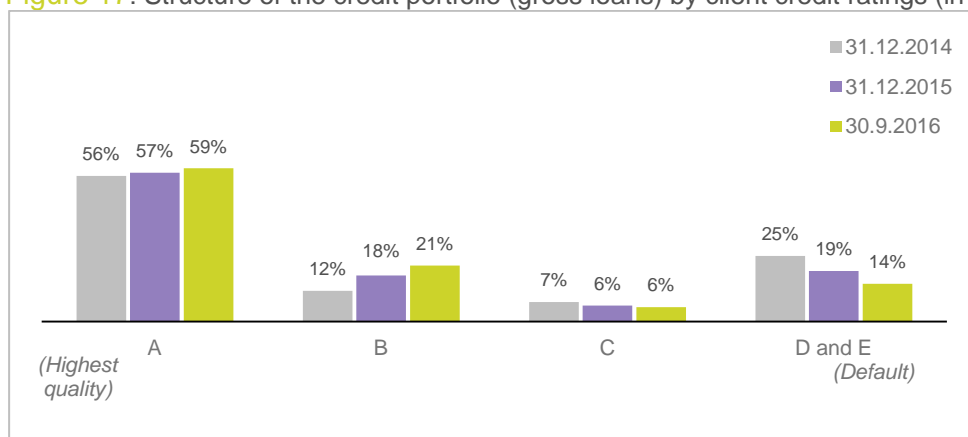
**Figure 16:** NLB Group structure of gross exposures and advances by segment



Gross exposures include also reserves at Central Banks (EUR 833.7 million) and demand deposits at banks (EUR 235.3 million)

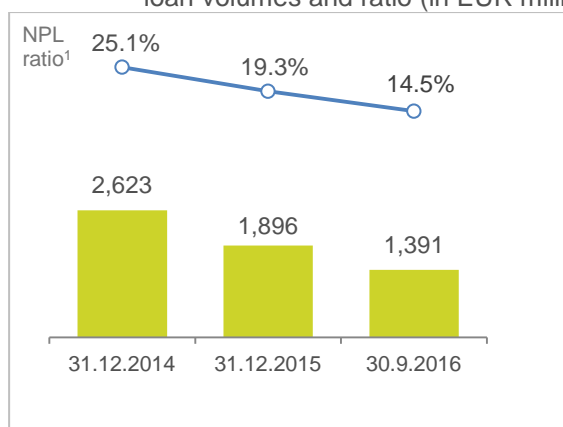
NLB Group is constantly improving its internal rating and scoring models to assure the high quality of newly approved loans, closely following the sustainability of the credit risk volatility and the sustainable development of the subsidiary banking members. Our efforts have so far resulted in minimising the formation of new non-performing loans and the cost of risk up to the third quarter of 2016, also partly related to the positive macroeconomic environment conditions.

**Figure 17:** Structure of the credit portfolio (gross loans) by client credit ratings (in EUR million)



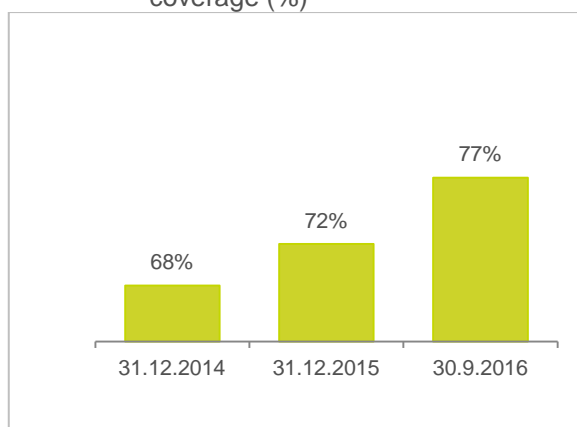
The restructuring and work-out capacities and approaches built in the past are partly still occupied with the legacy of non-performing loans, although increasingly focused on actively resolving new cases with a faster and more active approach to restructuring and work-out. In addition to the organic reduction of non-performing loans, NLB Group was able to sell off part of the receivables due to investors in two tranches (corporate and retail) in a gross claim amount of approximately EUR 500 million, which resulted in an NPL reduction of EUR 233.3 million. The existing non-performing loan stock in NLB Group was reduced since beginning of 2016 from EUR 1,896 million to EUR 1,391 million as of 30<sup>th</sup> September 2016, which does not include the potential and restructured exposures in the last year, which hold good potential to be cured in 2016 in a range of EUR 30 to 50 million. The share of non-performing loans was reduced to 14.5%, while NPE percentage by EBA methodology felt to 10.8%.

**Figure 18:** Active workout drove non-performing loan volumes and ratio (in EUR million)



<sup>1</sup>The NPL ratio is calculated as gross non-performing loans/total loans. Total loans include balances and obligatory reserves with Central Banks and demand deposits at banks.

**Figure 19:** Non-performing loan provision coverage (%)<sup>2</sup>



<sup>2</sup> The coverage of gross non-performing loans with impairments on all loans

The Group's exposure to interest rate risk, trading and FX risk is relatively low. The Bank's net interest income sensitivity in the case of a Euribor increase by 50bp would amount to EUR 13.1 million, while in case of decrease exposure would be lower due to zero floor clauses. The net open FX position amounts less than 0.7% of capital.

In the area of operational risks, additional efforts were made with regard to proactive prevention and the minimisation of potential damage in the future.

# **Unaudited Condensed Interim Financial Statements of NLB Group and NLB d.d. as at 30 September 2016,**

Prepared in accordance with IAS 34 "Interim financial reporting"

# Contents

Condensed income statement.....	27
Condensed income statement – by quarter for NLB Group .....	28
Condensed income statement – by quarter for NLB d.d. ....	29
Condensed statement of comprehensive income .....	30
Condensed statement of comprehensive income – by quarter for NLB Group .....	31
Condensed statement of comprehensive income – by quarter for NLB d.d. ....	31
Condensed statement of financial position.....	32
Condensed statement of changes in equity .....	33
Condensed statement of cash flows .....	34
Statement of management's responsibility.....	35
Notes to the condensed financial statements.....	36
1. General information.....	36
2. Summary of significant accounting policies .....	36
2.1. Statement of compliance .....	36
2.2. Accounting policies .....	36
3. Changes in NLB Group .....	38
4. Notes to the condensed income statement.....	39
4.1. Interest income and expenses .....	39
4.2. Net fee and commission income .....	39
4.3. Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss .....	40
4.4. Gains less losses from financial assets and liabilities held for trading .....	40
4.5. Other operating income .....	40
4.6. Other operating expenses.....	41
4.7. Administrative expenses.....	41
4.8. Provisions for other liabilities and charges.....	41
4.9. Impairment charge .....	42
4.10. Gains less losses from investments in subsidiaries, associates and joint ventures .....	42
4.11. Income tax .....	42
5. Notes to the condensed statement of financial position.....	43
5.1. Cash, cash balances at central banks and other demand deposits at banks.....	43
5.2. Financial instruments held for trading .....	43
5.3. Available-for-sale financial assets.....	43
5.4. Loans and advances.....	44
5.4.1. Debt securities .....	44
5.4.2. Loans and advances to banks .....	44
5.4.3. Loans and advances to customers .....	44
5.4.4. Other financial assets .....	45
5.4.5. Movements in allowance for the impairment of banks, loans and advances to customers and other financial assets .....	45
5.5. Held-to-maturity financial assets .....	45
5.6. Investment property .....	46
5.7. Other assets .....	46
5.8. Deferred tax .....	46
5.9. Financial liabilities measured at amortised cost.....	47
5.9.1. Debt securities in issue.....	47
5.9.2. Subordinated liabilities.....	47
5.9.3. Other financial liabilities .....	47
5.10. Provisions .....	48
5.11. Income tax relating to components of other comprehensive income .....	48
5.12. Other liabilities .....	49
5.13. Book value per share.....	49
5.14. Capital adequacy ratio .....	50
5.15. Off-balance sheet liabilities .....	50
5.16. Fair value hierarchy of financial and non-financial assets and liabilities .....	50
6. Events after the end of the reporting period.....	56
7. Related-party transactions .....	57
8. Analysis by segment for NLB Group .....	60
9. Subsidiaries .....	62

# Condensed income statement

in EUR thousand

	Notes	NLB Group			NLB d.d.		
		nine months ended			nine months ended		
		September 2016	September 2015	Change	September 2016	September 2015	Change
Interest and similar income	4.1.	294,059	334,580	-12%	164,290	205,842	-20%
Interest and similar expenses	4.1.	(55,243)	(81,529)	-32%	(31,815)	(48,695)	-35%
<b>Net interest income</b>		<b>238,816</b>	<b>253,051</b>	<b>-6%</b>	<b>132,475</b>	<b>157,147</b>	<b>-16%</b>
Dividend income		1,194	1,305	-9%	1,108	1,238	-11%
Fee and commission income	4.2.	143,173	145,465	-2%	91,097	96,341	-5%
Fee and commission expenses	4.2.	(35,377)	(35,992)	-2%	(19,894)	(23,106)	-14%
<b>Net fee and commission income</b>		<b>107,796</b>	<b>109,473</b>	<b>-2%</b>	<b>71,203</b>	<b>73,235</b>	<b>-3%</b>
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	4.3.	14,261	10,598	35%	14,111	10,662	32%
Gains less losses from financial assets and liabilities held for trading	4.4.	3,689	(21,282)	-	(1,015)	(26,154)	-96%
Gains less losses from financial assets and liabilities designated at fair value through profit or loss		123	(51)	-	-	-	-
Fair value adjustments in hedge accounting		(912)	286	-	(110)	286	-
Foreign exchange translation gains less losses		1,088	11,952	-91%	1,079	23,070	-95%
Gains less losses on derecognition of assets other than held for sale		712	(275)	-	236	68	247%
Other operating income	4.5.	18,863	20,289	-7%	9,637	9,935	-3%
Other operating expenses	4.6.	(27,825)	(21,643)	29%	(11,790)	(7,770)	52%
Administrative expenses	4.7.	(192,807)	(192,781)	0%	(120,799)	(121,261)	0%
Depreciation and amortisation		(21,362)	(24,157)	-12%	(14,315)	(16,351)	-12%
Provisions for other liabilities and charges	4.8.	2,519	876	188%	6,427	2,559	151%
Impairment charge	4.9.	(39,970)	(61,815)	-35%	(56,340)	(63,858)	-12%
Gains less losses from capital investments in subsidiaries, associates and joint ventures	4.10.	3,987	3,677	8%	28,819	13,747	110%
Net gain/(loss) from non-current assets held for sale		(176)	(569)	-69%	(259)	(567)	-54%
<b>PROFIT BEFORE INCOME TAX</b>		<b>109,996</b>	<b>88,934</b>	<b>24%</b>	<b>60,467</b>	<b>55,986</b>	<b>8%</b>
Income tax	4.11.	(14,353)	(8,462)	70%	(6,527)	(5,735)	14%
<b>PROFIT FOR THE PERIOD</b>		<b>95,643</b>	<b>80,472</b>	<b>19%</b>	<b>53,940</b>	<b>50,251</b>	<b>7%</b>
Attributable to owners of the parent		91,470	77,668	18%	53,940	50,251	7%
Attributable to non-controlling interests		4,173	2,804	49%	-	-	-
Earnings per share (in EUR per share)		4.57	3.88	18%	2.70	2.51	7%

# Condensed income statement – by quarter for NLB Group

in EUR thousand

	NLB Group									
	three months ended					three months ended				
	September 2016	June 2016	Change	March 2016	Change	September 2015	June 2015	Change	March 2015	Change
Interest and similar income	99,422	94,366	5%	100,271	-6%	106,700	112,386	-5%	115,494	-3%
Interest and similar expenses	(17,290)	(18,130)	-5%	(19,823)	-9%	(23,680)	(26,961)	-12%	(30,888)	-13%
<b>Net interest income</b>	<b>82,132</b>	<b>76,236</b>	8%	<b>80,448</b>	-5%	<b>83,020</b>	<b>85,425</b>	-3%	<b>84,606</b>	1%
Dividend income	230	956	-76%	8	-	33	1,266	-97%	6	-
Fee and commission income	49,734	48,289	3%	45,150	7%	49,679	49,444	0%	46,342	7%
Fee and commission expenses	(13,123)	(11,715)	12%	(10,539)	11%	(13,300)	(12,115)	10%	(10,577)	15%
<b>Net fee and commission income</b>	<b>36,611</b>	<b>36,574</b>	0%	<b>34,611</b>	6%	<b>36,379</b>	<b>37,329</b>	-3%	<b>35,765</b>	4%
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	1,244	8,100	-85%	4,917	65%	1,015	67	-	9,516	-99%
Gains less losses from financial assets and liabilities held for trading	1,173	1,483	-21%	1,033	44%	4,506	2,153	109%	(27,941)	-
Gains less losses from financial assets and liabilities designated at fair value through profit or loss	80	55	45%	(12)	-	(81)	(46)	76%	76	-
Fair value adjustments in hedge accounting	(678)	(167)	306%	(67)	149%	(93)	(46)	102%	425	-
Foreign exchange translation gains less losses	151	344	-56%	593	-42%	(2,840)	(1,932)	47%	16,724	-
Gains less losses on derecognition of assets other than held for sale	33	324	-90%	355	-9%	(215)	(47)	357%	(13)	262%
Other operating income	6,233	6,535	-5%	6,095	7%	7,386	5,993	23%	6,910	-13%
Other operating expenses	(12,631)	(11,591)	9%	(3,603)	222%	(9,008)	(5,224)	72%	(7,411)	-30%
Administrative expenses	(64,417)	(64,604)	0%	(63,786)	1%	(63,969)	(65,903)	-3%	(62,909)	5%
Depreciation and amortisation	(6,998)	(7,107)	-2%	(7,257)	-2%	(7,991)	(7,901)	1%	(8,265)	-4%
Provisions for liabilities and charges	(1,958)	4,935	-	(458)	-	(889)	(3,184)	-72%	4,949	-
Impairment charge	(14,500)	(29,724)	-51%	4,254	-	(19,033)	(16,677)	14%	(26,105)	-36%
Gains less losses from capital investments in subsidiaries, associates and joint ventures	1,531	1,209	27%	1,247	-3%	1,428	1,098	30%	1,151	-5%
Net gain/(loss) from non-current assets held for sale	(4)	(181)	-98%	9	-	(570)	3	-	(2)	-
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>	<b>28,232</b>	<b>23,377</b>	21%	<b>58,387</b>	-60%	<b>29,078</b>	<b>32,374</b>	-10%	<b>27,482</b>	18%
Income tax	(4,712)	(5,045)	-7%	(4,596)	10%	(3,723)	(3,050)	22%	(1,689)	81%
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<b>23,520</b>	<b>18,332</b>	28%	<b>53,791</b>	-66%	<b>25,355</b>	<b>29,324</b>	-14%	<b>25,793</b>	14%
Attributable to owners of the parent	21,979	17,356	27%	52,135	-67%	24,306	28,377	-14%	24,985	14%
Attributable to non-controlling interests	1,541	976	58%	1,656	-41%	1,049	947	11%	808	17%

# Condensed income statement – by quarter for NLB d.d.

in EUR thousand

	NLB d.d.									
	three months ended					three months ended				
	September 2016	June 2016	Change	March 2016	Change	September 2015	June 2015	Change	March 2015	Change
Interest and similar income	55,013	51,651	7%	57,626	-10%	63,122	68,874	-8%	73,846	-7%
Interest and similar expenses	(9,909)	(10,473)	-5%	(11,433)	-8%	(13,597)	(16,092)	-16%	(19,006)	-15%
<b>Net interest income</b>	<b>45,104</b>	<b>41,178</b>	10%	<b>46,193</b>	-11%	<b>49,525</b>	<b>52,782</b>	-6%	<b>54,840</b>	-4%
Dividend income	223	885	-75%	-	-	30	1,208	-98%	-	-
Fee and commission income	31,001	31,256	-1%	28,840	8%	32,539	33,104	-2%	30,698	8%
Fee and commission expenses	(7,112)	(6,784)	5%	(5,998)	13%	(8,292)	(7,991)	4%	(6,823)	17%
<b>Net fee and commission income</b>	<b>23,889</b>	<b>24,472</b>	-2%	<b>22,842</b>	7%	<b>24,247</b>	<b>25,113</b>	-3%	<b>23,875</b>	5%
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	1,229	7,982	-85%	4,900	63%	1,059	52	-	9,551	-99%
Gains less losses from financial assets and liabilities held for trading	(627)	(68)	822%	(320)	-79%	2,645	674	292%	(29,473)	-
Fair value adjustments in hedge accounting	124	(167)	-	(67)	149%	(93)	(46)	102%	425	-
Foreign exchange translation gains less losses	56	692	-92%	331	109%	(2,494)	(884)	182%	26,448	-
Gains less losses on derecognition of assets other than held for sale	114	55	107%	67	-18%	76	(79)	-	71	-
Other operating income	3,141	3,319	-5%	3,177	4%	2,997	3,170	-5%	3,768	-16%
Other operating expenses	(5,784)	(5,313)	9%	(693)	667%	(1,172)	(1,852)	-37%	(4,746)	-61%
Administrative expenses	(40,011)	(40,343)	-1%	(40,445)	0%	(39,881)	(41,700)	-4%	(39,680)	5%
Depreciation and amortisation	(4,706)	(4,774)	-1%	(4,835)	-1%	(5,371)	(5,350)	0%	(5,630)	-5%
Provisions for liabilities and charges	(383)	7,425	-	(615)	-	447	(2,680)	-	4,792	-
Impairment charge	(39,298)	(20,553)	91%	3,511	-	(18,947)	(13,132)	44%	(31,779)	-59%
Gains less losses from capital investments in subsidiaries, associates and joint ventures	133	18,004	-99%	10,682	69%	34	12,297	-100%	1,416	768%
Net gain/(loss) from non-current assets held for sale	(87)	(181)	-52%	9	-	(566)	-	-	(1)	-
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>	<b>(16,883)</b>	<b>32,613</b>	-	<b>44,737</b>	-27%	<b>12,536</b>	<b>29,573</b>	-58%	<b>13,877</b>	113%
Income tax	(378)	(3,705)	-90%	(2,444)	52%	(2,386)	(3,036)	-21%	(313)	870%
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<b>(17,261)</b>	<b>28,908</b>	-	<b>42,293</b>	-32%	<b>10,150</b>	<b>26,537</b>	-62%	<b>13,564</b>	96%

## Condensed statement of comprehensive income

		in EUR thousand			
		NLB Group		NLB d.d.	
	Note	nine months ended September 2016	nine months ended September 2015	nine months ended September 2016	nine months ended September 2015
<b>Net profit for the period after tax</b>		<b>95,643</b>	<b>80,472</b>	<b>53,940</b>	<b>50,251</b>
<b>Other comprehensive income/(loss) after tax</b>		<b>16,758</b>	<b>(14,906)</b>	<b>8,243</b>	<b>(11,496)</b>
<i>Items that will not be reclassified to income statement</i>					
Actuarial gains/(losses) on defined benefit pension plans		1,475	(16)	1,466	-
Income tax relating to components of other comprehensive income	5.11.	(125)	-	(125)	-
<i>Items that may be reclassified subsequently to income statement</i>					
Foreign currency translation		(352)	(1,820)	-	-
Translation gains/(losses) taken to equity		(352)	(1,820)	-	-
Cash flow hedges (effective portion)		(78)	406	(78)	406
Valuation gains/(losses) taken to equity		(515)	(38)	(515)	(38)
Transferred to income statement		437	444	437	444
Available-for-sale financial assets		12,711	(13,190)	8,394	(14,257)
Valuation gains/(losses) taken to equity		26,983	(2,426)	22,516	(3,429)
Transferred to income statement		(14,272)	(10,764)	(14,122)	(10,828)
Share of other comprehensive income of entities accounted for using the equity method		5,861	(3,097)	-	-
Income tax relating to components of other comprehensive income	5.11.	(2,734)	2,811	(1,414)	2,355
<b>Total comprehensive income/(loss) for the period after tax</b>		<b>112,401</b>	<b>65,566</b>	<b>62,183</b>	<b>38,755</b>
Attributable to owners of the parent		108,112	62,692	62,183	38,755
Attributable to non-controlling interests		4,289	2,874	-	-

## Condensed statement of comprehensive income – by quarter for NLB Group

in EUR thousand

	NLB Group					
	three months ended			three months ended		
	September 2016	June 2016	March 2016	September 2015	June 2015	March 2015
<b>Net profit/(loss) for the period after tax</b>	<b>23,520</b>	<b>18,332</b>	<b>53,791</b>	<b>25,355</b>	<b>29,324</b>	<b>25,793</b>
<b>Other comprehensive income/(loss) after tax</b>	<b>11,898</b>	<b>(1,890)</b>	<b>6,750</b>	<b>2,366</b>	<b>(24,749)</b>	<b>7,477</b>
<i>Items that will not be reclassified to income statement</i>						
Actuarial gains/(losses) on defined benefit pension plans	1,475	-	-	62	-	(78)
Income tax relating to components of other comprehensive income	(125)	-	-	-	-	-
<i>Items that may be reclassified subsequently to income statement</i>						
<b>Foreign currency translation</b>	<b>725</b>	<b>397</b>	<b>(1,474)</b>	<b>(341)</b>	<b>177</b>	<b>(1,656)</b>
Translation gains/(losses) taken to equity	725	397	(1,474)	(341)	177	(1,656)
<b>Cash flow hedges (effective portion)</b>	<b>87</b>	<b>(4)</b>	<b>(161)</b>	<b>(51)</b>	<b>482</b>	<b>(25)</b>
Valuation gains/(losses) taken to equity	(59)	(151)	(305)	(200)	333	(171)
Transferred to income statement	146	147	144	149	149	146
<b>Available-for-sale financial assets</b>	<b>8,715</b>	<b>(4,315)</b>	<b>8,311</b>	<b>4,366</b>	<b>(24,478)</b>	<b>6,922</b>
Valuation gains/(losses) taken to equity	9,951	3,785	13,247	5,482	(24,427)	16,519
Transferred to income statement	(1,236)	(8,100)	(4,936)	(1,116)	(51)	(9,597)
<b>Share of other comprehensive income/(loss) of entities accounted for using the equity method</b>	<b>2,496</b>	<b>1,583</b>	<b>1,782</b>	<b>(1,192)</b>	<b>(6,001)</b>	<b>4,096</b>
<b>Income tax relating to components of other comprehensive income</b>	<b>(1,475)</b>	<b>449</b>	<b>(1,708)</b>	<b>(478)</b>	<b>5,071</b>	<b>(1,782)</b>
<b>Total comprehensive income/(loss) for the period after tax</b>	<b>35,418</b>	<b>16,442</b>	<b>60,541</b>	<b>27,721</b>	<b>4,575</b>	<b>33,270</b>
Attributable to owners of the parent	33,751	15,440	58,921	26,614	3,631	32,447
Attributable to non-controlling interests	1,667	1,002	1,620	1,107	944	823

## Condensed statement of comprehensive income – by quarter for NLB d.d.

in EUR thousand

	NLB d.d.					
	three months ended			three months ended		
	September 2016	June 2016	March 2016	September 2015	June 2015	March 2015
<b>Net profit/(loss) for the period after tax</b>	<b>(17,261)</b>	<b>28,908</b>	<b>42,293</b>	<b>10,150</b>	<b>26,537</b>	<b>13,564</b>
<b>Other comprehensive income/(loss) after tax</b>	<b>5,430</b>	<b>(3,752)</b>	<b>6,565</b>	<b>2,502</b>	<b>(19,529)</b>	<b>5,531</b>
<i>Items that will not be reclassified to income statement</i>						
Actuarial gains/(losses) on defined benefit pensions plans	1,466	-	-	-	-	-
Income tax relating to components of other comprehensive income	(125)	-	-	-	-	-
<i>Items that may be reclassified subsequently to income statement</i>						
<b>Cash flow hedges (effective portion)</b>	<b>87</b>	<b>(4)</b>	<b>(161)</b>	<b>(51)</b>	<b>482</b>	<b>(25)</b>
Valuation gains/(losses) taken to equity	(59)	(151)	(305)	(200)	333	(171)
Transferred to income statement	146	147	144	149	149	146
<b>Available-for-sale financial assets</b>	<b>4,840</b>	<b>(4,517)</b>	<b>8,071</b>	<b>3,064</b>	<b>(24,013)</b>	<b>6,692</b>
Valuation gains/(losses) taken to equity	6,061	3,465	12,990	4,225	(23,978)	16,324
Transferred to income statement	(1,221)	(7,982)	(4,919)	(1,161)	(35)	(9,632)
<b>Income tax relating to components of other comprehensive income</b>	<b>(838)</b>	<b>769</b>	<b>(1,345)</b>	<b>(511)</b>	<b>4,002</b>	<b>(1,136)</b>
<b>Total comprehensive income/(loss) for the period after tax</b>	<b>(11,831)</b>	<b>25,156</b>	<b>48,858</b>	<b>12,652</b>	<b>7,008</b>	<b>19,095</b>

# Condensed statement of financial position

in EUR thousand

	Notes	NLB Group			NLB d.d.		
		30.9.2016	31.12.2015	Change	30.9.2016	31.12.2015	Change
Cash, cash balances at central banks and other demand deposits at banks	5.1.	1,294,586	1,161,983	11%	635,047	496,806	28%
Trading assets	5.2.	231,422	267,413	-13%	231,919	267,880	-13%
Financial assets designated at fair value through profit or loss		6,819	7,595	-10%	2,754	4,913	-44%
Available-for-sale financial assets	5.3.	1,801,846	1,737,191	4%	1,350,737	1,248,359	8%
Derivatives - hedge accounting		-	1,083	-100%	-	1,083	-100%
Loans and advances							
- debt securities	5.4.1.	407,166	394,579	3%	407,166	394,579	3%
- loans and advances to banks	5.4.2.	470,493	431,775	9%	404,091	345,207	17%
- loans and advances to customers	5.4.3.	6,590,861	6,693,621	-2%	4,591,929	4,826,139	-5%
- other financial assets	5.4.4.	61,731	69,521	-11%	51,551	48,944	5%
Held-to-maturity investments	5.5.	559,924	565,535	-1%	559,924	565,535	-1%
Fair value changes of the hedged items in portfolio hedge of interest rate risk		802	741	8%	802	741	8%
Non-current assets classified as held for sale		5,008	4,629	8%	2,227	1,776	25%
Property and equipment		195,750	207,730	-6%	89,907	94,570	-5%
Investment property	5.6.	87,719	93,513	-6%	8,151	8,613	-5%
Intangible assets		33,849	39,327	-14%	23,920	29,627	-19%
Investments in subsidiaries		-	-	-	337,668	346,001	-2%
Investments in associates and joint ventures		44,922	39,696	13%	7,094	7,094	0%
Current income tax assets		936	929	1%	42	-	-
Deferred income tax assets	5.8.	6,010	9,400	-36%	8,181	9,139	-10%
Other assets	5.7.	97,832	95,354	3%	8,644	9,779	-12%
<b>TOTAL ASSETS</b>		<b>11,897,676</b>	<b>11,821,615</b>	<b>1%</b>	<b>8,721,754</b>	<b>8,706,785</b>	<b>0%</b>
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Trading liabilities	5.2.	17,698	29,920	-41%	17,689	29,909	-41%
Financial liabilities designated at fair value through profit or loss		2,753	4,912	-44%	2,753	4,912	-44%
Derivatives - hedge accounting		34,879	33,842	3%	34,879	33,842	3%
Financial liabilities measured at amortised cost							
- deposits from banks and central banks	5.9.	51,716	57,982	-11%	90,434	96,736	-7%
- borrowings from banks and central banks	5.9.	402,501	571,029	-30%	357,834	519,926	-31%
- due to customers	5.9.	9,265,209	9,020,666	3%	6,517,381	6,293,339	4%
- borrowings from other customers	5.9.	83,993	100,267	-16%	5,132	16,168	-68%
- debt securities in issue	5.9.1.	275,561	304,962	-10%	275,561	304,962	-10%
- subordinated liabilities	5.9.2.	27,489	27,340	1%	-	-	-
- other financial liabilities	5.9.3.	95,417	75,307	27%	62,615	47,346	32%
Provisions	5.10.	113,420	122,639	-8%	92,876	105,137	-12%
Current income tax liabilities		1,972	7,514	-74%	-	6,681	-100%
Deferred income tax liabilities	5.8.	731	313	134%	-	-	-
Other liabilities	5.12.	8,214	14,539	-44%	4,146	5,676	-27%
<b>TOTAL LIABILITIES</b>		<b>10,381,553</b>	<b>10,371,232</b>	<b>0%</b>	<b>7,461,300</b>	<b>7,464,634</b>	<b>0%</b>
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<b>EQUITY AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT</b>							
Share capital		200,000	200,000	0%	200,000	200,000	0%
Share premium		871,378	871,378	0%	871,378	871,378	0%
Accumulated other comprehensive income		40,245	23,603	71%	40,084	31,841	26%
Profit reserves		13,522	13,522	0%	13,522	13,522	0%
Retained earnings		361,915	314,307	15%	135,470	125,410	8%
		<b>1,487,060</b>	<b>1,422,810</b>	<b>5%</b>	<b>1,260,454</b>	<b>1,242,151</b>	<b>1%</b>
Non-controlling interests		29,063	27,573	5%	-	-	-
<b>TOTAL EQUITY</b>		<b>1,516,123</b>	<b>1,450,383</b>	<b>5%</b>	<b>1,260,454</b>	<b>1,242,151</b>	<b>1%</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>11,897,676</b>	<b>11,821,615</b>	<b>1%</b>	<b>8,721,754</b>	<b>8,706,785</b>	<b>0%</b>
=====							

# 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 at 1 January 2016	200,000	871,378	23,603	13,522	314,307	1,422,810	27,573	1,450,383
- Net profit for the period	-	-	-	-	93,289	93,289	4,173	97,462
- Other comprehensive income	-	-	16,642	-	-	16,642	116	16,758
Total comprehensive income after tax	-	-	16,642	-	93,289	109,931	4,289	114,220
Dividends paid	-	-	-	-	(43,880)	(43,880)	(2,799)	(46,679)
Other*	-	-	-	-	18	18	-	18
<b>Balance at 30 September 2016</b>	<b>200,000</b>	<b>871,378</b>	<b>40,245</b>	<b>13,522</b>	<b>363,734</b>	<b>1,488,879</b>	<b>29,063</b>	<b>1,517,942</b>

in EUR thousand								
	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Equity attributable to owners of the	Equity attributable to non-controlling	Total equity
Balance at 1 January 2015	200,000	871,378	36,485	13,522	221,676	1,343,061	26,234	1,369,295
- Net profit for the period	-	-	-	-	77,668	77,668	2,804	80,472
- Other comprehensive income	-	-	(14,976)	-	-	(14,976)	70	(14,906)
Total comprehensive income after tax	-	-	(14,976)	-	77,668	62,692	2,874	65,566
Dividends paid	-	-	-	-	-	-	(1,048)	(1,048)
Other*	-	-	-	-	218	218	(242)	(24)
<b>Balance at 30 September 2015</b>	<b>200,000</b>	<b>871,378</b>	<b>21,509</b>	<b>13,522</b>	<b>299,562</b>	<b>1,405,971</b>	<b>27,818</b>	<b>1,433,789</b>

in EUR thousand						
NLB d.d.	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Total equity
Balance at 1 January 2016	200,000	871,378	31,841	13,522	125,410	1,242,151
- Net profit for the period	-	-	-	-	53,940	53,940
- Other comprehensive income	-	-	8,243	-	-	8,243
Total comprehensive income after tax	-	-	8,243	-	53,940	62,183
Dividends paid	-	-	-	-	(43,880)	(43,880)
<b>Balance at 30 September 2016</b>	<b>200,000</b>	<b>871,378</b>	<b>40,084</b>	<b>13,522</b>	<b>135,470</b>	<b>1,260,454</b>

in EUR thousand						
	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Total equity
Balance at 1 January 2015	200,000	871,378	38,491	13,522	81,529	1,204,920
- Net profit for the period	-	-	-	-	50,251	50,251
- Other comprehensive income	-	-	(11,496)	-	-	(11,496)
Total comprehensive income after tax	-	-	(11,496)	-	50,251	38,755
<b>Balance at 30 September 2015</b>	<b>200,000</b>	<b>871,378</b>	<b>26,995</b>	<b>13,522</b>	<b>131,780</b>	<b>1,243,675</b>

\*In 2016 and 2015, the item Other relates to transactions with a non-controlling interest and other.

# Condensed statement of cash flows

	in EUR thousand			
	NLB Group		NLB d.d.	
	nine months ended		nine months ended	
	September 2016	September 2015	September 2016	September 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Interest received	311,857	334,745	180,899	209,029
Interest paid	(63,342)	(96,814)	(37,565)	(60,648)
Dividends received	1,168	1,285	1,082	1,218
Fee and commission receipts	141,936	141,044	88,516	94,815
Fee and commission payments	(35,209)	(35,878)	(19,918)	(23,262)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	12,741	10,802	12,591	10,745
Realised losses from financial assets and financial liabilities not at fair value through profit or loss	(39)	(116)	(39)	(116)
Gains/(losses) from financial assets and liabilities held for trading	2,744	(21,301)	(989)	(24,701)
Payments to employees and suppliers	(190,224)	(197,160)	(120,384)	(127,888)
Other income	21,620	24,107	11,148	11,713
Other expenses	(24,022)	(18,414)	(13,945)	(9,381)
Income tax (paid)/refunded	(16,304)	(3,721)	(12,871)	(570)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>162,926</b>	<b>138,579</b>	<b>88,525</b>	<b>80,954</b>
<b>(Increases)/decreases in operating assets</b>	<b>11,137</b>	<b>67,244</b>	<b>70,759</b>	<b>48,577</b>
Net (increase)/decrease in trading assets	20,797	(48,113)	20,797	(48,113)
Net (increase)/decrease in financial assets designated at fair value through profit or loss	672	(877)	2,055	-
Net (increase)/decrease in available-for-sale financial assets	(67,740)	90,920	(104,733)	2,992
Net (increase)/decrease in loans and advances	61,332	22,018	155,196	94,305
Net (increase)/decrease in other assets	(3,924)	3,296	(2,556)	(607)
<b>Increases/(decreases) in operating liabilities</b>	<b>54,601</b>	<b>(210,537)</b>	<b>43,683</b>	<b>(197,970)</b>
Net increase/(decrease) in financial liabilities designated at fair value through profit or loss	(2,061)	-	(2,061)	-
Net increase/(decrease) in deposits and borrowings measured at amortised cost	83,831	(162,274)	72,032	(149,808)
Net increase/(decrease) in securities measured at amortised cost	(26,913)	(48,169)	(26,913)	(48,169)
Net increase/(decrease) in other liabilities	(256)	(94)	625	7
<b>Net cash used in operating activities</b>	<b>228,664</b>	<b>(4,714)</b>	<b>202,967</b>	<b>(68,439)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Receipts from investing activities</b>	<b>74,325</b>	<b>172,303</b>	<b>97,955</b>	<b>183,862</b>
Proceeds from sale of property and equipment and investment property	1,992	2,098	390	17
Proceeds from dividends from subsidiaries and associates	3,587	35	28,819	13,747
Proceeds from sale of non-current assets held for sale	94	170	94	98
Proceeds from maturity of held-to-maturity investments	68,652	170,000	68,652	170,000
<b>Payments from investing activities</b>	<b>(86,167)</b>	<b>(31,930)</b>	<b>(96,794)</b>	<b>(35,115)</b>
Purchase of property and equipment and investment property	(12,672)	(6,905)	(7,904)	(3,226)
Purchase of intangible assets	(4,903)	(5,545)	(3,631)	(4,174)
Purchase of subsidiaries and increase in subsidiaries' equity	-	(40)	(16,667)	(8,275)
Purchase of held-to-maturity investments	(68,592)	(19,440)	(68,592)	(19,440)
<b>Net cash used in investing activities</b>	<b>(11,842)</b>	<b>140,373</b>	<b>1,161</b>	<b>148,747</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Proceeds from financing activities</b>	<b>-</b>	<b>9,900</b>	<b>-</b>	<b>-</b>
Issue of subordinated debt	-	9,900	-	-
<b>Payments from financing activities</b>	<b>(46,647)</b>	<b>(977)</b>	<b>(43,880)</b>	<b>-</b>
Dividends paid	(46,647)	(977)	(43,880)	-
<b>Net cash from financing activities</b>	<b>(46,647)</b>	<b>8,923</b>	<b>(43,880)</b>	<b>-</b>
Effects of exchange rate changes on cash and cash equivalents	(1,161)	9,405	(1,994)	6,872
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>170,175</b>	<b>144,582</b>	<b>160,248</b>	<b>80,308</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,302,003</b>	<b>1,292,984</b>	<b>525,831</b>	<b>519,223</b>
<b>Cash and cash equivalents at end of period</b>	<b>1,471,017</b>	<b>1,446,971</b>	<b>684,085</b>	<b>606,403</b>

# Statement of management's responsibility

The Management Board hereby confirms the financial statements of NLB Group and NLB d.d. for the nine months ending 30 September 2016.

The Management Board is responsible for the preparation and presentation of these interim financial statements in accordance with IAS 34 "Interim financial reporting" as adopted by the European Union in order to give a true and fair view of the financial position of NLB Group and NLB d.d. as at 30 September 2016 and their financial results and cash flows for the period then ended.

The Management Board also confirms that appropriate accounting policies were consistently applied, and that the accounting estimates were prepared in accordance with the principles of prudence and good management. The Management Board further confirms that the interim financial statements of NLB Group and NLB d.d. have been prepared on a going-concern basis for NLB Group and NLB d.d., and are in line with valid legislation and IAS 34 "Interim financial reporting".

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

## Management Board

			
László Pelle	Archibald Kromser	Andreas Burkhardt	Blaž Brodnjak
Member of the Management Board	Member of the Management Board	Member of the Management Board	President of the Management Board

# Notes to the condensed financial statements

## 1. General information

Nova Ljubljanska banka d.d. Ljubljana (hereinafter: NLB d.d.) is a joint-stock entity providing universal banking services. NLB Group consists of NLB d.d. and subsidiaries in 11 countries.

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

The ultimate controlling party of NLB d.d. is the Republic of Slovenia which was the sole shareholder as at 30 September 2016 and 31 December 2015.

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

## 2. Summary of significant accounting policies

### 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 d.d. for the year ended 31 December 2015, 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 2015, except for accounting standards and other amendments effective for annual periods beginning on 1 January 2016 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 2016***

- IAS 19 (amendment) – Employee Benefits (effective for annual periods beginning on or after 1 February 2015).
- Annual Improvements to IFRSs 2010–2012 Cycle. The improvements comprise a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 February 2015.
- IAS 16 and IAS 38 (amendment) – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016).
- IFRS 11 (amendment) – Accounting for Acquisition of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016).
- IAS 27 (amendment) – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016).

- Annual Improvements to IFRSs 2012–2014 Cycle. The improvements comprise a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 January 2016.
- IAS 1 (amendment) – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016).
- IFRS 10, IFRS 12 and IAS 28 (amendment) – Investment Entities (effective for annual periods beginning on or after 1 January 2016).

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

- IFRS 9 (new standard) – Financial instruments (effective for annual periods beginning on or after 1 January 2018).
- IFRS 14 (new standard) – Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016).
- IFRS 15 (new standard and clarification) – Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018).
- IFRS 10 and IAS 28 (amendment) – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date postponed until the project on Elimination of gains or losses arising from transactions between an entity and its associate or joint venture is completed).
- IFRS 16 (new standard) – Leases (effective for annual periods beginning on or after 1 January 2019).
- IAS 12 (amendment) – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).
- IAS 7 (amendment) – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017).
- IFRS 2 (amendment) – Classification and Measurement of share based Payment Transactions (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).

### 3. Changes in NLB Group

#### NINE MONTHS ENDED 30 SEPTEMBER 2016

##### Capital changes:

- An increase in share capital in the form of cash contributions in the amount of EUR 2,102 thousand in SR-RE d.o.o., Belgrade and REAM d.o.o., Belgrade due to increase of business operations.
- An increase in share capital in the form of cash contributions in the amount of EUR 14,565 thousand in NLB Leasing Podgorica, Podgorica, NLB Lizing, Skopje, NLB Leasing, Ljubljana and Optima Leasing, Zagreb to ensure capital adequacy until the end of liquidation.

##### Other changes:

- FIN-DO d.o.o., Domžale and PRO-Avenija d.o.o., Ljubljana are merged with PRO-REM d.o.o., Ljubljana. Merger is formally registered on 1 July 2016 with accounting date of merger as at 31 December 2015.
- BH-RE d.o.o., Sarajevo was established and will manage certain real estate in NLB Group. PRO-REM d.o.o., Ljubljana's ownership is 100%.
- Kreditni biro SISBON d.o.o., Ljubljana is formally in liquidation.
- Prvi faktor, Skopje was liquidated. In accordance with a court order, the company was removed from the court register.

#### CHANGES IN 2015

##### Capital changes:

- An increase in share capital in the form of cash contributions in the amount of EUR 7,669 thousand in NLB Banka, Sarajevo due to stricter regulatory requirements for capital adequacy. Ownership interest increased from 96.30% to 97.34%.
- On the basis of an option contract, NLB d.d. acquired shares of NLB Banka, Podgorica and thereby increased its ownership from 98.00% to 99.36%. The increase in the capital investment was recognised in the amount of EUR 364 thousand. NLB d.d. has no voting rights regarding the newly acquired shares.
- NLB Leasing, Ljubljana increased its ownership interest in Optima Leasing, Zagreb from 99.97% to 100%. Consideration was paid in the amount of EUR 40 thousand.

##### Other changes:

- REAM d.o.o., Zagreb, REAM d.o.o., Belgrade, REAM d.o.o., Podgorica, PRO-Avenija d.o.o., Ljubljana and SR-RE d.o.o., Belgrade were established and will manage certain real estate in NLB Group. NLB d.d.'s ownership is 100%.
- LHB Trade d.o.o., Zagreb was liquidated. In accordance with a court order, the company was removed from the court register.
- NLB Group became a 100% owner of Tara Hotel d.o.o., Budva upon realisation of the collateral.
- NLB Banka, Belgrade sold its 100% ownership in Convest d.o.o., Novi Sad.

## 4. Notes to the condensed income statement

### 4.1. Interest income and expenses

	NLB Group			NLB d.d.		
	nine months ended			nine months ended		
	September 2016	September 2015	change	September 2016	September 2015	change
in EUR thousand						
<b>Interest and similar income</b>						
Loans and advances to customers	247,113	281,063	-12%	126,788	161,199	-21%
Available-for-sale financial assets	23,764	24,890	-5%	13,557	14,924	-9%
Held-to-maturity investments	13,381	16,970	-21%	13,381	16,970	-21%
Financial assets held for trading	7,431	9,141	-19%	7,516	9,238	-19%
Loans and advances to banks and central banks	921	440	109%	1,831	1,805	1%
Derivatives - hedge accounting	831	1,217	-32%	831	1,217	-32%
Deposits with central banks and banks	618	859	-28%	386	489	-21%
<b>TOTAL</b>	<b>294,059</b>	<b>334,580</b>	<b>-12%</b>	<b>164,290</b>	<b>205,842</b>	<b>-20%</b>
	=====	=====		=====	=====	
<b>Interest and similar expenses</b>						
Due to customers	31,800	52,093	-39%	12,149	23,849	-49%
Debt securities in issue	7,212	8,033	-10%	7,212	8,033	-10%
Financial liabilities held for trading	4,694	6,674	-30%	4,694	6,674	-30%
Derivatives - hedge accounting	4,448	4,502	-1%	4,448	4,502	-1%
Borrowings from banks and central banks	2,934	6,146	-52%	2,165	4,560	-53%
Subordinated liabilities	1,416	1,064	33%	-	-	-
Borrowings from other customers	1,414	1,757	-20%	10	99	-90%
Deposits from banks and central banks	52	86	-40%	51	29	76%
Other financial liabilities	1,273	1,174	8%	1,086	949	14%
<b>TOTAL</b>	<b>55,243</b>	<b>81,529</b>	<b>-32%</b>	<b>31,815</b>	<b>48,695</b>	<b>-35%</b>
	=====	=====		=====	=====	
<b>NET INTEREST INCOME</b>	<b>238,816</b>	<b>253,051</b>	<b>-6%</b>	<b>132,475</b>	<b>157,147</b>	<b>-16%</b>
	=====	=====		=====	=====	

### 4.2. Net fee and commission income

	NLB Group			NLB d.d.		
	nine months ended			nine months ended		
	September 2016	September 2015	change	September 2016	September 2015	change
in EUR thousand						
<b>Fee and commission income</b>						
Credit cards and ATMs	41,586	44,562	-7%	28,101	33,194	-15%
Payments	40,416	39,699	2%	20,907	20,913	0%
Customer transaction accounts	29,640	29,717	0%	23,235	23,777	-2%
Investment funds	10,074	11,216	-10%	2,610	3,316	-21%
Guarantees	9,218	10,147	-9%	6,225	6,539	-5%
Investment banking	5,068	4,151	22%	3,984	4,306	-7%
Agency of insurance products	2,478	2,016	23%	2,465	2,016	22%
Other services	4,693	3,957	19%	3,570	2,280	57%
<b>TOTAL</b>	<b>143,173</b>	<b>145,465</b>	<b>-2%</b>	<b>91,097</b>	<b>96,341</b>	<b>-5%</b>
	=====	=====		=====	=====	
<b>Fee and commission expenses</b>						
Credit cards and ATMs	25,772	26,661	-3%	15,988	18,543	-14%
Payments	3,926	3,550	11%	599	592	1%
Investment banking	2,133	2,422	-12%	1,518	1,832	-17%
Insurance for holders of personal accounts and golden cards	1,593	1,259	27%	1,053	1,044	1%
Guarantees	236	404	-42%	194	361	-46%
Other services	1,717	1,696	1%	542	734	-26%
<b>TOTAL</b>	<b>35,377</b>	<b>35,992</b>	<b>-2%</b>	<b>19,894</b>	<b>23,106</b>	<b>-14%</b>
	=====	=====		=====	=====	
<b>NET FEE AND COMMISSION INCOME</b>	<b>107,796</b>	<b>109,473</b>	<b>-2%</b>	<b>71,203</b>	<b>73,235</b>	<b>-3%</b>
	=====	=====		=====	=====	

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

	in EUR thousand			
	NLB Group		NLB d.d.	
	nine months ended		nine months ended	
	September	September	September	September
	2016	2015	2016	2015
Available-for-sale financial assets	14,300	10,660	14,150	10,724
Financial liabilities measured at amortised cost	(39)	(62)	(39)	(62)
<b>TOTAL</b>	<b>14,261</b>	<b>10,598</b>	<b>14,111</b>	<b>10,662</b>
	=====	=====	=====	=====

In June 2016 Visa Inc. completed its acquisition of Visa Europe to create a single global payments business under the Visa brand. In this transaction, NLB Group realised a gain in the amount of EUR 7,753 thousand as a result of the disposal of its investment in Visa Europe shares. This represents the difference between the cost of the Visa Europe shares derecognised and the fair value of the consideration received. The latter comprises the received cash consideration, present value of the deferred cash consideration receivable in year 2019 and fair value of the received 2,246 preferred Visa Inc. Class C shares. At a future date and under certain conditions these shares are convertible into Class A shares.

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

	in EUR thousand			
	NLB Group		NLB d.d.	
	nine months ended		nine months ended	
	September	September	September	September
	2016	2015	2016	2015
Foreign exchange trading	7,025	8,040	2,402	3,061
Debt instruments	(2,034)	(861)	(2,034)	(863)
Derivatives	(1,302)	(28,461)	(1,383)	(28,352)
<b>TOTAL</b>	<b>3,689</b>	<b>(21,282)</b>	<b>(1,015)</b>	<b>(26,154)</b>
	=====	=====	=====	=====

#### 4.5. Other operating income

	in EUR thousand					
	NLB Group			NLB d.d.		
	nine months ended			nine months ended		
	September	September		September	September	
	2016	2015	change	2016	2015	change
Income from non-banking services	11,578	11,582	0%	7,764	8,249	-6%
Rental income from investment property	4,221	4,523	-7%	183	62	195%
Other operating income	3,064	4,184	-27%	1,690	1,624	4%
<b>TOTAL</b>	<b>18,863</b>	<b>20,289</b>	<b>-7%</b>	<b>9,637</b>	<b>9,935</b>	<b>-3%</b>
	=====	=====		=====	=====	

#### 4.6. Other operating expenses

	in EUR thousand					
	NLB Group			NLB d.d.		
	nine months ended			nine months ended		
	September 2016	September 2015	change	September 2016	September 2015	change
Deposit guarantee	11,004	6,182	78%	4,567	-	-
Revaluation of investment property to fair value	7,383	5,136	44%	484	52	831%
Single Resolution Fund	3,894	-	-	3,894	-	-
Taxes and other duties	2,208	1,761	25%	764	742	3%
Expenses related to issued service guarantees	851	4,017	-79%	851	4,017	-79%
Membership fees	651	1,100	-41%	248	608	-59%
Other operating expenses	1,834	3,447	-47%	982	2,351	-58%
<b>TOTAL</b>	<b>27,825</b>	<b>21,643</b>	<b>29%</b>	<b>11,790</b>	<b>7,770</b>	<b>52%</b>
	=====	=====		=====	=====	

In April 2016, the Law on the deposit guarantee scheme entered into force in Slovenia, according to which the Bank of Slovenia sets up and operates the deposit guarantee scheme in Slovenia. The target fund level is 0.8% of the sum of all guaranteed deposits in the Republic of Slovenia as at 31.12. of the previous year and until the Fund reaches this level, banks are obliged to pay regular annual contributions. In other banking members of the NLB Group, which operate outside the EU, similar schemes were already in place in previous years. Item "Deposits guarantee" includes also the amount of EUR 359 thousand which relates to NLB d.d.'s payment of guaranteed investors' claims at a brokerage company against which bankruptcy proceedings started.

#### 4.7. Administrative expenses

	in EUR thousand					
	NLB Group			NLB d.d.		
	nine months ended			nine months ended		
	September 2016	September 2015	change	September 2016	September 2015	change
Employee costs	122,875	120,395	2%	77,627	76,156	2%
Other general and administrative expenses	69,932	72,386	-3%	43,172	45,105	-4%
<b>TOTAL</b>	<b>192,807</b>	<b>192,781</b>	<b>0%</b>	<b>120,799</b>	<b>121,261</b>	<b>0%</b>
	=====	=====		=====	=====	

#### 4.8. Provisions for other liabilities and charges

	in EUR thousand			
	NLB Group		NLB d.d.	
	nine months ended		nine months ended	
	September 2016	September 2015	September 2016	September 2015
Guarantees and commitments	(13,276)	(5,153)	(12,521)	(5,894)
Provisions for legal issues	4,396	3,351	39	2,409
Provisions for restructuring	6,361	-	6,055	-
Other provisions	-	926	-	926
<b>TOTAL</b>	<b>(2,519)</b>	<b>(876)</b>	<b>(6,427)</b>	<b>(2,559)</b>
	=====	=====	=====	=====

## 4.9. Impairment charge

	in EUR thousand			
	NLB Group		NLB d.d.	
	nine months ended September 2016	September 2015	nine months ended September 2016	September 2015
<b>Impairment of financial assets</b>				
Loans and advances to customers (note 5.4.5.)	35,720	44,616	31,427	51,435
Held-to-maturity financial assets	83	-	83	-
Loans and advances to banks (note 5.4.5.)	(144)	2,525	(197)	50
Available-for-sale financial assets	28	(104)	28	(104)
Other financial assets (note 5.4.5.)	(459)	2,395	(234)	879
<b>Impairment of investments in subsidiaries, associates and JV</b>				
Investments in subsidiaries	-	-	25,001	10,889
<b>Impairment of other assets</b>				
Property and equipment	2,180	942	-	344
Other assets	2,562	11,441	232	365
<b>TOTAL</b>	<b>39,970</b>	<b>61,815</b>	<b>56,340</b>	<b>63,858</b>
	=====	=====	=====	=====

NLB d.d. impaired equity investments in the non-core subsidiaries that are in the process of divestment in total amount of EUR 25,001 thousand.

## 4.10. Gains less losses from investments in subsidiaries, associates and joint ventures

	in EUR thousand			
	NLB Group		NLB d.d.	
	nine months ended September 2016	September 2015	nine months ended September 2016	September 2015
Dividends from investments in subsidiaries, associates and joint ventures	-	-	28,819	13,747
Share of net gains less losses of associates and joint ventures accounted for using the equity method	3,987	3,667	-	-
<b>TOTAL</b>	<b>3,987</b>	<b>3,677</b>	<b>28,819</b>	<b>13,747</b>
	=====	=====	=====	=====

## 4.11. Income tax

	in EUR thousand					
	NLB Group			NLB d.d.		
	nine months ended September 2016	September 2015	change	nine months ended September 2016	September 2015	change
Current tax on profit	12,374	9,750	27%	7,108	5,739	24%
Deferred tax (5.8.)	1,979	(1,288)	-	(581)	(4)	-
<b>TOTAL</b>	<b>14,353</b>	<b>8,462</b>	<b>70%</b>	<b>6,527</b>	<b>5,735</b>	<b>14%</b>
	=====	=====		=====	=====	

## 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 d.d.		
	30.9.2016	31.12.2015	Change	30.9.2016	31.12.2015	Change
Balances and obligatory reserves with central banks	833,692	527,156	58%	431,433	155,160	178%
Cash	225,634	228,156	-1%	112,525	128,682	-13%
Demand deposits at banks	235,260	406,671	-42%	91,089	212,964	-57%
<b>TOTAL</b>	<b>1,294,586</b>	<b>1,161,983</b>	<b>11%</b>	<b>635,047</b>	<b>496,806</b>	<b>28%</b>
	=====	=====		=====	=====	

### 5.2. Financial instruments held for trading

#### a) Trading assets

	in EUR thousand					
	NLB Group			NLB d.d.		
	30.9.2016	31.12.2015	Change	30.9.2016	31.12.2015	Change
Derivatives, excluding hedging instruments						
Swap contracts	18,656	26,855	-31%	19,155	27,322	-30%
Forward contracts	621	3,035	-80%	619	3,035	-80%
Options	285	151	89%	285	151	89%
<b>Total derivatives</b>	<b>19,562</b>	<b>30,041</b>	<b>-35%</b>	<b>20,059</b>	<b>30,508</b>	<b>-34%</b>
Securities						
Commercial papers	117,033	151,171	-23%	117,033	151,171	-23%
Bonds	64,837	43,555	49%	64,837	43,555	49%
Treasury bills	29,990	42,636	-30%	29,990	42,636	-30%
Shares	-	10	-100%	-	10	-100%
<b>Total securities</b>	<b>211,860</b>	<b>237,372</b>	<b>-11%</b>	<b>211,860</b>	<b>237,372</b>	<b>-11%</b>
<b>TOTAL</b>	<b>231,422</b>	<b>267,413</b>	<b>-13%</b>	<b>231,919</b>	<b>267,880</b>	<b>-13%</b>
	=====	=====		=====	=====	

#### b) Trading liabilities

	in EUR thousand					
	NLB Group			NLB d.d.		
	30.9.2016	31.12.2015	Change	30.9.2016	31.12.2015	Change
<b>Derivatives, excluding hedges</b>						
Swap contracts	17,187	26,929	-36%	17,186	26,929	-36%
Forward contracts	511	2,944	-83%	503	2,933	-83%
Options	-	47	-100%	-	47	-100%
<b>TOTAL</b>	<b>17,698</b>	<b>29,920</b>	<b>-41%</b>	<b>17,689</b>	<b>29,909</b>	<b>-41%</b>
	=====	=====		=====	=====	

### 5.3. Available-for-sale financial assets

	in EUR thousand					
	NLB Group			NLB d.d.		
	30.9.2016	31.12.2015	Change	30.9.2016	31.12.2015	Change
Bonds	1,423,146	1,350,942	5%	1,080,172	999,781	8%
Commercial bills	152,821	151,168	1%	151,195	151,168	0%
Treasury bills	84,684	81,680	4%	49,970	26,998	85%
Cash certificates	65,614	77,939	-16%	-	-	-
National Resolution Fund	44,661	44,519	0%	44,661	44,519	0%
Shares	30,920	30,943	0%	24,739	25,893	-4%
<b>TOTAL</b>	<b>1,801,846</b>	<b>1,737,191</b>	<b>4%</b>	<b>1,350,737</b>	<b>1,248,359</b>	<b>8%</b>
	=====	=====		=====	=====	

## 5.4. Loans and advances

### Analysis by type of loans and advances

in EUR thousand

	NLB Group			NLB d.d.		
	30.9.2016	31.12.2015	Change	30.9.2016	31.12.2015	Change
Loans and advances to customers	6,590,861	6,693,621	-2%	4,591,929	4,826,139	-5%
Loans and advances to banks	470,493	431,775	9%	404,091	345,207	17%
Debt securities	407,166	394,579	3%	407,166	394,579	3%
Other financial assets	61,731	69,521	-11%	51,551	48,944	5%
<b>TOTAL</b>	<b>7,530,251</b>	<b>7,589,496</b>	<b>-1%</b>	<b>5,454,737</b>	<b>5,614,869</b>	<b>-3%</b>
	=====	=====		=====	=====	

#### 5.4.1. Debt securities

in EUR thousand

	NLB Group and NLB d.d.		
	30.9.2016	31.12.2015	Change
Government	319,961	309,570	3%
Companies	87,205	85,009	3%
<b>TOTAL</b>	<b>407,166</b>	<b>394,579</b>	<b>3%</b>
	=====	=====	

#### 5.4.2. Loans and advances to banks

in EUR thousand

	NLB Group			NLB d.d.		
	30.9.2016	31.12.2015	Change	30.9.2016	31.12.2015	Change
Time deposits	468,385	427,195	10%	381,934	315,016	21%
Loans	1,098	3,825	-71%	21,013	29,391	-29%
Purchased receivables	1,144	997	15%	1,144	997	15%
	470,627	432,017	9%	404,091	345,404	17%
Allowance for impairment (note 5.4.5.)	(134)	(242)	-45%	-	(197)	-100%
<b>TOTAL</b>	<b>470,493</b>	<b>431,775</b>	<b>9%</b>	<b>404,091</b>	<b>345,207</b>	<b>17%</b>
	=====	=====		=====	=====	

#### 5.4.3. Loans and advances to customers

in EUR thousand

	NLB Group			NLB d.d.		
	30.9.2016	31.12.2015	Change	30.9.2016	31.12.2015	Change
Loans	6,961,804	7,254,266	-4%	4,883,652	5,266,143	-7%
Overdrafts	307,361	320,514	-4%	179,201	183,406	-2%
Finance lease receivables	203,104	253,205	-20%	-	-	-
Credit card business	105,550	111,673	-5%	54,701	59,820	-9%
Called guarantees	9,411	16,773	-44%	7,541	11,463	-34%
Reverse sale and repurchase agreement	25	25	0%	25	25	0%
	7,587,255	7,956,456	-5%	5,125,120	5,520,857	-7%
Allowance for impairment (note 5.4.5.)	(996,394)	(1,262,835)	-21%	(533,191)	(694,718)	-23%
<b>TOTAL</b>	<b>6,590,861</b>	<b>6,693,621</b>	<b>-2%</b>	<b>4,591,929</b>	<b>4,826,139</b>	<b>-5%</b>
	=====	=====		=====	=====	

#### 5.4.4. Other financial assets

	in EUR thousand					
	NLB Group			NLB d.d.		
	30.9.2016	31.12.2015	Change	30.9.2016	31.12.2015	Change
Receivables in the course of collection	17,743	15,416	15%	16,236	13,033	25%
Receivables from purchase agreements for equity securities	16,883	16,920	0%	16,883	16,920	0%
Debtors	12,131	20,415	-41%	290	1,213	-76%
Credit card receivables	10,975	11,739	-7%	8,451	8,346	1%
Fees and commissions	6,039	7,548	-20%	3,956	5,384	-27%
Prepayments	4,258	4,289	-1%	-	-	-
Accrued income	2,352	326	621%	2,442	191	-
Dividends	70	44	59%	70	44	59%
Other financial assets	10,269	19,902	-48%	7,050	8,936	-21%
	80,720	96,599	-16%	55,378	54,067	2%
Allowance for impairment (note 5.4.5.)	(18,989)	(27,078)	-30%	(3,827)	(5,123)	-25%
<b>TOTAL</b>	<b>61,731</b>	<b>69,521</b>	<b>-11%</b>	<b>51,551</b>	<b>48,944</b>	<b>5%</b>
	=====	=====		=====	=====	

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

	in EUR thousand					
	NLB Group					
	Banks		Customers		Other financial assets	
	2016	2015	2016	2015	2016	2015
Balance at 1 January	242	24,722	1,262,835	1,638,304	27,078	42,680
Exchange differences on opening balance	1	2,339	(680)	19,448	80	28
Impairment (note 4.9.)	(144)	2,525	35,720	44,616	(459)	2,395
Write offs	-	(1,463)	(310,130)	(259,688)	(8,064)	(14,730)
Repayment of write offs	35	130	8,771	3,489	358	105
Exchange differences	-	(1,444)	(2)	(9,219)	(4)	103
Other	-	-	(120)	(117)	-	(4)
<b>Balance at 30 September</b>	<b>134</b>	<b>26,809</b>	<b>996,394</b>	<b>1,436,833</b>	<b>18,989</b>	<b>30,577</b>
	=====	=====	=====	=====	=====	=====

	in EUR thousand					
	NLB d.d.					
	Banks		Customers		Other financial assets	
	2016	2015	2016	2015	2016	2015
Balance at 1 January	197	682	694,718	998,382	5,123	17,521
Impairment (note 4.9.)	(197)	50	31,427	51,435	(234)	879
Write offs	-	(737)	(194,743)	(282,308)	(1,347)	(13,344)
Repayment of write offs	-	130	1,852	1,020	286	93
Exchange differences	-	55	(63)	5,041	(1)	-
<b>Balance at 30 September</b>	<b>-</b>	<b>180</b>	<b>533,191</b>	<b>773,570</b>	<b>3,827</b>	<b>5,149</b>
	=====	=====	=====	=====	=====	=====

#### 5.5. Held-to-maturity financial assets

	in EUR thousand		
	NLB Group and NLB d.d.		
	30.9.2016	31.12.2015	Change
Bonds	560,007	545,561	3%
Treasury bills	-	19,974	-100%
	560,007	565,535	-1%
Allowance for impairment	(83)	-	-
<b>TOTAL</b>	<b>559,924</b>	<b>565,535</b>	<b>-1%</b>
	=====	=====	

## 5.6. Investment property

in EUR thousand

	NLB Group			NLB d.d.		
	30.9.2016	31.12.2015	Change	30.9.2016	31.12.2015	Change
Buildings	82,606	87,860	-6%	7,553	7,640	-1%
Land	5,113	5,653	-10%	598	973	-39%
<b>TOTAL</b>	<b>87,719</b>	<b>93,513</b>	<b>-6%</b>	<b>8,151</b>	<b>8,613</b>	<b>-5%</b>
	=====	=====		=====	=====	

## 5.7. Other assets

in EUR thousand

	NLB Group			NLB d.d.		
	30.9.2016	31.12.2015	Change	30.9.2016	31.12.2015	Change
Assets, received as collateral	75,367	75,652	0%	4,065	3,371	21%
Inventories	14,223	10,497	35%	460	390	18%
Deferred expenses	5,815	5,133	13%	3,423	3,392	1%
Prepayments	1,199	1,619	-26%	391	1,241	-68%
Claim for taxes and other dues	1,228	2,453	-50%	305	1,385	-78%
<b>TOTAL</b>	<b>97,832</b>	<b>95,354</b>	<b>3%</b>	<b>8,644</b>	<b>9,779</b>	<b>-12%</b>
	=====	=====		=====	=====	

## 5.8. Deferred tax

in EUR thousand

	NLB Group			NLB d.d.		
	30.9.2016	31.12.2015	Change	30.9.2016	31.12.2015	Change
<b>Deferred income tax assets</b>						
Valuation of financial instruments and capital investments	67,233	59,683	13%	67,183	59,534	13%
Impairment provisions	4,367	4,219	4%	3,571	3,673	-3%
Employee benefit provisions	2,563	2,385	7%	2,430	2,246	8%
Depreciation and valuation of non-financial assets	1,100	1,130	-3%	159	182	-13%
Tax losses	185,144	229,229	-19%	187,385	232,371	-19%
Reduction of deferred tax assets	(238,658)	(275,098)	-13%	(240,742)	(278,020)	-13%
<b>Total deferred income tax assets</b>	<b>21,749</b>	<b>21,548</b>	<b>1%</b>	<b>19,986</b>	<b>19,986</b>	<b>0%</b>
<b>Deferred income tax liabilities</b>						
Valuation of financial instruments	12,403	11,249	10%	11,576	10,608	9%
Depreciation and valuation of non-financial assets	1,124	1,056	6%	229	239	-4%
Impairment provisions	2,916	129	-	-	-	-
Other	27	27	0%	-	-	-
<b>Total deferred income tax liabilities</b>	<b>16,470</b>	<b>12,461</b>	<b>32%</b>	<b>11,805</b>	<b>10,847</b>	<b>9%</b>
<b>Net deferred income tax assets</b>	<b>6,010</b>	<b>9,400</b>	<b>-36%</b>	<b>8,181</b>	<b>9,139</b>	<b>-10%</b>
<b>Net deferred income tax liabilities</b>	<b>(731)</b>	<b>(313)</b>	<b>134%</b>	<b>-</b>	<b>-</b>	<b>-</b>
	nine months ended			nine months ended		
	September 2016	September 2015		September 2016	September 2015	
<b>Included in the income statement for the current year</b>	<b>(1,979)</b>	<b>1,288</b>		<b>581</b>	<b>4</b>	
- valuation of financial instruments and capital investments	8,097	2,325		8,095	2,328	
- impairment provisions	(2,638)	(11,952)		(102)	(197)	
- employee benefit provisions	303	(100)		309	(136)	
- depreciation and valuation of non-financial assets	(96)	17		(13)	(92)	
- tax losses	(4,651)	11,782		(5,552)	(5,570)	
- dividends	-	(7)		-	(7)	
- adjustment of deferred income tax assets	(2,994)	(777)		(2,156)	3,678	
<b>Included in other comprehensive income for the current year</b>	<b>(1,826)</b>	<b>2,305</b>		<b>(1,539)</b>	<b>2,355</b>	
- valuation of available-for-sale financial assets	(1,715)	2,374		(1,428)	2,424	
- cash flow hedges	14	(69)		14	(69)	
- actuarial assumptions and experience	(125)	-		(125)	-	

In October 2016 NLB d.d. received a Minutes on tax audit of corporate income tax for the period from 2009 till 2014. In this respect 0,8 million EUR expenses for income tax were recorded and 39.4 million EUR deferred tax assets for tax losses were reduced. A reduction of deferred tax assets has no impact on statement of financial position, as the bank recognized deferred tax assets based on future profit projections only in the amount that is envisaged to be used in the foreseeable future.

## 5.9. Financial liabilities measured at amortised cost

### Analysis by type of financial liabilities, measured at amortised cost

in EUR thousand						
	NLB Group			NLB d.d.		
	30.9.2016	31.12.2015	Change	30.9.2016	31.12.2015	Change
Deposits from banks and central banks	51,716	57,982	-11%	90,434	96,736	-7%
- Deposits on demand	44,298	55,599	-20%	89,779	95,962	-6%
- Other deposits	7,418	2,383	211%	655	774	-15%
Borrowings from banks and central banks	402,501	571,029	-30%	357,834	519,926	-31%
Due to customers	9,265,209	9,020,666	3%	6,517,381	6,293,339	4%
- Deposits on demand	6,145,051	5,544,323	11%	4,589,392	4,092,767	12%
- Other deposits	3,120,158	3,476,343	-10%	1,927,989	2,200,572	-12%
Borrowings from other customers	83,993	100,267	-16%	5,132	16,168	-68%
Debt securities in issue	275,561	304,962	-10%	275,561	304,962	-10%
Subordinated liabilities	27,489	27,340	1%	-	-	-
Other financial liabilities	95,417	75,307	27%	62,615	47,346	32%
<b>TOTAL</b>	<b>10,201,886</b>	<b>10,157,553</b>	<b>0%</b>	<b>7,308,957</b>	<b>7,278,477</b>	<b>0%</b>
	=====	=====		=====	=====	

#### 5.9.1. Debt securities in issue

in EUR thousand			
NLB Group and NLB d.d.			
	30.9.2016	31.12.2015	% change
Carrying amount of issued securities			
- traded on active markets	275,561	304,962	-10%
Bonds (in %)			
- fixed rated	100.00	100.00	
	<b>100.00</b>	<b>100.00</b>	
	=====	=====	

#### 5.9.2. Subordinated liabilities

in EUR thousand						
	Currency	Due date	Interest rate	NLB Group		
				30.9.2016 Carrying amount	31.12.2015 Carrying amount	Change
<b>Subordinated loans</b>						
	EUR	30.6.2018	6 months EURIBOR + 6.3% p.a.	12,065	12,219	-1%
	EUR	30.6.2020	6 months EURIBOR + 7.7% p.a.	5,252	5,176	1%
	EUR	26.6.2025	6 months EURIBOR + 7.5% p.a.	10,172	9,945	2%
<b>TOTAL</b>				<b>27,489</b>	<b>27,340</b>	<b>1%</b>
				=====	=====	

#### 5.9.3. Other financial liabilities

in EUR thousand						
	NLB Group			NLB d.d.		
	30.9.2016	31.12.2015	Change	30.9.2016	31.12.2015	Change
Items in the course of payment	30,696	13,835	122%	17,504	4,580	282%
Liabilities to brokerage firms and others for securities purchase	3,588	-	-	3,588	-	-
Accrued expenses	17,510	12,695	38%	8,478	4,615	84%
Debit or credit card payables	12,308	15,502	-21%	11,667	14,231	-18%
Accrued salaries	9,485	8,274	15%	6,717	6,913	-3%
Suppliers	9,989	14,515	-31%	6,713	11,371	-41%
Fees and commissions due	86	1,341	-94%	49	1,305	-96%
Other financial liabilities	11,755	9,145	29%	7,899	4,331	82%
<b>TOTAL</b>	<b>95,417</b>	<b>75,307</b>	<b>27%</b>	<b>62,615</b>	<b>47,346</b>	<b>32%</b>
	=====	=====		=====	=====	

## 5.10. Provisions

	in EUR thousand					
	NLB Group			NLB d.d.		
	30.9.2016	31.12.2015	Change	30.9.2016	31.12.2015	Change
Provisions for financial guarantees	42,830	47,737	-10%	40,810	44,583	-8%
Provisions for non-financial guarantees	23,575	31,034	-24%	22,522	29,863	-25%
Employee benefit provisions	19,501	21,265	-8%	15,219	16,559	-8%
Provision for legal issues	15,505	13,465	15%	3,176	5,075	-37%
Provisions for other credit commitments	2,319	3,228	-28%	1,786	3,197	-44%
Restructuring provisions	7,267	3,477	109%	6,942	3,429	102%
Provisions for premiums from National Housing Savings Scheme	54	54	0%	54	54	0%
Other provisions	2,369	2,379	0%	2,367	2,377	0%
<b>TOTAL</b>	<b>113,420</b>	<b>122,639</b>	<b>-8%</b>	<b>92,876</b>	<b>105,137</b>	<b>-12%</b>
	=====	=====		=====	=====	

In the 2016 NLB Group recognised EUR 6,361 thousand (NLB d.d.: EUR 6,055 thousand) restructuring provisions. Associated cash flows are expected by the end of year 2017.

The biggest amount within material monetary claims relates to civil claims filed by Privredna banka Zagreb (the PBZ) and Zagrebačka banka (the ZaBa) against NLB d.d., referring to the old savings of savers of the LB Branch Zagreb, which were transferred to Croatian banks in the principal amount of EUR 171,324 thousand. Due to the fact the proceedings have been pending for such a long time, the penalty interest already exceeds the principal amount. As NLB d.d. is not liable for the old foreign currency savings, based on numerous process and content-related reasons, NLB d.d. has all along objected to these claims.

Despite the agreement in Memorandum of Understanding (Memorandum) to stay all the proceedings commenced, in May 2015 the Court of Appeal, the County Court of Zagreb, ruled in one claim to reject the complaints raised by the LB and NLB d.d. NLB d.d. then filed a constitutional appeal against the aforementioned final judgement. In the other cases, in respect of which the court procedures, described above, are pending, final judgments have not yet been issued.

Conversely, in another case, a claim filed by the PBZ became final in favour of NLB d.d.

In the last case on 29 March 2016, the court of second instance allowed the appeal and return the case to the Court of first instance, which initially decided in favour of the ZaBa, (related to payment of EUR 1,468 thousand, USD 9,884 thousand, AUD 1,567 thousand, CAD 2,309 thousand, CHF 18,791 thousand, GBP 328 thousand and JPY 182 thousand with interest and costs of the proceedings). Court of first instance will have to assess whether the Memorandum must be regarded as an international treaty, and whether it has, consequently, take precedence over the internal legislation of the Republic of Croatia, and if so, what was the intention of the parties in concluding the Memorandum.

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

## 5.11. Income tax relating to components of other comprehensive income

	in EUR thousand					
	NLB Group					
	30.9.2016			30.9.2015		
	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Available-for-sale financial assets	12,711	(1,715)	10,996	(13,190)	2,374	(10,816)
Cash flow hedge	(78)	14	(64)	406	(69)	337
Share of associates and joint ventures	5,861	(1,033)	4,828	(3,097)	506	(2,591)
Actuarial gains/(losses) on defined benefit pension plans	1,475	(125)	1,350	(16)	-	(16)
<b>TOTAL</b>	<b>19,969</b>	<b>(2,859)</b>	<b>17,110</b>	<b>(15,897)</b>	<b>2,811</b>	<b>(13,086)</b>
	=====	=====	=====	=====	=====	=====

in EUR thousand

	NLB d.d.					
	30.9.2016			30.9.2015		
	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Available-for-sale financial assets	8,394	(1,428)	6,966	(14,257)	2,424	(11,833)
Cash flow hedge	(78)	14	(64)	406	(69)	337
Actuarial gains on defined benefit pensions plans	1,466	(125)	1,341	-	-	-
<b>TOTAL</b>	<b>9,782</b>	<b>(1,539)</b>	<b>8,243</b>	<b>(13,851)</b>	<b>2,355</b>	<b>(11,496)</b>
	=====	=====	=====	=====	=====	=====

## 5.12. Other liabilities

in EUR thousand

	NLB Group			NLB d.d.		
	30.9.2016	31.12.2015	Change	30.9.2016	31.12.2015	Change
Taxes payable	2,941	4,982	-41%	2,373	3,817	-38%
Deferred income	2,894	7,579	-62%	931	1,693	-45%
Payments received in advance	2,379	1,978	20%	842	166	407%
<b>TOTAL</b>	<b>8,214</b>	<b>14,539</b>	<b>-44%</b>	<b>4,146</b>	<b>5,676</b>	<b>-27%</b>
	=====	=====		=====	=====	

## 5.13. Book value per share

The book value of a NLB d.d. share as at 30 September 2016 on a consolidated level was EUR 74.4 (31 December 2015: EUR 71.1) and on NLB d.d. it was EUR 63.0 (31 December 2015: EUR 62.1). It is calculated as the ratio of the book value of the equity and the number of shares. NLB Group and NLB d.d. do not have any other equity instruments issued or treasury shares.

## 5.14. Capital adequacy ratio

	NLB Group		in EUR thousand NLB d.d.	
	30.9.2016	31.12.2015	30.9.2016	31.12.2015
Paid up capital instruments	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Retained earnings - from previous years	246,668	207,004	81,530	81,529
Profit or loss eligible - from current year	-	39,599	-	-
Accumulated other comprehensive income	(5,236)	(4,090)	4,791	2,815
Other reserves	13,522	13,522	13,522	13,522
Minority interest	-	-	-	-
Prudential filters: Cash flow hedge reserve	1,384	897	1,385	897
Prudential filters: Value adjustments due to the requirements for prudent valuation	(2,092)	(3,134)	(1,641)	(2,649)
(-) Goodwill	(3,529)	(3,529)	-	-
(-) Other intangible assets	(30,275)	(35,745)	(23,920)	(29,627)
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	(2,286)	(2,755)	(3,577)	(2,886)
(-) Deduction item related to credit impairments and provisions not included in capital	(3,959)	-	(4,512)	-
<b>COMMON EQUITY TIER 1 CAPITAL (CET1)</b>	<b>1,285,575</b>	<b>1,283,147</b>	<b>1,138,956</b>	<b>1,134,979</b>
Additional Tier 1 capital	-	-	-	-
<b>TIER 1 CAPITAL</b>	<b>1,285,575</b>	<b>1,283,147</b>	<b>1,138,956</b>	<b>1,134,979</b>
Tier 2 capital	-	-	-	-
<b>TOTAL CAPITAL (OWN FUNDS)</b>	<b>1,285,575</b>	<b>1,283,147</b>	<b>1,138,956</b>	<b>1,134,979</b>
RWA for credit risk	6,591,333	6,849,633	4,071,599	4,353,619
RWA for market risks	118,100	137,351	37,225	68,988
RWA for credit valuation adjustment risk	550	9,313	550	9,313
RWA for operational risk	892,753	930,688	561,091	596,127
<b>TOTAL RISK EXPOSURE AMOUNT (RWA)</b>	<b>7,602,736</b>	<b>7,926,985</b>	<b>4,670,465</b>	<b>5,028,047</b>
Common Equity Tier 1 Ratio	16.9%	16.2%	24.4%	22.6%
Tier 1 Ratio	16.9%	16.2%	24.4%	22.6%
Total Capital Ratio	16.9%	16.2%	24.4%	22.6%

## 5.15. Off-balance sheet liabilities

	NLB Group			in EUR thousand NLB d.d.		
	30.9.2016	31.12.2015	Change	30.9.2016	31.12.2015	Change
Commitments to extend credit	1,161,009	1,101,241	5%	966,909	923,755	5%
Performance guarantees	453,899	432,784	5%	376,287	372,889	1%
Financial guarantees	353,748	357,786	-1%	219,379	213,817	3%
Letters of credit	16,109	19,402	-17%	3,575	3,567	0%
Other	8,337	7,289	14%	118	117	1%
	1,993,102	1,918,502	4%	1,566,268	1,514,145	3%
Provisions (note 5.10.)	(68,724)	(81,999)	-16%	(65,118)	(77,643)	-16%
<b>TOTAL</b>	<b>1,924,378</b>	<b>1,836,503</b>	5%	<b>1,501,150</b>	<b>1,436,502</b>	5%

## 5.16. 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 d.d.. 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 valuers. 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

30.9.2016	NLB Group				NLB d.d.			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
<b>Financial assets</b>								
Financial instruments held for trading	94,827	136,310	285	231,422	94,827	136,807	285	231,919
<i>Debt instruments</i>	94,827	117,033	-	211,860	94,827	117,033	-	211,860
<i>Derivatives</i>	-	19,277	285	19,562	-	19,774	285	20,059
Derivatives - hedge accounting	-	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss	6,819	-	-	6,819	2,754	-	-	2,754
<i>Debt instruments</i>	735	-	-	735	-	-	-	-
<i>Equity instruments</i>	6,084	-	-	6,084	2,754	-	-	2,754
Financial assets available-for-sale	1,455,884	339,497	6,465	1,801,846	1,144,259	204,068	2,410	1,350,737
<i>Debt instruments</i>	1,433,369	292,896	-	1,726,265	1,121,930	159,407	-	1,281,337
<i>Equity instruments</i>	22,515	46,601	6,465	75,581	22,329	44,661	2,410	69,400
<b>Financial liabilities</b>								
Financial instruments held for trading	-	17,698	-	17,698	-	17,689	-	17,689
<i>Derivatives</i>	-	17,698	-	17,698	-	17,689	-	17,689
Derivatives - hedge accounting	-	34,879	-	34,879	-	34,879	-	34,879
Financial liabilities designated at fair value through profit or loss	-	2,753	-	2,753	-	2,753	-	2,753
<b>Non-financial assets</b>								
Investment properties	-	87,719	-	87,719	-	8,151	-	8,151
Non-current assets classified as held for sale	-	5,008	-	5,008	-	2,227	-	2,227

31.12.2015

	NLB Group				NLB d.d.			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
<b>Financial assets</b>								
Financial instruments held for trading	85,208	181,098	1,107	267,413	85,208	181,565	1,107	267,880
<i>Debt instruments</i>	85,198	151,171	993	237,362	85,198	151,171	993	237,362
<i>Equity instruments</i>	10	-	-	10	10	-	-	10
<i>Derivatives</i>	-	29,927	114	30,041	-	30,394	114	30,508
Derivatives - hedge accounting	-	1,083	-	1,083	-	1,083	-	1,083
Financial assets designated at fair value through profit or loss	7,595	-	-	7,595	4,913	-	-	4,913
<i>Debt instruments</i>	753	-	-	753	-	-	-	-
<i>Equity instruments</i>	6,842	-	-	6,842	4,913	-	-	4,913
Financial assets available-for-sale	1,344,175	383,056	9,960	1,737,191	1,037,876	203,609	6,874	1,248,359
<i>Debt instruments</i>	1,324,978	336,751	-	1,661,729	1,018,857	159,090	-	1,177,947
<i>Equity instruments</i>	19,197	46,305	9,960	75,462	19,019	44,519	6,874	70,412
<b>Financial liabilities</b>								
Financial instruments held for trading	-	29,920	-	29,920	-	29,909	-	29,909
<i>Derivatives</i>	-	29,920	-	29,920	-	29,909	-	29,909
Derivatives - hedge accounting	-	33,842	-	33,842	-	33,842	-	33,842
Financial liabilities designated at fair value through profit or loss	-	4,912	-	4,912	-	4,912	-	4,912
<b>Non-financial assets</b>								
Investment properties	-	93,513	-	93,513	-	8,613	-	8,613
Non-current assets classified as held for sale	-	4,629	-	4,629	-	1,776	-	1,776

## 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					Derivatives		
	Equities	Equity stake	Funds	Debt securities	Equities	Currency	Interest
<b>1</b>	market value from exchange market		regular valuation by fund management company	market value from exchange market			
<b>2</b>				valuation model	valuation model (underlying instrument on level 1)	valuation model	valuation model
<b>3</b>	valuation model	valuation model	valuation model	valuation model	valuation model (underlying instrument on level 3)		
<b>Transfers</b>	<i>from level 1 to 3</i> equity excluded from exchange market  <i>from level 1 to 3</i> companies in insolvency proceedings  <i>from level 3 to 1</i> equity included in exchange market				<i>from level 2 to 3</i> underlying excluded from exchange market  <i>from level 3 to 2</i> underlying included in exchange market  <i>from level 1 to 2</i> fixed income excluded from exchange market  <i>from level 1 to 2</i> fixed income not liquid (not trading for 6 months)  <i>from level 1 to 3 and from 2 to 3</i> companies in insolvency proceedings  <i>from level 2 to 1 and from 3 to 1</i> start trading with fixed income on exchange market  <i>from level 3 to 2</i> until valuation parameters are confirmed on ALCO (at least on a quarterly basis)		

For the nine months ended 30 September 2016 and 30 September 2015, NLB Group and NLB d.d. had no 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 d.d. include:

- debt securities: bonds not quoted on active markets and valued 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 d.d. 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	Financial assets held for trading		Available-for-sale financial assets	Total financial assets
	Debt instruments	Derivatives	Equity instruments	
Balance at 1 January 2016	993	114	9,960	11,067
Effects of translation of foreign operations to presentation currency	-	-	(6)	(6)
Valuation:				
- through profit or loss	-	171	(9)	162
- recognised in other comprehensive income	-	-	1,313	1,313
Exchange differences	(37)	-	-	(37)
Increases	-	-	1,066	1,066
Decreases	(956)	-	(5,859)	(6,815)
<b>Balance at 30 September 2016</b>	<b>-</b>	<b>285</b>	<b>6,465</b>	<b>6,750</b>

in EUR thousand

NLB Group	Financial assets held for trading		Available-for-sale financial assets	Total financial assets	Financial liabilities held for trading
	Debt instruments	Derivatives	Equity instruments		Derivatives
Balance at 1 January 2015	892	120	6,742	7,754	4,171
Effects of translation of foreign operations to presentation currency	-	-	(117)	(117)	-
Valuation:					
- through profit or loss	-	(101)	(13)	(114)	74
- recognised in other comprehensive income	-	-	(1,623)	(1,623)	-
Exchange differences	76	-	-	76	-
Increases	-	-	4,378	4,378	-
Decreases	-	-	(23)	(23)	-
Transfers into level 3	-	-	110	110	-
<b>Balance at 30 September 2015</b>	<b>968</b>	<b>19</b>	<b>9,454</b>	<b>10,441</b>	<b>4,245</b>

in EUR thousand

NLB d.d.	Financial assets held for trading		Available-for-sale financial assets	Total financial assets
	Debt instruments	Derivatives	Equity instruments	
Balance at 1 January 2016	993	114	6,874	7,981
Valuation:				
- through profit or loss	-	171	(9)	162
- recognised in other comprehensive income	-	-	338	338
Exchange differences	(37)	-	-	(37)
Increases	-	-	1,066	1,066
Decreases	(956)	-	(5,859)	(6,815)
<b>Balance at 30 September 2016</b>	<b>-</b>	<b>285</b>	<b>2,410</b>	<b>2,695</b>

in EUR thousand

NLB d.d.	Financial assets held for trading		Available-for-sale financial assets	Total financial assets	Financial liabilities held for trading
	Debt instruments	Derivatives	Equity instruments		Derivatives
Balance at 1 January 2015	892	120	5,925	6,937	4,171
Valuation:					
- through profit or loss	-	(101)	(13)	(114)	74
- recognised in other comprehensive income	-	-	(1,625)	(1,625)	-
Exchange differences	76	-	-	76	-
Decreases	-	-	(22)	(22)	-
<b>Balance at 30 September 2015</b>	<b>968</b>	<b>19</b>	<b>4,265</b>	<b>5,252</b>	<b>4,245</b>

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

in EUR thousand

	NLB Group				NLB d.d.			
	30.9.2016		31.12.2015		30.9.2016		31.12.2015	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Loans and advances								
- debt securities	407,166	402,619	394,579	397,079	407,166	402,619	394,579	397,079
- loans and advances to banks	470,493	471,145	431,775	431,736	404,091	413,492	345,207	354,369
- loans and advances to customers	6,590,861	6,687,766	6,693,621	6,685,798	4,591,929	4,628,984	4,826,139	4,838,561
- other financial assets	61,731	61,731	69,521	69,521	51,551	51,551	48,944	48,944
Held-to-maturity investments	559,924	629,235	565,535	624,977	559,924	629,235	565,535	624,977
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	51,716	53,006	57,982	58,008	90,434	90,435	96,736	96,736
- borrowings from banks and central banks	402,501	404,767	571,029	566,144	357,834	372,300	519,926	513,719
- due to customers	9,265,209	9,290,569	9,020,666	9,036,023	6,517,381	6,533,260	6,293,339	6,299,181
- borrowings from other customers	83,993	85,077	100,267	101,197	5,132	5,139	16,168	15,783
- debt securities in issue	275,561	279,750	304,962	308,989	275,561	279,750	304,962	308,989
- subordinated liabilities	27,489	33,069	27,340	27,585	-	-	-	-
- other financial liabilities	95,417	95,417	75,307	75,307	62,615	62,615	47,346	47,346

#### *Loans and advances to banks*

The estimated fair value of deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and residual maturities. The fair value of overnight deposits equals their carrying value.

#### *Loans and advances to customers*

Loans and advances are net of the allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates for debts with similar credit risk and residual maturities to determine their fair value.

#### *Deposits and borrowings*

The fair value of sight deposits and overnight deposits equals to their carrying value. However, their actual value for the NLB Group depends on the timing and amounts of cash flows, current market rates and the credit risk of the depository institution itself. A portion of sight deposits is stable, similar to term deposits. Therefore, their economic value for the NLB Group differs from the carrying amount.

The estimated fair value of other deposits and borrowings from customers is based on discounted cash flows using interest rates for new deposits with similar residual maturities.

#### *Held-to-maturity financial assets and issued debt securities*

The fair value of held-to-maturity financial assets and issued debt securities is based on their quoted market price or value calculated by using a discounted cash flow method and prevailing money market interest rates.

### Loan commitments

For credit facilities that are drawn soon after the NLB Group grants loans (drawn at market rates) and loan commitments to those clients that are not impaired, the fair value is close to zero. For loan commitments to clients that are impaired, the fair value represents the amount of the created provisions.

### Other financial assets and liabilities

The carrying amount of other financial assets and liabilities is a reasonable approximation of their fair value as they mainly relate to short-term receivables and payables.

## Fair value hierarchy of financial instruments not measured at fair value in financial statements

in EUR thousand								
30.9.2016	NLB Group				NLB d.d.			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Loans and advances								
- debt securities	-	402,619	-	402,619	-	402,619	-	402,619
- loans and advances to banks	-	471,145	-	471,145	-	413,492	-	413,492
- loans and advances to customers	-	6,687,766	-	6,687,766	-	4,628,984	-	4,628,984
- other financial assets	-	61,731	-	61,731	-	51,551	-	51,551
Held-to-maturity investments	629,235	-	-	629,235	629,235	-	-	629,235
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	53,006	-	53,006	-	90,435	-	90,435
- borrowings from banks and central banks	-	404,767	-	404,767	-	372,300	-	372,300
- due to customers	-	9,290,569	-	9,290,569	-	6,533,260	-	6,533,260
- borrowings from other customers	-	85,077	-	85,077	-	5,139	-	5,139
- debt securities in issue	279,750	-	-	279,750	279,750	-	-	279,750
- subordinated liabilities	-	33,069	-	33,069	-	-	-	-
- other financial liabilities	-	95,417	-	95,417	-	62,615	-	62,615

in EUR thousand								
31.12.2015	NLB Group				NLB d.d.			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Loans and advances								
- debt securities	-	397,079	-	397,079	-	397,079	-	397,079
- loans and advances to banks	-	431,736	-	431,736	-	354,369	-	354,369
- loans and advances to customers	-	6,685,798	-	6,685,798	-	4,838,561	-	4,838,561
- other financial assets	-	69,521	-	69,521	-	48,944	-	48,944
Held-to-maturity investments	624,977	-	-	624,977	624,977	-	-	624,977
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	58,008	-	58,008	-	96,736	-	96,736
- borrowings from banks and central banks	-	566,144	-	566,144	-	513,719	-	513,719
- due to customers	-	9,036,023	-	9,036,023	-	6,299,181	-	6,299,181
- borrowings from other customers	-	101,197	-	101,197	-	15,783	-	15,783
- debt securities in issue	308,989	-	-	308,989	308,989	-	-	308,989
- subordinated liabilities	-	27,585	-	27,585	-	-	-	-
- other financial liabilities	-	75,307	-	75,307	-	47,346	-	47,346

## 6. Events after the end of the reporting period

No events took place after 30 September 2016 that would have had a materially significant influence on the presented financial statements.

## 7. Related-party transactions

The volumes of related party transactions and the outstanding balances:

in EUR thousand

NLB Group and NLB d.d.

	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	
	30.9.2016	31.12.2015	30.9.2016	31.12.2015	30.9.2016	31.12.2015	30.9.2016	31.12.2015
Loans and deposits issued	2,170	1,953	506	468	391	375	-	2
Loans and deposits received	2,022	2,158	611	729	442	106	117	223
Other financial liabilities	-	2	-	-	1	1	-	-
Guarantees issued and commitments to extend credit	246	223	93	83	147	14	3	17
	nine months ended September 2016	September 2015	nine months ended September 2016	September 2015	nine months ended September 2016	September 2015	nine months ended September 2016	September 2015
Interest income	32	34	7	8	7	8	-	-
Interest expenses	(10)	(15)	(3)	(7)	-	-	(1)	-
Fee income	8	7	4	4	6	5	-	1
Other income	2	-	-	-	-	-	-	-

in EUR thousand

	NLB Group		NLB d.d.	
	Ultimate parent		Ultimate parent	
	30.9.2016	31.12.2015	30.9.2016	31.12.2015
Loans and deposits issued	201,853	227,341	196,104	220,646
Loans and deposits received	70,003	110,001	70,003	110,001
Investments in securities	955,818	891,576	890,645	845,039
Other financial assets	168	168	1	16
Other financial liabilities	4	9	4	9
Guarantees issued and commitments to extend credit	820	824	820	824
	nine months ended September 2016	September 2015	nine months ended September 2016	September 2015
Interest income	25,840	27,576	25,116	27,318
Interest expenses	(4)	(41)	(4)	(41)
Fee income	96	83	96	83
Fee expenses	(28)	(38)	(28)	(38)
Other income	3	1,385	3	16
Other expenses	-	(1)	-	(1)

NLB Group discloses all transactions with the ultimate controlling party. For transactions with other government-related entities, NLB Group discloses individually significant transactions.

in EUR thousand

**NLB Group**

	Amount of significant transactions concluded during the period		Number of significant transactions concluded during the period	
	1.1.-	1.1.-	1.1.-	1.1.-
	30.9.2016	31.12.2015	30.9.2016	31.12.2015
Loans	-	200,000	-	1
Borrowings, deposits and business accounts	-	48,669	-	1
Commitments to extend credit	140,000	-	2	-
	Balance of all significant transactions at end of the period		Number of significant transactions at end of the period	
	30.9.2016	31.12.2015	30.9.2016	31.12.2015
Loans	612,669	617,185	5	5
Debt securities classified as loans and advances	407,167	394,579	1	1
Borrowings, deposits and business accounts	135,020	134,798	3	3
Commitments to extend credit	140,000	-	2	-
	1.1.-	1.1.-		
	30.9.2016	30.9.2015		
Interest income from loans	2,502	2,403		
Effects from net interest income and net valuation from debt securities classified as loans and receivables	15,372	18,946		
Interest income from debt securities	-	532		
Interest expense from borrowings, deposits and business accounts	(194)	(408)		
Interest income from commitments to extend credit	758	125		

in EUR thousand

	NLB Group			
	Associates		Joint ventures	
	30.9.2016	31.12.2015	30.9.2016	31.12.2015
Loans and deposits issued	1,448	1,625	54,459	93,823
Loans and deposits received	6,022	1,179	10,586	6,036
Debt securities in issue	-	569	-	-
Other financial assets	-	32	371	208
Other financial liabilities	162	1,025	119	203
Guarantees issued and commitments to extend credit	35	43	28	29
	nine months ended		nine months ended	
	September	September	September	September
	2016	2015	2016	2015
Interest income	36	52	788	2,309
Interest expenses	(17)	(18)	(26)	(221)
Fee income	88	80	2,603	2,186
Fee expenses	(7,683)	(6,950)	(1,500)	(1,365)
Other income	167	298	319	317
Other expenses	(778)	(725)	(89)	-

in EUR thousand

	NLB d.d.					
	Subsidiaries		Associates		Joint ventures	
	30.9.2016	31.12.2015	30.9.2016	31.12.2015	30.9.2016	31.12.2015
Loans and deposits issued	351,558	385,184	1,448	1,625	54,442	93,799
Loans and deposits received	64,679	59,407	6,022	1,179	9,331	3,438
Debt securities in issue	-	-	-	569	-	-
Derivatives						
Fair value	500	469	-	-	-	-
Contractual amount	2,723	3,836	-	-	-	-
Other financial assets	586	5,054	-	28	367	207
Other financial liabilities	238	357	63	948	34	176
Guarantees issued and commitments to extend credit	36,773	38,660	35	43	27	28
Received loan commitments and financial guarantees	122	750	-	-	-	-
	nine months ended		nine months ended		nine months ended	
	September 2016	September 2015	September 2016	September 2015	September 2016	September 2015
Interest income	5,734	8,516	36	52	787	2,308
Interest expenses	(19)	(15)	(17)	(18)	(4)	(122)
Fee income	3,098	3,824	88	80	2,410	1,986
Fee expenses	(55)	(85)	(6,907)	(6,950)	(1,053)	(1,007)
Other income	352	334	167	298	289	258
Other expenses	(2,112)	(2,140)	(585)	(725)	(89)	-

## Key management compensation

in EUR thousand

NLB Group and NLB d.d.	Management Board		Other key management personnel	
	nine months ended		nine months ended	
	September 2016	September 2015	September 2016	September 2015
Short-term benefits	372	434	3,666	3,191
Cost refunds	3	5	83	81
Long-term bonuses	3	2	57	45
Bonuses	39	96	279	515
<b>TOTAL</b>	<b>417</b>	<b>537</b>	<b>4,085</b>	<b>3,832</b>
	=====	=====	=====	=====

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 comprises food allowances and travel expenses.

Long-term bonuses include supplementary voluntary pension insurance and jubilee bonuses.

## 8. Analysis by segment for NLB Group

### a) Segments

The nine months ended 30 September 2016

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	59,347	104,397	38,331	133,522	18,929	6,040	-	360,566
Net income from external customers	64,800	97,277	35,737	134,455	19,060	6,300	-	357,629
Intersegment net income	(5,453)	7,120	2,594	(933)	(131)	(260)	-	2,937
Net interest income	35,984	54,319	35,252	101,944	11,852	(535)	-	238,816
Net interest income from external customers	41,438	47,420	32,615	103,743	13,875	(275)	-	238,816
Intersegment net interest income	(5,453)	6,898	2,637	(1,799)	(2,023)	(260)	-	(0)
Administrative expenses	(30,596)	(69,031)	(8,312)	(63,278)	(16,190)	(8,337)	-	(195,744)
Depreciation and amortisation	(3,427)	(8,097)	(788)	(5,929)	(1,723)	(1,398)	-	(21,362)
<b>Reportable segment profit/(loss) before impairment and provision charge</b>	<b>25,323</b>	<b>27,269</b>	<b>29,231</b>	<b>64,315</b>	<b>1,016</b>	<b>(3,694)</b>	-	<b>143,460</b>
Gains less losses from capital investment in subsidiaries, associates and joint ventures	-	3,987	-	-	-	-	-	3,987
Impairment and provisions charge	4,489	(9,197)	42	(6,752)	(19,696)	(6,338)	-	(37,451)
<b>Profit/(loss) before income tax</b>	<b>29,812</b>	<b>22,060</b>	<b>29,273</b>	<b>57,563</b>	<b>(18,680)</b>	<b>(10,032)</b>	-	<b>109,996</b>
Owners of the parent	29,812	22,060	29,273	53,390	(18,680)	(10,032)	-	105,823
Non-controlling interests	-	-	-	4,173	-	-	-	4,173
Income tax	-	-	-	-	-	-	(14,353)	(14,353)
<b>Profit/(loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>91,470</b>
30.9.2016								
Reportable segment assets	2,059,813	2,012,575	3,617,376	3,445,077	625,309	92,604	-	11,852,754
Investments in associates and joint ventures	-	44,922	-	-	-	-	-	44,922
Reportable segment liabilities	1,226,767	5,151,780	885,161	2,968,756	87,439	61,650	-	10,381,553

The nine months ended 30 September 2015

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	64,884	112,739	58,677	122,552	3,712	3,494	-	366,057
Net income from external customers	73,863	98,120	55,361	124,900	7,193	3,697	-	363,134
Intersegment net income	(8,980)	14,619	3,316	(2,348)	(3,481)	(203)	-	2,923
Net interest income	43,098	57,553	47,551	92,078	13,747	(976)	-	253,051
Net interest income from external customers	52,077	42,972	43,985	95,009	19,781	(773)	-	253,051
Intersegment net interest income	(8,980)	14,581	3,567	(2,931)	(6,034)	(203)	-	(0)
Administrative expenses	(29,325)	(70,736)	(8,186)	(61,346)	(18,793)	(7,317)	-	(195,704)
Depreciation and amortisation	(3,791)	(9,373)	(940)	(6,053)	(2,569)	(1,431)	-	(24,157)
<b>Reportable segment profit/(loss) before impairment and provision charge</b>	<b>31,768</b>	<b>32,630</b>	<b>49,551</b>	<b>55,154</b>	<b>(17,651)</b>	<b>(5,255)</b>	-	<b>146,196</b>
Gains less losses from capital investment in subsidiaries, associates and joint ventures	-	3,667	-	-	10	-	-	3,677
Impairment and provisions charge	(11,353)	(6,197)	(14)	(18,158)	(22,442)	(2,775)	-	(60,939)
<b>Profit/(loss) before income tax</b>	<b>20,415</b>	<b>30,099</b>	<b>49,537</b>	<b>36,996</b>	<b>(40,083)</b>	<b>(8,029)</b>	-	<b>88,934</b>
Owners of the parent	20,415	30,099	49,537	34,192	(40,083)	(8,029)	-	86,130
Non-controlling interests	-	-	-	2,804	-	-	-	2,804
Income tax	-	-	-	-	-	-	(8,462)	(8,462)
<b>Profit/(loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>77,668</b>
31.12.2015								
Reportable segment assets	2,160,440	2,015,459	3,350,804	3,389,032	752,137	114,047	-	11,781,919
Investments in associates and joint ventures	-	39,696	-	-	-	-	-	39,696
Reportable segment liabilities	1,193,660	4,906,699	1,139,738	2,942,463	114,111	74,561	-	10,371,232
Additions to non-current assets	4,673	12,127	762	10,129	8,747	4,104	-	40,541

## b) Geographical information

in EUR thousand

NLB Group	Revenues		Net income		Non-current assets		Total assets	
	nine months ended		nine months ended					
	September 2016	September 2015	September 2016	September 2015	30.9.2016	31.12.2015	30.9.2016	31.12.2015
<b>Slovenia</b>	<b>263,093</b>	<b>308,149</b>	<b>226,249</b>	<b>249,073</b>	<b>231,112</b>	<b>240,592</b>	<b>8,340,178</b>	<b>8,289,804</b>
<b>South East Europe</b>	<b>174,108</b>	<b>172,450</b>	<b>129,736</b>	<b>126,413</b>	<b>129,976</b>	<b>138,513</b>	<b>3,511,720</b>	<b>3,469,279</b>
Macedonia	61,873	58,534	45,910	41,107	33,462	33,919	1,089,779	1,117,708
Serbia	15,691	17,005	13,784	14,835	24,745	24,778	306,628	280,274
Montenegro	23,164	23,410	11,628	15,822	29,864	35,580	491,674	495,044
Croatia	30	702	(196)	652	2,075	3,623	27,955	33,032
Bosnia and Herzegovina	48,906	48,870	38,214	34,785	26,669	27,031	1,098,707	1,077,299
Bulgaria	-	-	-	-	-	1	216	333
Kosovo	24,444	23,929	20,396	19,212	13,161	13,581	496,761	465,589
<b>Western Europe</b>	<b>1,225</b>	<b>675</b>	<b>1,645</b>	<b>(12,312)</b>	<b>269</b>	<b>296</b>	<b>42,599</b>	<b>58,961</b>
Germany	5	4	381	201	225	240	3,019	3,273
Switzerland	1,220	671	1,264	(12,513)	44	56	39,580	55,688
<b>Czech Republic</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>(40)</b>	<b>883</b>	<b>865</b>	<b>3,179</b>	<b>3,571</b>
<b>TOTAL</b>	<b>438,426</b>	<b>481,274</b>	<b>357,629</b>	<b>363,134</b>	<b>362,240</b>	<b>380,266</b>	<b>11,897,676</b>	<b>11,821,615</b>
	=====	=====	=====	=====	=====	=====	=====	=====

The geographical analysis includes a breakdown of items with respect to the country in which individual NLB Group entities are located.

## 9. Subsidiaries

NLB Group's subsidiaries as at 30 September 2016 were:

	Nature of Business	Country of Incorporation	NLB Group's shareholding %	NLB d.d.'s shareholding %
<b>Core members</b>				
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	99.36	99.36
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
<b>Non-core members</b>				
NLB Leasing d.o.o., Ljubljana	Finance	Republic of Slovenia	100	100
NLB Leasing Sofija E.o.o.d., Sofia	Finance	Republic of Bulgaria	100	-
Optima Leasing d.o.o., Zagreb	Finance	Republic of Croatia	100	-
NLB Leasing Podgorica d.o.o., Podgorica	Finance	Republic of Montenegro	100	100
NLB Leasing d.o.o., Belgrade	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	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	Real estate	Republic of Slovenia	100	100
OL Nekretnine d.o.o., Zagreb	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
NLB Propria d.o.o., Ljubljana	Real estate	Republic of Slovenia	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	100	100
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	100	100
NLB InterFinanz AG, Zürich	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	-
LHB AG, Frankfurt	Finance	Republic of Germany	100	100
NLB Factoring a.s. - "v likvidaci", Brno	Finance	Czech Republic	100	100

NLB Group's subsidiaries as at 31 December 2015 were:

	Nature of Business	Country of Incorporation	NLB Group's shareholding %	NLB d.d.'s shareholding %
<b>Core members</b>				
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	99.36	99.36
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
<b>Non-core members</b>				
NLB Leasing d.o.o., Ljubljana	Finance	Republic of Slovenia	100	100
NLB Leasing Sofija E.o.o.d., Sofia	Finance	Republic of Bulgaria	100	-
Optima Leasing d.o.o., Zagreb	Finance	Republic of Croatia	100	-
NLB Leasing Podgorica d.o.o., Podgorica	Finance	Republic of Montenegro	100	100
NLB Leasing d.o.o., Belgrade	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	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	Real estate	Republic of Slovenia	100	100
OL Nekretnine d.o.o., Zagreb	Real estate	Republic of Croatia	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
PRO-Avenija d.o.o., Ljubljana	Real estate	Republic of Slovenia	100	100
NLB Propria d.o.o., Ljubljana	Real estate	Republic of Slovenia	100	100
FIN-DO d.o.o., Dom žale	Real estate	Republic of Slovenia	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	100	100
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	100	100
NLB InterFinanz AG, Zürich	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	-
LHB AG, Frankfurt	Finance	Republic of Germany	100	100
NLB Factoring a.s. - "v likvidaci", Brno	Finance	Czech Republic	100	100

\*Ownership interest is calculated after the deduction of treasury shares.