

Semi-Annual Report

JUNE 2017

H1



Slovenia

NLB, Ljubljana

113

Number of
branches

693,779

Number of active
clients

8,789.3

Total assets (in
EUR million)

23.6

Market share by
total assets (in %)

105.3

Result after tax (in EUR million)

NLB Skladi, Ljubljana

1,117.3

Assets under
management (in
EUR million)

28.7

(mutual funds)
Market share
(in %)*

1.8

Result after tax (in EUR million)

*Market share of assets under management in mutual funds

NLB Vita, Ljubljana

423.5

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

12.3

Market share
(in %)*

3.6

Result after tax (in EUR million)

*Market share in traditional life insurance



Bosnia and Herzegovina

NLB Banka, Banja Luka

60

Number of
branches

216,502

Number of active
clients

644.7

Total assets (in
EUR million)

19.0

Market share by
total assets (in %)*

15.7

Result after tax (in EUR million)

* Market share in Republic of Srpska, as at 31 March 2017

NLB Banka, Sarajevo

39

Number of
branches

138,343

Number of active
clients

519.5

Total assets (in
EUR million)

5.5

Market share by
total assets (in %)*

4.0

Result after tax (in EUR million)

*Market share in the Federation of Bosnia and Herzegovina, as at 31 March 2017



Macedonia

NLB Banka, Skopje

52

Number of
branches

375,769

Number of
active clients

1,125.5

Total assets
(in EUR million)

16.1

Market share
by total assets
(in %)*

20.7

Result after tax
(in EUR million)

* As at 31 March 2017



Kosovo

NLB Banka, Prishtina

45

Number of
branches

195,223

Number of
active clients

525.5

Total assets
(in EUR million)

15.0

Market share
by total assets
(in %)*

7.9

Result after tax
(in EUR million)

* As at 31 March 2017



Serbia

NLB Banka, Beograd

31

Number of
branches

133,939

Number of
active clients

328.0

Total assets
(in EUR million)

1.2

Market share
by total assets
(in %)*

4.2

Result after
tax (in EUR million)

* As at 31 March 2017



Montenegro

NLB Banka, Podgorica

18

Number of
branches

58,379

Number of
active clients

463.6

Total assets
(in EUR million)

11.9

Market share
by total assets
(in %)*

2.4

Result after tax
(in EUR million)

* As at 31 March 2017

Note: The result after tax data in the above figure show NLB Group members' standalone and not their contribution to the consolidated result after tax.

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Business Report

Key financial and operating data

Table 1: Key financial captions for NLB Group (the Group)

	NLB Group					
	H1 2017	H1 2016	Change YoY	Q2 17	Q1 17	Change QoQ
Key Income statement data (in EUR million)						
Net operating income ¹	241.1	243.1	-1%	110.1	131.0	-16%
Net interest income	148.6	156.7	-5%	73.2	75.3	-3%
Net non-interest income	92.5	86.4	7%	36.9	55.7	-34%
Costs	-139.1	-142.8	-3%	-71.6	-67.5	6%
Result before impairments and provisions ¹	102.0	100.3	2%	38.5	63.5	-39%
Impairments and provisions	25.6	-21.0	-222%	1.1	24.5	-96%
Result after tax	117.9	69.5	70%	36.4	81.6	-55%
Key financial indicators						
Interest margin (on interest bearing assets) ²	2.47%	2.56%	-0.1 p.p.	2.43%	2.50%	-0.1 p.p.
Interest margin (on total assets - BoS ratio)	2.47%	2.64%	-0.2 p.p.	2.43%	2.50%	-0.1 p.p.
Costs to income ratio (CIR)	57.7%	58.7%	-1.1 p.p.	65.0%	51.5%	13.5 p.p.
Costs to income ratio (CIR) normalised ³	59.7%	61.5%	-1.8 p.p.	64.0%	55.9%	8.1 p.p.
Return on equity after tax (ROE a.t.)	15.5%	9.4%	6.0 p.p.			
Return on assets after tax (ROA a.t.)	2.0%	1.2%	0.8 p.p.			
RORAC a.t. ⁴	24.2%	14.6%	9.6 p.p.			
Cost of Risk Net (bps) ⁵	-80	48	-128 b.p.			
Cost of Risk Net (excluding release of pool provisions) (bps)	-20	90	-110 b.p.			

	NLB Group				
	30 June 2017	31 March 2017	31 Dec 2016	Change YTD	Change QoQ
Key financial position statement data (in EUR million)					
Total assets	12,070	12,090	12,039	0%	0%
Loans to customers (net)	6,974	7,005	6,997	0%	0%
o/w Key business activities	6,346	6,328	6,314	1%	0%
Deposits from customers	9,491	9,514	9,439	1%	0%
Total equity	1,538	1,565	1,495	3%	-2%
Other key financial indicators					
Loans to customers/deposits from customers (L/D) ⁶	73.5%	73.6%	74.1%	-0.7 p.p.	-0.1 p.p.
Common Equity Tier 1 Ratio	16.5%	16.7%	17.0%	-0.5 p.p.	-0.2 p.p.
Total capital ratio	16.5%	16.7%	17.0%	-0.5 p.p.	-0.2 p.p.
Total risk exposure amount (RWA)	8,035	7,935	7,862	2%	1%
NPL- Gross (in EUR million)	1,181	1,215	1,299	-9%	-3%
NPL coverage ratio ⁷	65.4%	65.1%	64.6%	0.8 p.p.	0.3 p.p.
NPL coverage ratio ⁸	76.1%	75.6%	76.1%	0.0 p.p.	0.5 p.p.
Share of non-performing loans (NPL) in all loans	12.6%	12.7%	13.8%	-1.2 p.p.	-0.1 p.p.
NPL ratio - Net ⁹	4.8%	4.9%	5.4%	-0.6 p.p.	-0.1 p.p.
NPE ratio ¹⁰	9.0%	9.3%	10.0%	-1.0 p.p.	-0.3 p.p.
Employees					
Number of employees	6,142	6,162	6,175	-0.5%	-0.3%

¹ NLB includes dividends from subsidiaries, associates and joint ventures

² Further analyses of interest margins are based on interest bearing assets

³ Without non-recurring revenues and restructuring costs

⁴ RORAC a.t. = profit a.t. / average capital requirement normalized at 14.75% RWA

⁵ Cost of risk NET = Credit impairments and provisions (annualised level) / average net loans to non-banking sector

⁶ Net loans to customers / Deposits from customers

⁷ NPL Coverage ratio = Coverage of gross non-performing loans with impairments for non-performing loans

⁸ NPL Coverage ratio = Coverage of gross non-performing loans with impairments for all loans

⁹ NPL ratio - Net = Net non performing loans / Net loan portfolio

¹⁰ EBA definition

International credit ratings NLB	30 June 2017	31 December 2016	Outlook
Standard & Poor's	BB	BB-	Positive
Fitch	BB	BB-	Stable

Key highlights for the Group:

EUR 117.9 million

Profit after tax

In H1 2017 the Group realised profit after tax in the amount of EUR 117.9 million, an increase of 70% compared to H1 2016.

15.5%

ROE

The ROE for H1 2017 stood at 15.5% (on a CET1 ratio of 16.5%) supported by non-recurring effects and negative cost of risk; RORAC a.t.¹ stood at 24.2%.

1%

Total Net operating income decreased by 1% YoY, while sterilised for one-off effects it slightly increased based on improved fee income and results from financial operations.

57.7%

CIR

Continued YoY cost improvements (-3%) leading to further reduced CIR ratio of 57.7%.

5%

Recurring profit before impairments and provisions up by solid 5% (EUR 4.4 million) based on continued cost improvements and slightly increased recurring revenues.

9%

NPE

Further improvement of loan portfolio quality was shown in the reduction of NPL volumes by 9% in H1 2017. The NPL ratio thus decreased to 12.6%, while the non-performing exposure (NPE) ratio to 9.0%.

3%

The healthy loan demand in Slovenia was reflected in the growth of 3% YtD in retail loan balances. Strategic foreign markets continued to perform well with loan growth YtD at 4% across all segments. Overall key business volumes² were stable.

16.5%

Total capital ratio

Total capital ratio at 16.5% was comfortably above regulatory thresholds.

Note:

¹ RORAC a.t. = profit a.t./average capital requirement normalized at 14.75% RWA

² key/mid/small corporates in Slovenia, retail banking in Slovenia, strategic foreign markets

Macroeconomic environment

Together with rising geopolitical tensions, the elections in Europe were a central factor affecting financial markets in H1 2017. Participants feared a possible spread of the populist wave that resulted in the United Kingdom's (UK) decision to leave the European Union (EU), and the surprise election results in the United States (US). The favorable election outcome and the successful resolution of banks in both Spain and Italy resulted in the financial markets calming and once again focusing on the positive macroeconomic dynamics which had continued in the background from the previous year. Inflationary dynamics improved considerably in the early months of the year, with Eurozone headline inflation reaching levels not seen since 2012, and core inflation temporarily rising above one percent. However, as energy prices retreated in the later part of the period and the base effects of energy prices diminished, inflationary dynamics slowed. Despite the tapering off of consumer prices, a change in the tone from the world's key central banks signaled a developing paradigm shift away from the unconventional monetary policy that has been prevalent in recent years. Additionally, the strength the US economy prompted two raises of the federal funds rate by the Federal Reserve in the period.

The outlook for the second half of the year remains positive from an economic perspective. In Europe further labor market improvement is expected and inflation is projected to stabilise slightly above 1.5% in the mid-term. At the same time, consumption and investment are expected to remain steady. Several key political uncertainties remain in the region, with German and Italian elections still unresolved, in addition to what currently appears will be a turbulent separation of the UK from the EU. Globally, geopolitical tensions, together with uncertainty regarding energy prices, and the future of US economic and trade policy cloud the economic outlook. From a rates perspective, the second half of the year has the potential for considerable volatility, as a distinct sell-off of fixed-income instruments was noted at the end of the first half of the year as investors readjusted their expectations following the aforementioned shift in central bank rhetoric. Events expected to occur in the second half of the year have the potential to further result in upward pressure on rates, in particular the European Central Bank (ECB) tapering asset purchase discussion, as well as the anticipated balance sheet reduction by the Federal Reserve could result in considerable volatility on fixed-income markets.

Slovenia's economy continued to strengthen in H1 2017, with economic growth increasing to a rate of 4.4%. Resurgent domestic demand was the primary driving factor of the economic acceleration, with investment dynamics experiencing particularly strong gains. Bolstered by a revival of real estate prices, investment in real estate expanded by 11.9% on an annual basis, strengthening the case of the start of a new economic cycle. Positive trends in the labor market, a survey of

unemployment decreased to 6.4% at the end of the period, and improved consumer confidence continued to support consumption dynamics - with private consumption expanding by 3.2% in the period. External trade dynamics continue to play a central role in the country's economy, where they experienced a slight acceleration in the period. On an annual basis exports expanded by 11.7%, while imports increased by 13.9%. Industrial production continues to maintain a strong rate of expansion, growing 7.2% in the period. As the economy continues to progress, so do the country's finances. The government's budgetary deficit decreased to 1.9% in the first quarter 2017, representing a 2.1 percentage points fall when compared to the previous year, while the country's public debt decreased to 81.4%. As a result of the aforementioned developments, the rating agency Standard & Poor's raised Slovenia's sovereign rating to A+ with a stable outlook. The outlook of Slovenia's economy has improved significantly in recent quarters, economic growth is projected to accelerate above three percent in 2017, supported by improving investment and consumption dynamics. The prospect of an accelerated recovery of the real estate sector whose output remains at 43.2% of pre-crisis levels, with a continuation of rising prices and investment, is an exciting prospect for the economy and represents significant upside potential for mid-term economic growth.

Supported by the improved macroeconomic picture, Slovenia's banking system concluded the period with a profit of EUR 233 million, corresponding to a return on equity of 11.4%. Strengthening sentiment and consumption dynamics bolstered growth of the household loan portfolio, which accelerated to a pace of 7.0% on an annual basis. Strong export trends, consumption, and a resurgence of investment dynamics benefited the corporate loan portfolio. On an annual basis loans to non-financial corporations increased by 5.8%, but perhaps more impressive is the fact that the portfolio has increased by 7.3% from the lows reached in September 2016. Interest rates were stable in the period, maintaining levels from the previous year. The continuation of the country's economic recovery means the quality of the loan portfolio continued to improve, with NPL decreasing to 5.0% at the end of the period. Together with the economy, the banking system's outlook has improved significantly from the start of the year, with a continuation of the highly anticipated turnaround of the corporate loan portfolio and sustained high growth levels of the retail loan portfolio. Rising housing prices, growing investments, and improved consumption dynamics are expected to further benefit the banking system's loan portfolio in the mid-term. The banking system's loan-to-deposit ratio, which decreased to 80% in the period – approximately half its peak value experienced in 2008 – is supportive of considerable further growth of the loan portfolio. In the mid-term, as interest rates in the developed world slowly begin to stabilise and normalise, interest rates within Slovenia's economy are expected to follow suit, which will further benefit the banking system.

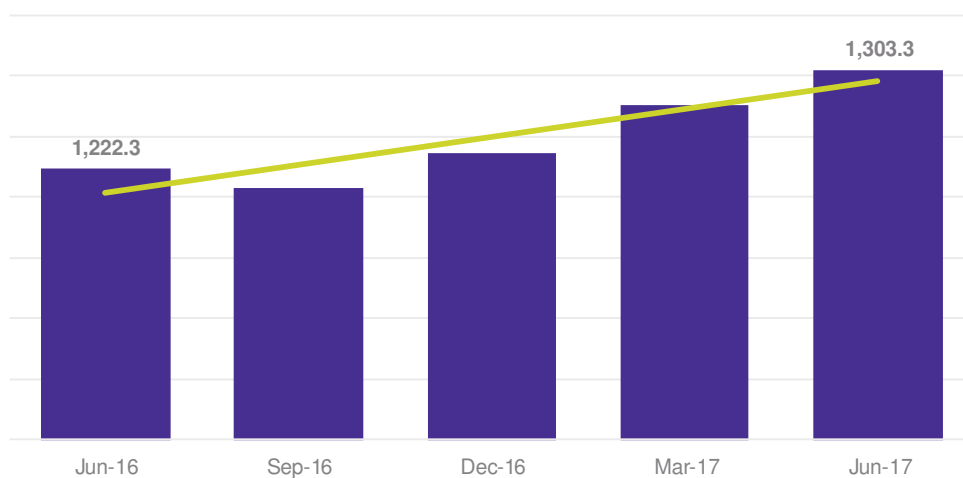
Business operations

Given the positive backdrop in the macro environment NLB Group experienced healthy demand in Slovenia and abroad – especially in the retail segment. Generally the Bank continued to improve its customer experience with substantial investments planned in further digitalisation of our offering across the whole group. A recent innovation was the introduction of video call and web chat ability in our 24/7 contact centre – the first in the Slovenian market.

Retail banking in Slovenia

- The Bank maintained its leading position with a market share in retail lending of 23.4% and 30.3% in deposit taking. Volume of new approved loans in H1 2017 increased by 24% compared to H1 2016, gross loans increased to EUR 2,051 million (YtD +3%).
- A record semi-annual increase in housing loans portfolio totaling of EUR 67.9 million. The volume of new approved housing loans in H1 2017 was 52% higher than in H1 2016.

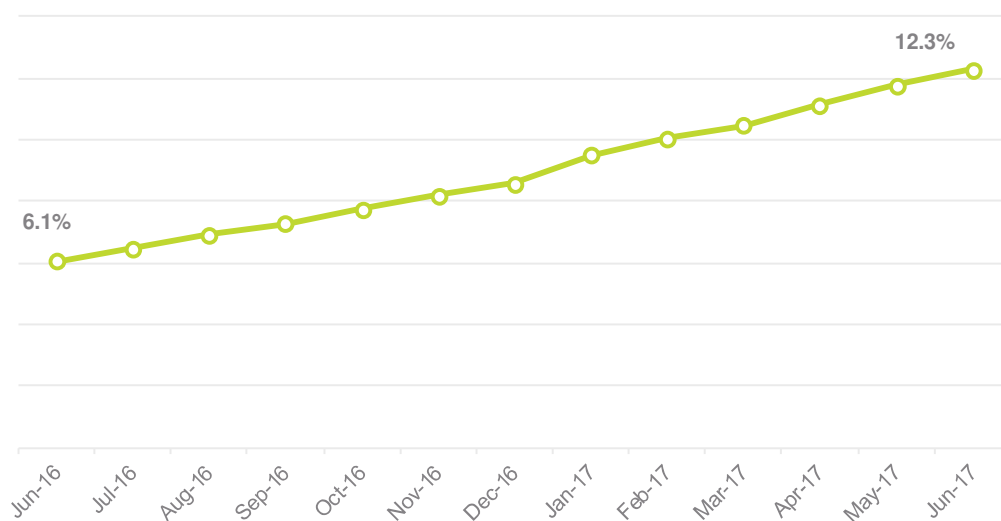
Figure 1: Housing loans portfolio (in EUR million)



- The Bank delivered strong performance of private banking services and managed to increase assets under management by a solid 14% in H1 2017.

- NLB Assets Management continued to grow with net-inflows of EUR 60 million into mutual funds. At the end of H1 2017, total assets under management amounted to EUR 1.1 billion. NLB Assets Management is the leader in terms of market share which further increased to 28.7%.
- In H1 2017, NLB Vita charged EUR 35 million gross premiums and the total balance sheet exceeded EUR 439 million. Market share at life insurance products already exceeded 12.3%.
- The digitalisation process for improvement of customer experience continued in H1 2017 by introducing, as the first on the market, online video call and web chat ability by our Contact Centre. NLB added 35,200 new users of our digital client solutions in H1 2017, and our mobile app “NLB Klikin” penetration reached 12.3%. Digitalised account process already covers 90% of all new accounts (“e-Pen”).

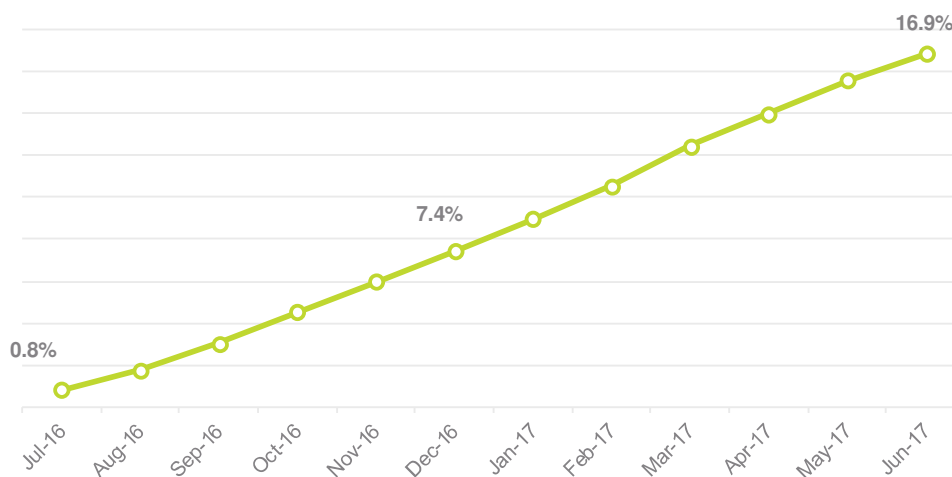
Figure 2: NLB Klikin penetration (in %)



Corporate and Investment banking in Slovenia

- The Bank's market share in corporate loans was stable at around 22.3% - gross loan balances for key business activities have been in decreasing (YtD -6,8%, H1 2017: EUR 2.125,9 million) mostly due to some larger exposures expiring. Stronger growth was noted in the sub-segment of small enterprises and entrepreneurs (14.4% YtD). Interest income has been remained stable in Q2 vs Q1 – the YOY decline is reflecting the volume evolution and strong pressure on pricing.
- Upgrades of mobile bank NLB Klikpro resulted in substantial increase of users, with the penetration now at 17%.
- Investment banking/Securities services revenues show strong revenue growth of 16% YoY (H1 2017: EUR 4.6 million) based on generally higher economic activities with clients and continued demand for hedging against interest risk. Total asset value under custody increased by 41.6% YoY standing at EUR 14.5 billion as of H1. Compared to the first quarter, the 2017 asset value increased by 5.13%.

Figure 3: NLB Klikpro penetration (in %)



Core foreign markets

- Segment contribution to the Group profits in H1 2017 was EUR 58.8 million, an increase of 71% YoY (EUR 34.3 million in H1 2016) on the basis of continued revenue growth and negative cost of risk given a release of pool provisions in Q1 2017 based on generally improved risk performance and regular review of the parameters for pool provisions.
- In 2017, the banks further intensified lending activities, with gross loans growing by 4.4% YtD (H1 2017: EUR 2,481.7 million) – strong growth was especially achieved in banks in Serbia (23.6% YtD) and Kosovo (11.9% YtD).

Figure 4: Profit after tax of the strategic NLB Group banks (on a stand-alone basis) - evolution YoY (in EUR million)



Wind down of non-core operations

- The Group continued its wind-down of non-core operations. Non-core segment assets were reduced in 2017 by 5% YtD to EUR 478.8 million (2016 year-end: EUR 502.6 million). In the same period impairments and provisions were released in the amount of EUR 8.7 million, confirming our efforts to strengthen our collection capabilities in previous years.
- The non-core pre-tax result for H1 2017 was EUR 22.3 million – a significant improvement on H1 2016 (H1 2016: EUR - 3.3 million) based on much improved cost of risk and a one-off gain of EUR 9.5 million on divesting an equity exposure in Q1.

- The non-core costs base was reduced by 7% YoY to EUR 11 million (H1 2016: EUR 12 million).

Efficient and proactive risk management of operations

- The quality of the credit portfolio has additionally improved in H1 2017, arising from the ameliorated credit standards since 2014 onwards, and evidenced by the cumulatively very low new NPL formation. Preserving high credit portfolio quality represents one of the Group's key objectives. Besides that, the Group continues with a strong commitment to further reduce the NPE legacy as well as its and decisive exit from all non-core exposures.
- Following a regular review of risk parameters in Q1 the Group released pool provisions in the amount of approximately EUR 21 million given the much better risk performance in the corporate segment in recent years.
- The NPL ratio dropped to 12.6% (2016 year-end: 13.8%), while the internationally more comparable NPE ratio (based on EBA guidelines) is already at 9.0% (2016 year-end: 10%). The coverage ratio, which remains high (at 76.1%), represents an important strength for the Group. The Group's direct NPL coverage ratio equals 65.4%, which is well above the EU average published by the EBA (45.2% at the end of first quarter of 2017). This enables further focus on NPL reduction without significantly influencing the cost of risk in the years ahead.
- The Group's exposure to interest rate risk, foreign exchange risk, and other market risks is within the targeted, low-risk appetite profile. Operational risk remains on a low to moderate level.

Strong liquidity and capital position

- At the end of H1 2017, the capital ratios (CET 1 and total capital ratio) of the Group remained very strong, reaching 16.5% (not including interim profit) and were well above the regulatory thresholds.
- NLB Group liquidity remains exceptionally strong, with very significant amounts of liquidity reserves in cash (EUR 747 million)³, securities (EUR 2,833 million), and ECB eligible loans (EUR 792 million). The Group holds a strong liquidity position at both, the Group and subsidiary bank levels, standing well above the targeted risk appetite profile.

Note:

³ Excluding obligatory reserve with the central bank.

Overview of NLB Group's financial performance

Key developments

- **Net profit after tax** in H1 2017 amounted to EUR 117.9 million, a YoY increase of EUR 48.4 million or 70%.
- Based on the strong performance in all segments return on equity (**ROE after tax**) increased to 15.5% (H1 2016: 9.4%). RORAC a.t. stood at 24.2% (vs. H1 2016: 14.6 %). **Total capital ratio and common equity tier 1 capital ratio (CET 1)** amounted to 16.5%, which comfortably exceeds all the regulatory requirements.
- **Profit before impairments and provisions** of NLB Group totaled EUR 102.0 million and was 2% or EUR 1.7 million higher YoY. Positive non-recurring effects from divestments, higher regular non-interest income and lower costs more than offset decrease in net interest income as a result of still very low interest rate environment in the euro area.
- Net interest income is stable in key business activities (+1% YoY), with growth in strategic foreign markets (+7% YoY) compensating for the decline in the parent bank mostly due to repricing of the securities portfolio (from liquidity reserve management). **Net interest margin** of NLB Group decreased by 0.09 percentage point YoY to 2.47%, mainly due to expiry of some higher yielding securities in 2016 in the parent bank with margins in strategic foreign subsidiaries stable at close to 4%.
- **Costs** decreased by 3% YoY, mostly due to further reduction in labour and administrative costs. CIR improved by 1.0 percentage point YoY to 57.7%.
- **Impairments and provisions** for credit risk in H1 2017 were released in the amount of EUR 28.0 million and were EUR 44.2 million lower YoY. In 2016 cost of risk was negatively impacted by a non-recurring effect in amount of EUR 22.6 million. H1 2017 was positively impacted by the release of credit impairments and provisions as a consequence of improving the quality of credit portfolio and positive trends in the economic environment resulting in release of pool provisions in the amount of approximately EUR 21 million in the corporate client segment.
- **Gross loans** amounting to EUR 7,826.0 million (H1 2016: EUR 8,312.1 million) nevertheless key business activities grew by 6% YoY. Retail banking in Slovenia grew 3% YtD to a volume of EUR 2,051.0 million (+5% YoY), strategic foreign markets growing 4% YtD to a volume of EUR 2,560.9 million (+8% YoY) compensating for some decline in the corporate banking in Slovenia standing at EUR 2,338.4 million (-6% YoY, -7% YtD).

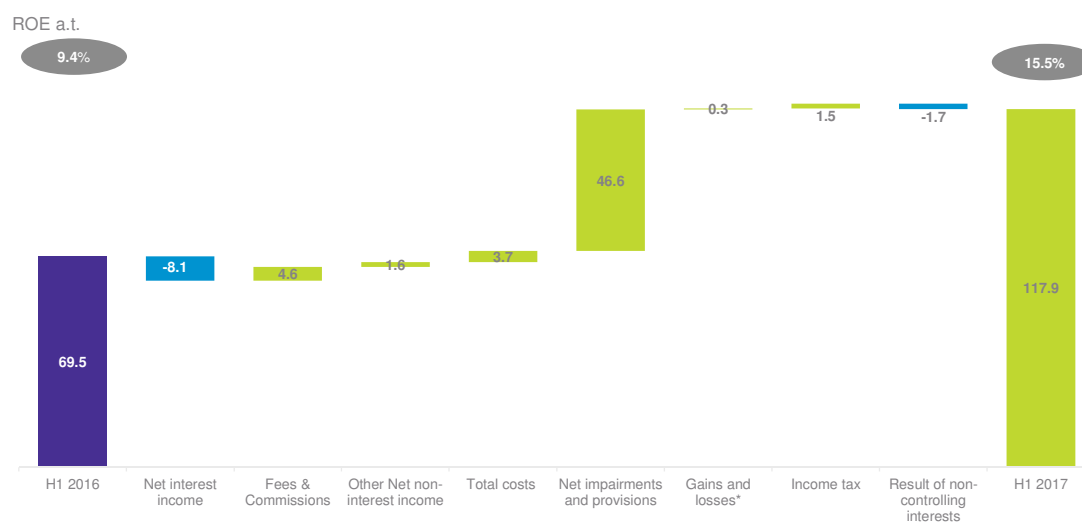
Income statement

Table 2: Income statement of NLB Group

in EUR million	NLB Group					
	H1 17	H1 16	Change YoY	Q2 17	Q1 17	Change QoQ
Net interest income	148.6	156.7	-5%	73.2	75.3	-2.8%
Net fee and commission income	75.8	71.2	6%	38.4	37.4	3%
Dividend income	0.1	1.0	-85%	0.1	0.0	-
Net income from financial transactions	17.2	16.3	5%	3.0	14.2	-79%
Net other income	-0.5	-2.1	-74%	-4.6	4.1	-213%
Net non-interest income	92.5	86.4	7%	36.9	55.7	-34%
Total net operating income	241.1	243.1	-1%	110.1	131.0	-16%
Employee costs	-80.4	-81.6	-1%	-40.8	-39.6	3%
Other general and administrative expenses	-44.9	-46.8	-4%	-23.9	-21.0	14%
Depreciation and amortisation	-13.8	-14.4	-4%	-6.9	-6.9	1%
Total costs	-139.1	-142.8	-3%	-71.6	-67.5	6%
Result before impairments and provisions	102.0	100.3	2%	38.5	63.5	-39%
Impairments of AFS and HTM financial assets	0.0	-0.1	-100%	0.0	0.0	-
Credit impairments and provisions	28.0	-16.2	-272%	2.6	25.4	-90%
Impairments of investments in subsidiaries, associates and JV	0.0	0.0	-	0.0	0.0	-
Other impairments and provisions	-2.4	-4.7	-49%	-1.5	-0.9	73%
Impairments and provisions	25.6	-21.0	-222%	1.1	24.5	-96%
Gains less losses from capital investments in subsidiaries, associates and joint ventures ¹	2.7	2.5	11%	1.6	1.1	50%
Profit before income tax	130.4	81.8	59%	41.3	89.1	-54%
Income tax	-8.1	-9.6	-16%	-3.3	-4.8	-32%
Result of non-controlling interests	4.4	2.6	66%	1.6	2.7	-41%
Profit for the period	117.9	69.5	70%	36.4	81.6	-55%

Profit

Figure 5: Profit after tax of NLB Group – evolution YoY (in EUR million)



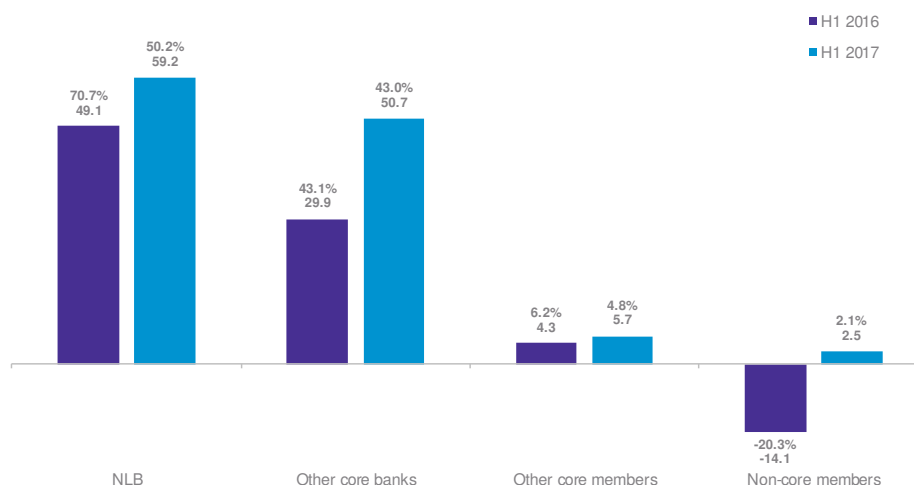
* Gains less losses from capital investments in subsidiaries, associates and joint ventures.

In H1 2017, the Group generated EUR 117.9 million of profit after tax, which is 70% higher compared to H1 2016.

Key drivers of the increase were:

- Solid performance in key business areas with positive profit evolution especially in strategic foreign subsidiaries resulting in 8% growth in regular income;
- Non-recurring income from the sale of Petrol shares in the amount of EUR 9.5 million, and a court settlement with Zavarovalnica Triglav in the amount of EUR 1.2 million;
- Continued improvement in costs which were reduced by 3% YoY, and substantial savings achieved in general and administrative expenses (- 4% YoY) and employee costs (-1% YoY);
- Realised cost of risk in H1 2017 given substantial release of pool provisions as part of regular annual model time-series updates and active management of the NPLs.

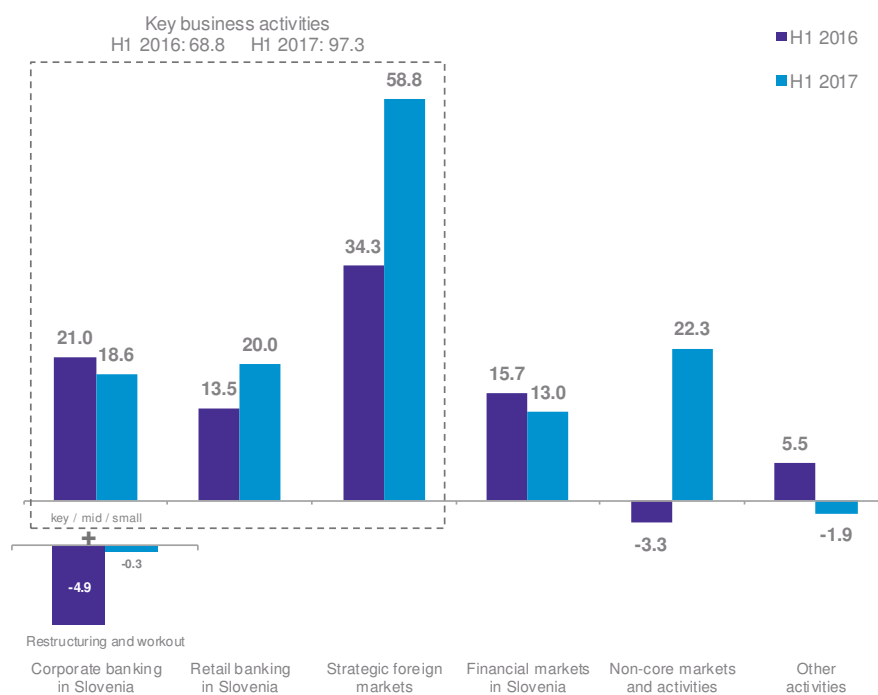
Figure 6: Contribution to NLB Group's results by members – profit after tax (in % and in EUR million)



The Bank recorded EUR 105.3 million of net profit on a stand-alone basis, which includes dividends from core banks and joint venture in total amount of EUR 42.1 million. The Bank contributed EUR 59.2 million, or 50.2% in net profit of the Group, core banks reached 43% of contribution, and also non-core members performed much better compared to H1 2016.

Profit before tax – segment results

Figure 7: Profit before tax of NLB Group by segments (in EUR million)



In 2017 the Bank started to allocate regulatory costs related to the Single Resolution Fund (SRF) and the Deposits Guarantee Scheme (DGS) to business segments. Since in 2016 these costs burdened the segment “Other” and were not allocated, the data for H1 2016 was corrected according to new approach to ensure comparability. The time of recognition differed in both years, namely in H1 2017 expenses for SRF and DGS were recognised in Q2 (EUR 2.6 million SRF and EUR 4.7 million DGS) whereas in 2016 expenses for SRF were recognised in Q2 (EUR 3.9 million), and expenses for DGS in Q3 (EUR 4.6 million).

Core markets and activities⁴: improvement of operations, especially in strategic foreign markets

Key business activities⁵ recorded an increase in profit before tax in the amount of EUR 28.5 million in H1 2017 to a level of EUR 97.3 million (H1 2016: EUR 68.8 million), on the basis of higher business volumes in retail and strategic foreign markets, stable margins in South Eastern Europe (SEE) markets, improvement in cost efficiency and continued low cost of risk.

- **Corporate banking in Slovenia (key/mid/small corporates)** contributed EUR 18.6 million of profit before tax in H1 2017, showing the decrease of EUR 2.4 million or 12% YoY based on lower release of impairments. Cost optimisation continues. Expenses of SRF and DGS negatively impacted the segment result of EUR 1.1 million in 2017 and EUR 1.2 million in 2016 (SRF expenses).
- **Retail banking in Slovenia** recorded EUR 20.0 million of profit before tax with an increase of EUR 6.5 million or 48% YoY, mostly due to lower cost of risk, cost optimisation and higher net fees and commissions. In H1 2017 the segment was additionally burdened with the DGS expenses which in 2016 affected the result in Q3. Realised net interest income in H1 2017 shows decrease by 6% YoY as a result of lower interest rates for retail loans and significantly increased volume of retail deposits. Net interest income decline has been reversed with QoQ results increasing by 4%, as well as net fees and commission income which increased 5% QoQ. Costs were reduced by EUR 2.8 million, while cost of risk in H1 2017 remained low.
- **Strategic foreign markets** continued positive trend showing a profit of EUR 58.8 million in H1 2017 (increase of EUR 24.5 million or 71% YoY). Positive developments were recorded both in interest and non-interest income, in addition also cost of risk was negative in H1 2017.
- **Financial markets in Slovenia** generated EUR 13.0 million of profit before tax in H1 2017, meaning EUR 2.7 million or an 18% decrease YoY mostly due to the expiry of some high yields of Slovenian bonds, and despite positive one-off effects from divestments of debt securities (portfolio of French bonds in net effect of EUR 1.8 million). Expenses of SRF and DGS negatively impacted the segment result of EUR 2.1 million in H1 2017, and EUR 2.5 million (SRF) in H1 2016.

Note:

⁴ Corporate banking in Slovenia, retail banking in Slovenia, financial markets in Slovenia, strategic foreign markets

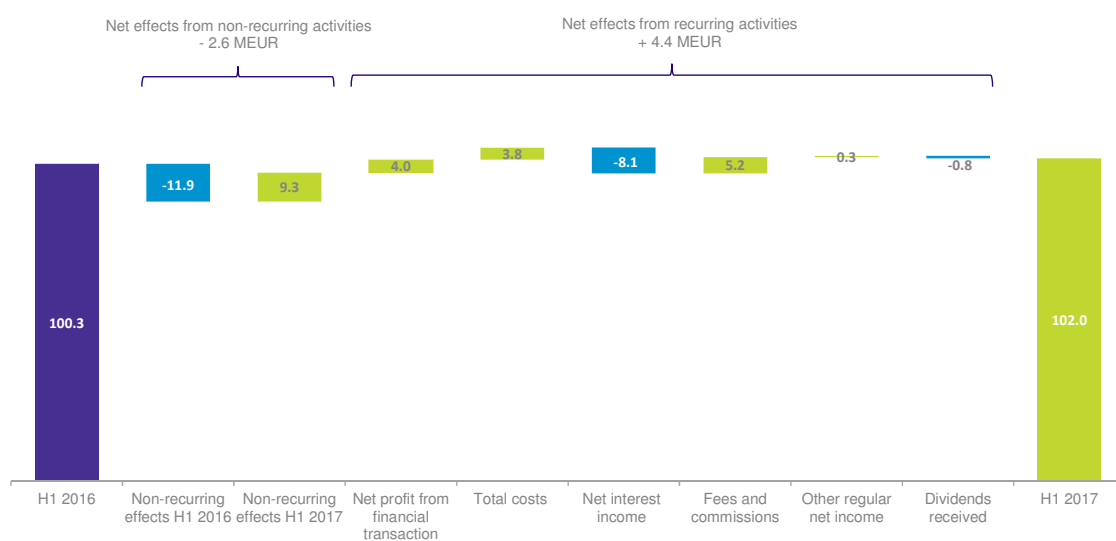
⁵ Corporate banking in Slovenia, retail banking in Slovenia, strategic foreign markets

Non-core markets and activities: continuing divestments and decrease in operations

The non-core markets and activities in H1 2017 recorded a profit before tax of EUR 22.3 million, while in H1 2016 recorded a loss of EUR 3.3 million. This increase was due to the sale of non-strategic equity investments as one-off capital gain and settlement with Zavarovalnica Triglav in total amount of EUR 10.7 million and active management of NPLs which was reflected in release of impairments and provisions in the amount of EUR 8.7 million (H1 2016: formation of EUR 7.5 million).

Profit before impairments and provisions

Figure 8: Profit before impairments and provisions of NLB Group – evolution YoY (in EUR million)



Profit before impairments and provisions of the Group totaled EUR 102.0 million, and was 2% or EUR 1.7 million higher YoY. The following factors had a positive effect on the result in H1 2017:

- Non-recurring income from sale of Petrol shares (EUR 9.5 million) and settlement with Zavarovalnica Triglav (EUR 1.2 million);
- Higher fees and commissions (EUR 4.6 million YoY);
- Lower costs (EUR 3.7 million YoY).

On the other hand, net interest income was EUR 8.1 million lower than in H1 2016, mainly as a result of continued repricing on the securities portfolio and maturity of the BAMC bond.

In H1 2017 the Bank realised payments to the SRF and DGS, which had negative impact on the Group result in total amount of EUR 7.3 million, while in 2016 only SRF was paid in Q2 (EUR 3.9 million).

By excluding non-recurring effects in H1 of both 2016⁶ and 2017, the result before impairments and provisions increased by 5% YoY.

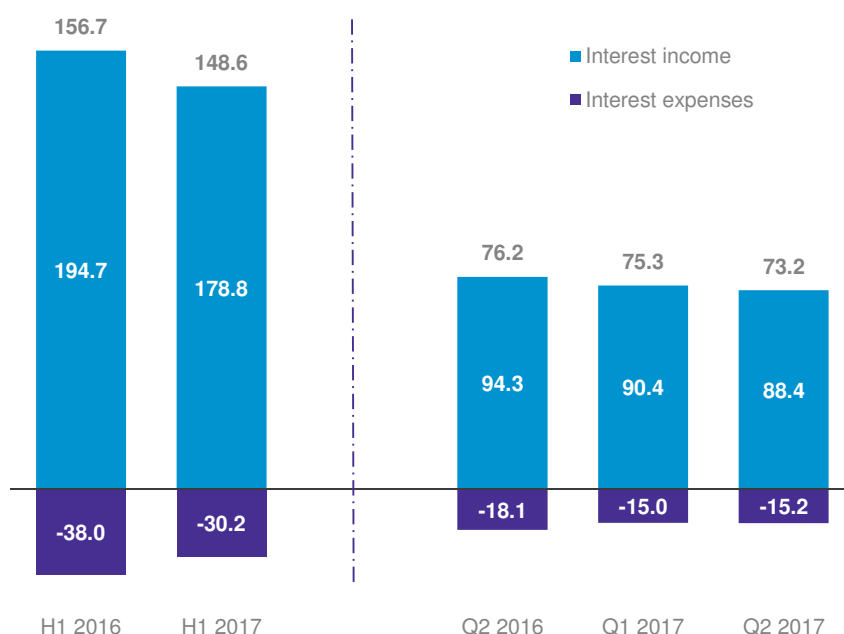
Profit before impairments and provisions of the Group in Q2 2017 amounted to EUR 38.5 million and was 39% lower QoQ due to the high result achieved in Q1 2017 related mostly to non-recurring income from the sale of Petrol shares and settlement with Zavarovalnica Triglav.

Note:

⁶ In H1 2016 non-recurring income were the sale of Trimo with a one-off positive effect of EUR 5.5 million and transaction of Visa EU share of EUR 7.8 million. The restructuring costs, also considered a non-recurring item, amounted to EUR 1.3 million in 2016 and EUR 1.4 million in 2017.

Net interest income

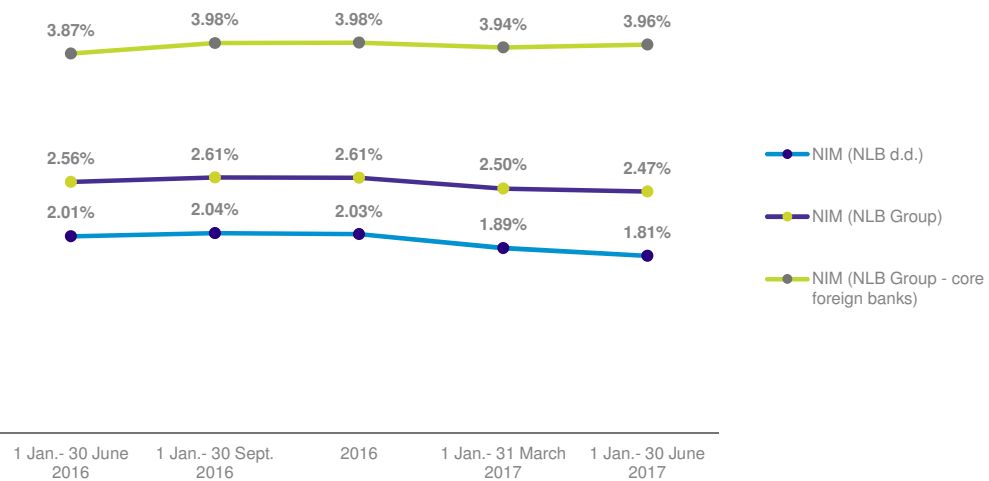
Figure 9: Net interest income of NLB Group (in EUR million)



The share of net interest income in NLB Group's total income decreased during the years to 62% from 64% in H1 2016. In H1 2017, net interest income totaled EUR 148.6 million, which is 5% less than in H1 2016, mostly due to decreasing yields on the securities portfolio and the maturity of a high yielding BAMC bond in December 2016. Contribution of other banks to the Group's interest income increased, reaching 48.3% (increase of 5.2 percentage points YoY). The Group continued with the active management of its interest expenses, repaying or repricing some funding lines, and continuously adjusting deposit pricing in line with the prevailing low interest rate environment, thereby substantially reducing interest expenses (21% YoY).

Net interest margin (NIM) of the Group decreased by 0.09 percentage points YoY to 2.47%. The margin of core banks on SEE markets remains above the level recorded in H1 2016, while the margin of the Bank decreased.

Figure 10: Net interest margin (in %)



Net interest income – segment results

Figure 11: Net interest income of NLB Group by segments (in EUR million)

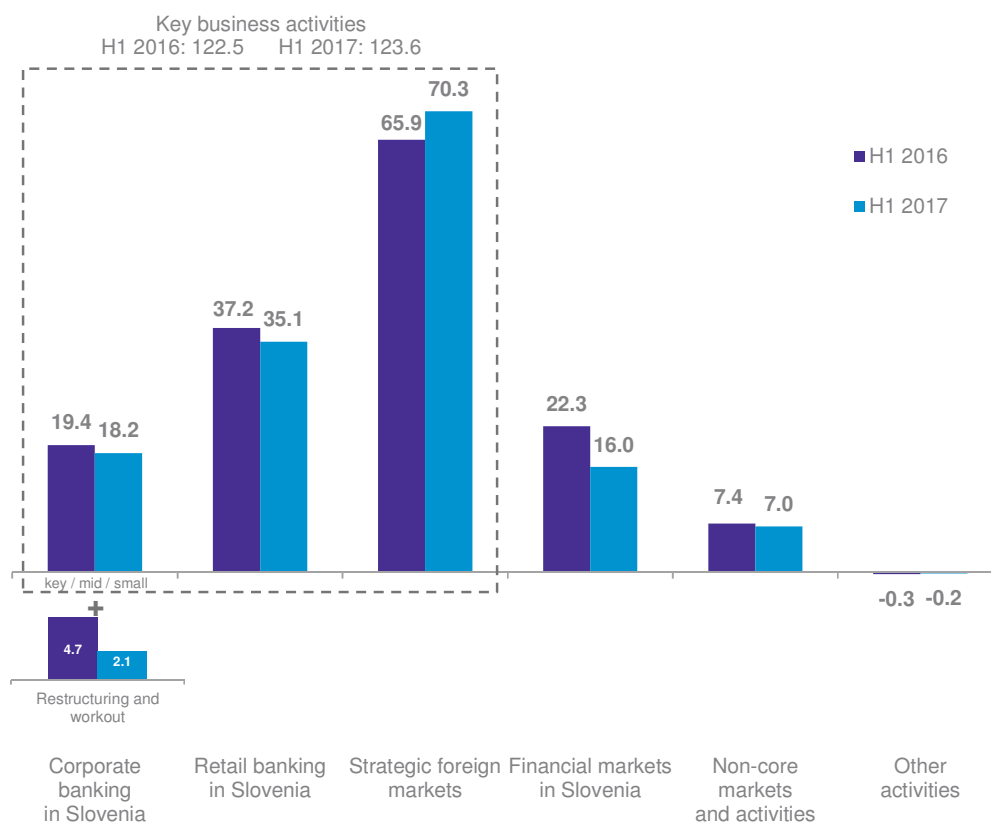


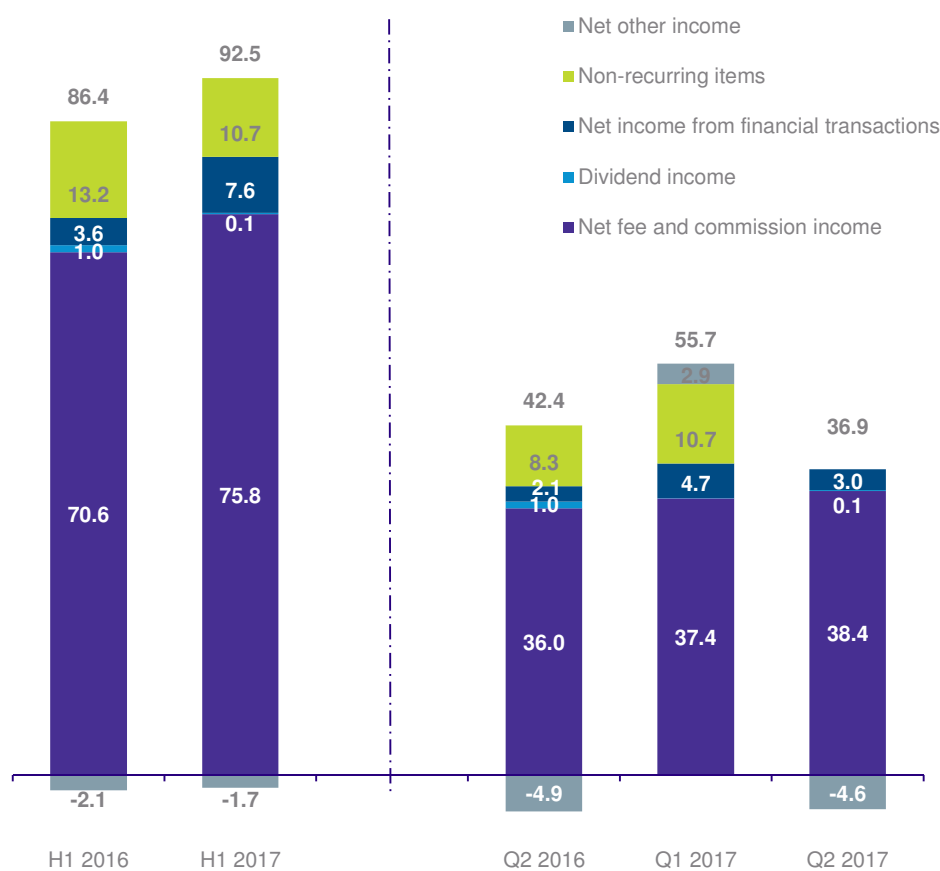
Figure 12: Net interest income of NLB Group by segments (in EUR million) – quarterly comparison



- Net interest income in [key/mid/small corporates in Slovenia](#) decreased by EUR 1.2 million or 6% YoY due to lower loan volume YtD (-7%) in the public sector (regular corporate clients' business has been growing); and a decreasing interest margin as a result of intense competition.
- Interest income in [retail banking in Slovenia](#) decreased by EUR 2.1 million or 6% YoY as a result of overall slightly lower margins. However, the trend has been reversed in Q2 based on loan volume growth of 3% YtD and resulted in QoQ increase of revenues of 4%.
- [Strategic foreign markets](#) improved net interest income by EUR 4.4 million or 7% due to higher interest margins in the SEE region (0.09 of a percentage point increase YoY); and increased loan volumes of 4%, or EUR 103.6 million YtD. Net interest income grew QoQ by 2%.
- Net interest income in [financial markets in Slovenia](#) decreased by EUR 6.2 million YoY due to maturity of BAMC bond in December 2016 and decreasing yields in the securities portfolio.

Net non-interest income

Figure 13: Net non-interest income of NLB Group (in EUR million)



The Group recorded a net non-interest income of EUR 92.5 million in H1 2017, EUR 6.1 million, or 7% higher YoY. Regular net non-interest income (excluding one-off effects⁷) increased by 12%, or EUR 8.6 million YoY, and was impacted by the following factors:

- EUR 5.2 million higher net fees and commissions, of which EUR 2.8 million derive from an increase in transactional activities such as credit cards, ATMs, payments, and transactional

Note:

⁷ The one-off events in H1 2016 related to positive effect of the sale and advisory services in relation to the sale of an equity investment of Trimo d.o.o. (in total amount of EUR 5.5 million) and transaction of Visa EU share (in the amount of EUR 7.8 million). In H1 2017 results were also related to the positive effect of a court settlement with Zavarovalnica Triglav (in the amount of EUR 1.2 million) and the sale of Petrol shares (in the amount EUR 9.5 million).

accounts; and EUR 2.2 million derives from ancillary banking services, i.e. bank-assurance and investment funds;

- EUR 4.0 million higher net profit from financial operations, of which EUR 1.8 million was attributed to the sale of a French bond portfolio;

Non-interest income was 34% lower QoQ, mainly due to payment of SRF and DGS charges which influenced the result negatively in a total amount of EUR 7.3 million, compared to Q1 which included positive one-off effects.

Net non-interest income – segment results

Figure 14: Net non-interest income by segments of NLB Group (in EUR million)

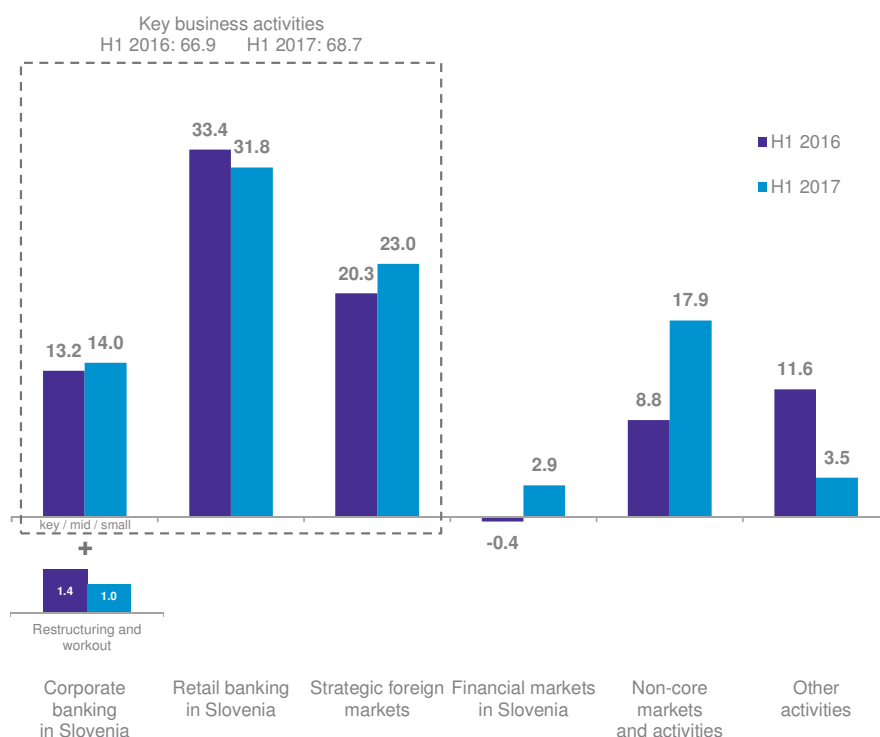
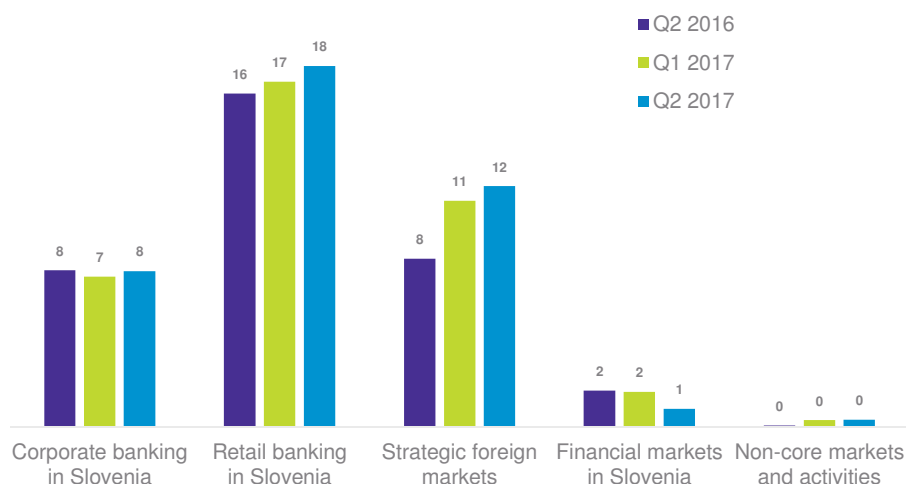


Figure 15: Fee and commission income by segments of NLB Group (in EUR million) – quarterly comparison



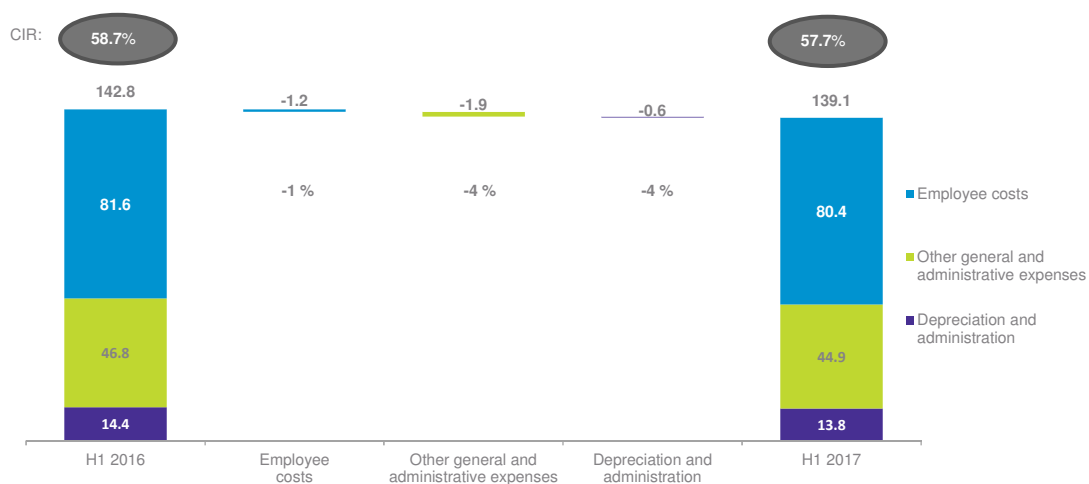
Net non-interest income of key business activities remained stable, with increased fee and commission income.

- Retail banking in Slovenia** recorded a decrease in net non-interest income of EUR 1.7 million, or 5% due to negative effects from distributing the expenses of DGS and SRF by segment in a total amount of EUR 4.0 million. Net fees and commission income increased quarterly, only in Q2 2017 by 5% mostly from bank-assurance and investment funds services.
- Net non-interest income in **key/mid/small corporates in Slovenia** grew by 5% YoY mainly due to increase of fee and commissions income. In Q2 2017 segment realised growth of fee and commission income of 7%.
- Strategic foreign markets** increased by EUR 2.7 million or 13% YoY so the contribution to the non-interest income of NLB Group was 1.5 percentage points higher compared to the same period of last year. Growth is practically evident in all SEE banks. Fee and commissions income increased by 7% QoQ.
- Financial markets in Slovenia** realised EUR 2.9 million net non-interest income in H1 2017 compared to EUR 0.4 million loss in H1 2016, mainly on the account of active management of securities portfolio. The segment result was effected with negative effects from payment to SRF and DGS in the amount of EUR 2.1 million in H1 2017 compared to EUR 2.5 million in H1 2016.

- **Non-core markets and activities** contributed significantly (EUR 17.9 million) to the Group's net non-interest income, most of which were related to the non-recurring events. Significant progress was realised in contributing to non-interest income from real estate management, amounting to EUR 3.3 million.
- Net non-interest income in segment of **other activities** were lower by EUR 8.0 million on account of a one-off effect in H1 2016 related to the transaction of Visa EU shares in the amount of EUR 7.8 million.

Total costs

Figure 16: Total costs of NLB Group – evolution YoY (in EUR million)



Total costs amounted to EUR 139.1 million (of which EUR 1.4 million comprised of non-recurring costs related to restructuring and the privatisation process) which were 3% lower YoY. A major decrease was recorded in general and administrative costs (down 4% YoY) as a result of successful cost-optimisation efforts. Depreciation costs and labour costs also decreased by 4% and 1% YoY, respectively. In H1 2017, the Group recorded a 9% decrease in costs for non-core markets and activities, and for corporate and retail segments in Slovenia each of 5% decrease.

Cost to income ratio (CIR) decreased by 1.0 percentage points to 57.7%. CIR (normalised) decreased by 1.8 percentage points to 59.7%.

Net impairments and provisions

The Group released impairments and provisions for credit losses in the amount of EUR 28.0 million in H1 2017, which is EUR 44.2 million lower YoY. The main reason for this were additional impairments and provisions related to signed agreement on the non-performing portfolio sale in the amount of EUR 22.6 million in H1 2016, and release of pool provisions in H1 2017. Namely, the Group recalculates the probability of default (PD's) for pool provisions once a year, and the full impact is recognised in the results for H1 2017. Positive trends in the economic environment and consequently a lower transition of performing customers into default in years 2016 and 2015 contributed positively to lower percentages of PD's and consequently lower pool provisions, mainly in the segment of corporate clients. In H1 2017 the effect of release of impairments on the Group level in the segment of corporate clients amounts to approximately EUR 21 million (in H1 2016, approximately EUR 14 million).

Statement of financial position

Table 3: Statement of the financial position of NLB Group

in EUR million	NLB Group				
	30 June 2017	31 March 2017	31 Dec 2016	Change YTD	Change QoQ
Cash, cash balances at central banks and other demand deposits at banks	1,288.7	1,520.5	1,299.0	-1%	-15%
Loans to banks	450.8	411.1	435.5	4%	10%
Loans to customers	6,974.2	7,004.7	6,997.4	0%	0%
Gross loans	7,826.0	7,876.3	7,900.8	-1%	-1%
- corporate	3,911.0	3,901.5	3,917.4	0%	0%
- individuals	3,327.6	3,258.6	3,190.7	4%	2%
- state	587.4	716.3	792.7	-26%	-18%
Impairments	-851.9	-871.6	-903.4	-6%	-2%
Financial assets	2,828.1	2,630.7	2,778.0	2%	8%
- Held for trading	120.4	74.5	87.7	37%	62%
- Available-for-sale, held to maturity and designated at fair value through income statement	2,707.7	2,556.2	2,690.3	1%	6%
Investments in subsidiaries, associates and joint ventures	40.9	44.4	43.2	-5%	-8%
Property and equipment, investment property	275.0	276.3	280.5	-2%	0%
Intangible assets	36.8	32.5	34.0	8%	13%
Other assets	175.1	170.3	171.4	2%	3%
Total assets	12,069.6	12,090.4	12,039.0	0%	0%
Deposits from customers	9,491.2	9,514.3	9,439.2	1%	0%
- corporate	2,102.1	2,191.3	2,182.6	-4%	-4%
- individuals	7,044.9	6,977.3	6,905.1	2%	1%
- state	344.3	345.7	351.5	-2%	0%
Deposits from banks and central banks	62.8	35.3	42.3	48%	78%
Debt securities in issue	282.0	279.9	277.7	2%	1%
Borrowings	390.7	407.3	455.4	-14%	-4%
Other liabilities	246.5	228.5	271.6	-9%	8%
Subordinated liabilities	27.3	27.4	27.1	1%	0%
Equity	1,538.0	1,564.6	1,495.3	3%	-2%
Non-controlling interests	31.1	33.2	30.3	2%	-6%
TOTAL LIABILITIES AND EQUITY	12,069.6	12,090.4	12,039.0	0%	0%

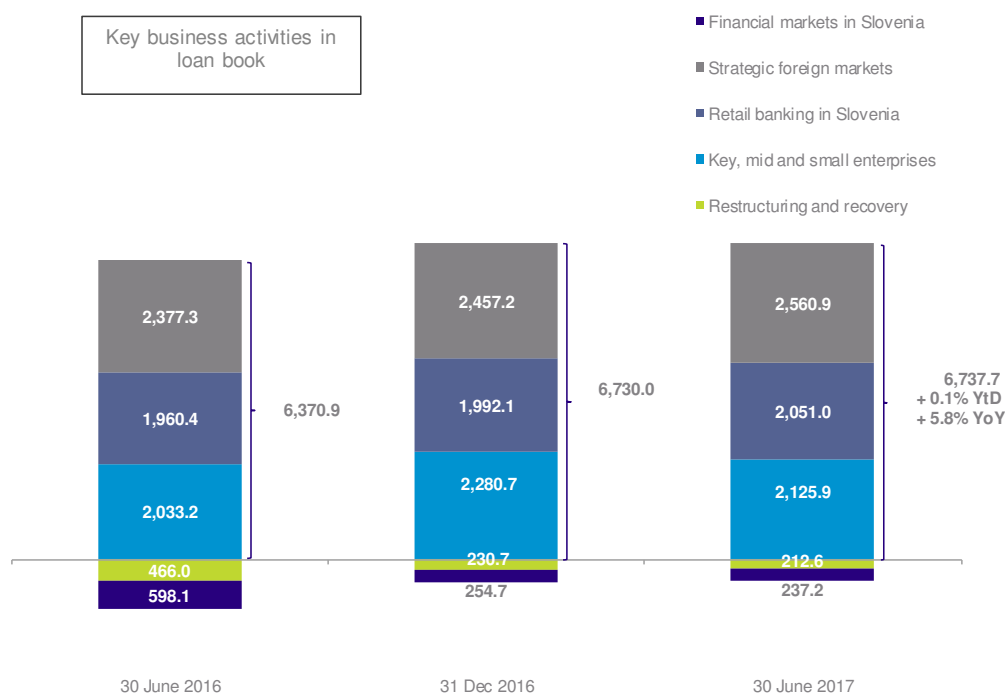
Total assets of the Group at the end of H1 2017 remained almost at the same level YtD and totaled EUR 12,069.6 million. A slight increase of EUR 30.6 million was driven mainly by excess liquidity in all core markets and the continued inflow of deposits.

Assets

Figure 17: Total assets of NLB Group – structure (in EUR million)



Figure 18: Gross loans to customers by core segment (in EUR million)



Gross loans in key business activities slightly increased YtD. A 7% YtD decrease in the gross loans in key corporate segment in Slovenia was neutralised by the increase of gross loans in the retail segment in Slovenia (3% YtD). High growth in gross loans recorded in strategic foreign markets (EUR 103.6 million or 4% YtD) with record growth in Kosovo and Serbia.

Liabilities

Balance sheet movements were mainly driven by increasing deposits from retail customers, both in Slovenia and strategic foreign markets.

The structural share of customers' deposits continued to increase and accounted for 79% of the total funding of the Group at the end of H1 2017. This increase derives from retail deposits exclusively, while corporate and state deposits decreased. The structural share of sight deposits continues to increase.

Loan to deposit ratio (LTD) (net) decreased by 0.6 of a percentage point YtD as a result of indeed growing, but still moderate demand for loans and the increasingly “cash-rich” retail and corporate sector.

Figure 19: Total liabilities of NLB Group – structure (in EUR million)

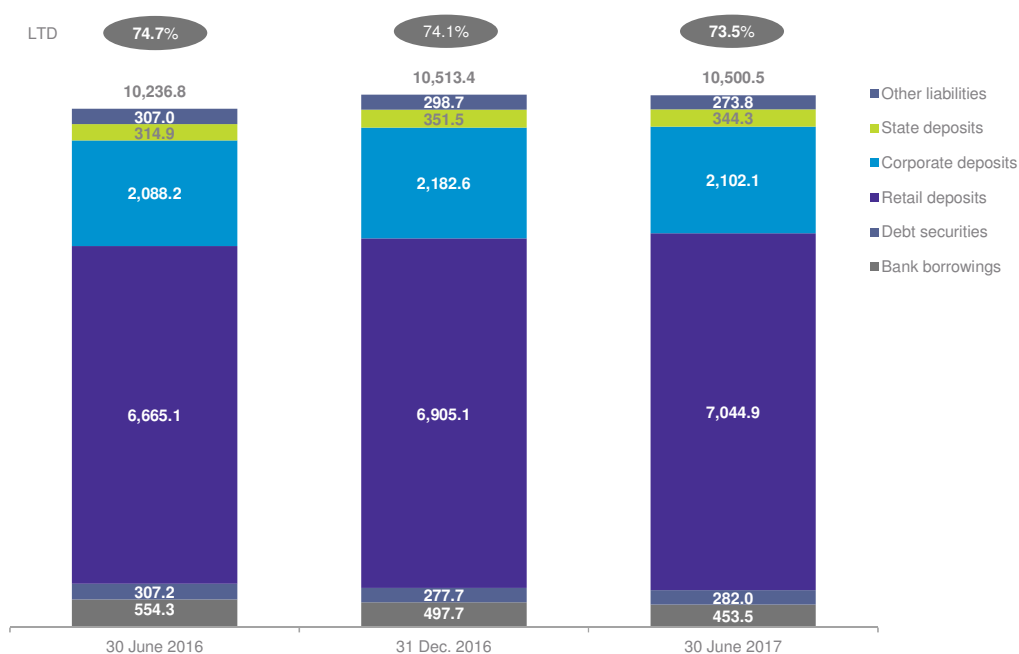
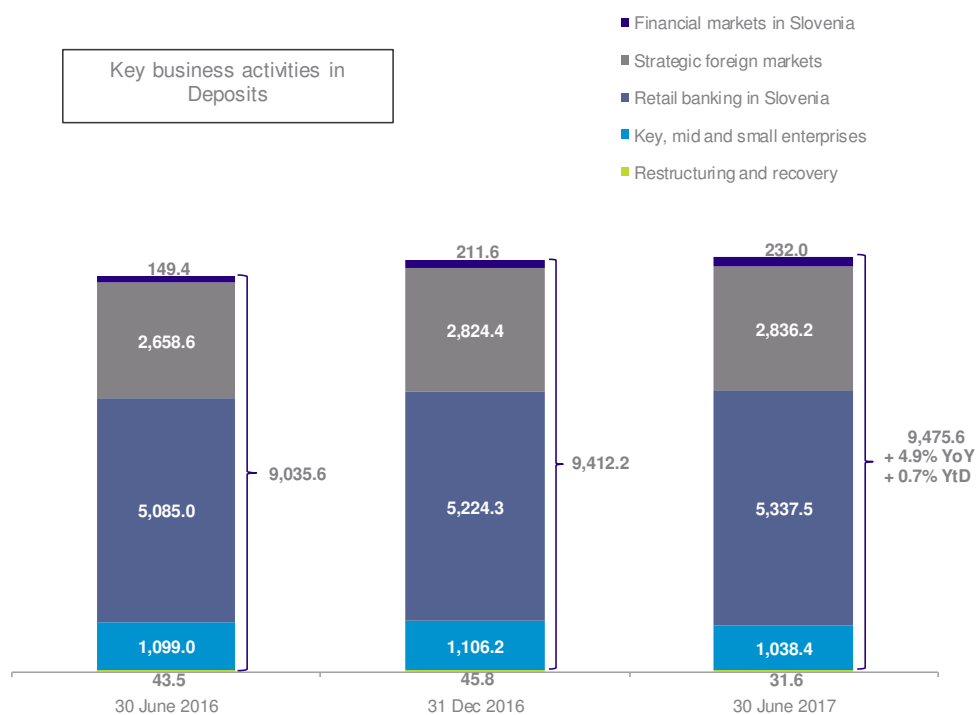


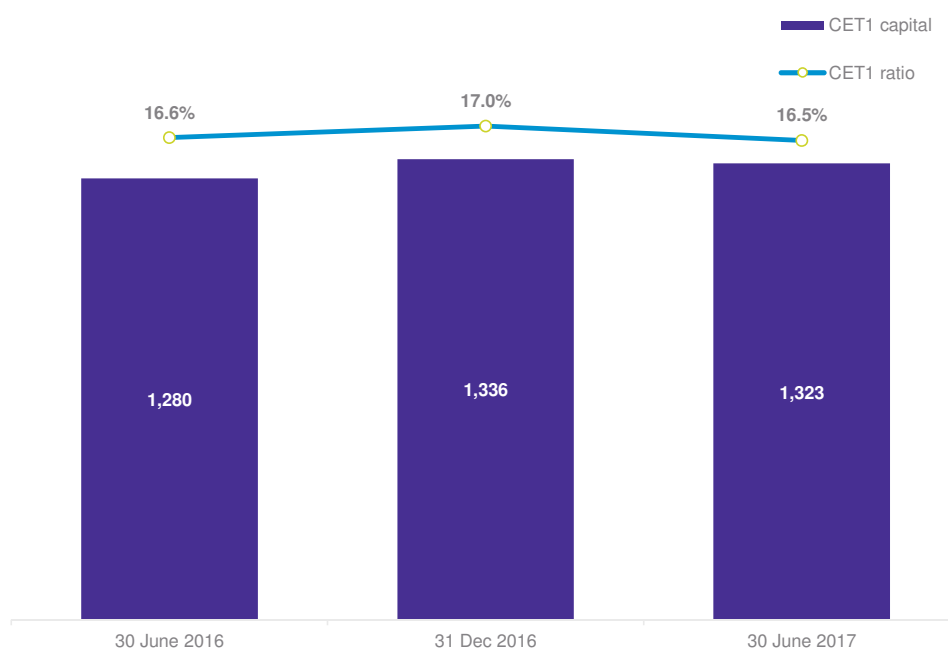
Figure 20: Deposits from customers by core segment (in EUR million)



Deposits from customers in key business activities slightly increased YtD. A decrease of deposits in key corporate segment in Slovenia of EUR 67.8 million, or 6% YtD was neutralised by the increase of EUR 113.2 million or 2% YtD of deposits in the retail segment in Slovenia.

Capital adequacy

Figure 21: NLB Group CET 1 capital (in EUR million) and CET 1 ratio (in %)



Total capital ratio of the Group was 16.5%, which is 0.5 of a percentage point lower YtD, due to increased risk weighted assets (RWA) and a decrease in capital (lower capital revaluation adjustments). The capital of the Group consists exclusively of Common Equity Tier 1 (CET 1), so the total capital ratio is the same as CET 1 ratio.

Table 4: Total risk exposure (in EUR million) for NLB Group

	30 June 2017	31 Dec 2016	Change
Total risk exposure amount (RWA)	8,035	7,862	2.2%
RWA for credit risk	6,956	6,865	1.3%
RWA for market risks + CVA	129	105	23.3%
RWA for operational risk	949	893	6.4%

In H1 2017, RWA increased by EUR 172.7 million, of which EUR 91.6 million was on credit risks. RWA for retail exposures increased by EUR 101.9 million due to housing and consumer loans growth. Lower RWA for exposures to commercial banks by EUR 39.1 million is the result of liquidity management, while RWA for equity exposures decreased by EUR 24.3 million as a result of the sale of Petrol shares. RWA on market risks increased by EUR 24.4 million, mainly due to temporary open position in BAM⁸ which was already closed. RWA on operating risks increased by EUR 56.7 million due to higher three-year average income, which represents the basis for the calculation.

Note:

⁸ Bosnia-Herzegovina Convertible Mark

Risk management

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

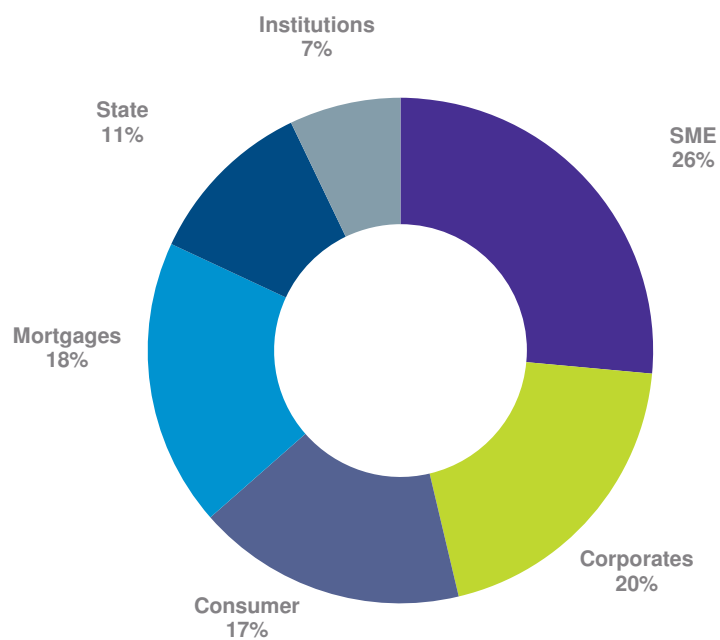
One of the key aims of Risk Management is to ensure that the Group's capital adequacy is managed prudently. The Group monitors its capital adequacy at both the Group and subsidiary bank levels within the framework of the established ICAAP process under normal conditions (regulatory capital adequacy) and stressed conditions. As at 30 June 2017, the Group had a strong level of capital adequacy (CET 1) of 16.5%, which is well within the stated risk appetite limit, and above the EU average published by the EBA. In line with the Supervisory Review and Evaluation Process (SREP), CET 1 and the total capital requirement for the Group in 2017 are currently fulfilled in the current and fully loaded requirement.

The second key aim is to maintain a solid liquidity level and structure. The Group holds a strong liquidity position at both the Group and subsidiary bank levels, well above the risk appetite, with the liquidity coverage ratio (LCR) (according to the delegated act) of 223% and unencumbered eligible reserves in the amount of EUR 4,954 million. Even if the stress scenario was to occur, the Group has sufficiently high liquidity reserves in place in the form of placements at the ECB, prime debt securities, and money market placements. The main funding base of the Group at the Group and individual subsidiary bank levels predominately entails customer deposits with a comfortable level of the loan-to-deposit ratio (LTD) in the amount of 73%, giving the Group the potential for further customer loan placements.

Improving the quality of the credit portfolio represents the third and most important key aim, with a focus on the quality of new placements leading to a diversified portfolio of customers. The Group has an active presence on the market, financing existing and new creditworthy clients. The lower indebtedness of companies and positive trends in industry have had a positive influence on the approval of new loans. In the retail segment, positive trends have been recorded throughout the region in terms of clients putting greater trust in economic developments, alongside the related recovery in consumption and the real estate market.

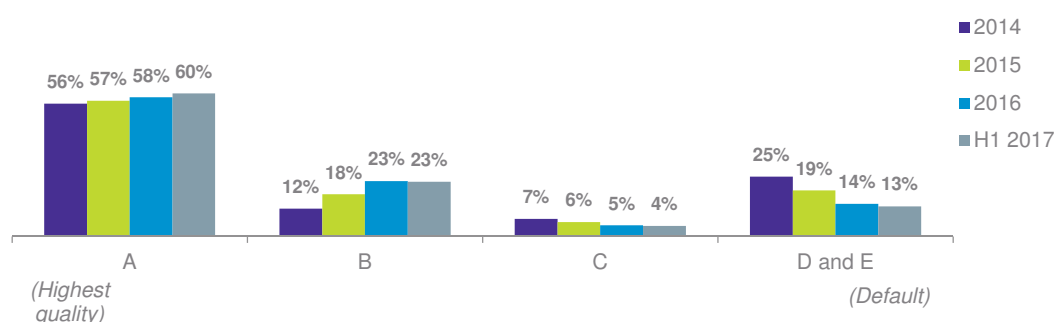
The current structure of gross exposures (on- and off-balance sheet) consists of retail clients (36%), large corporate clients (20%), SMEs, and micro companies (26%), with the remainder of the portfolio made up of other liquid assets.

Figure 22: NLB Group structure of the credit portfolio by segment as at 30 June 2017



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

Figure 23: Structure of NLB Group credit portfolio by client credit ratings (in %)

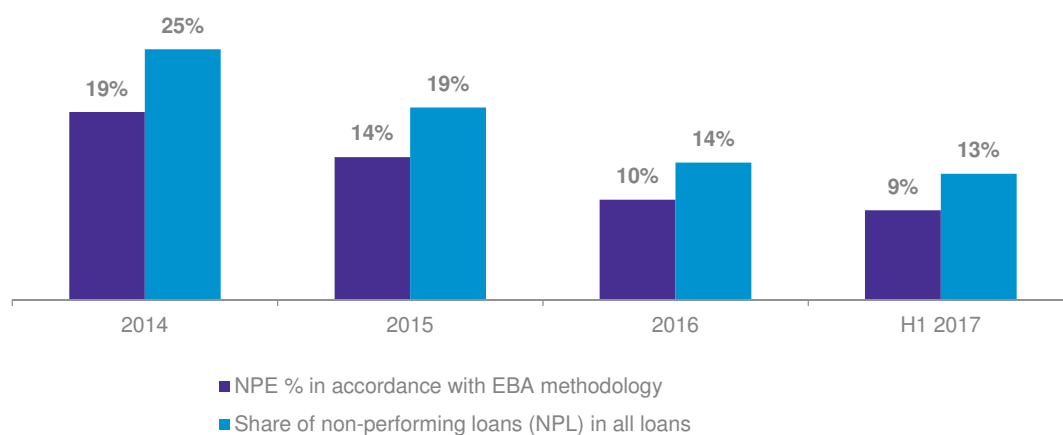
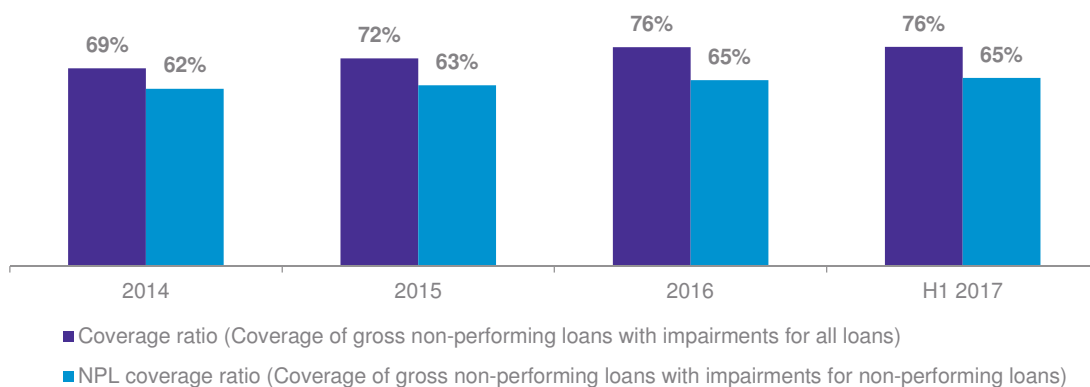


NLB Group's primary objective is to provide comprehensive services to clients by utilising prudent risk management principles. The Group is constantly improving its internal rating and scoring models in order to ensure that newly approved loans are of high quality, closely following the sustainability of credit risk volatility, and the sustainable development of the subsidiary banking members. In H1 2017, efforts continued with the low formation of new NPLs and sustainable risk costs, which were also related to the positive macroeconomic conditions at the time.

The legacy of NPE continues to have an important impact on the restructuring and work-out capacities and approaches built in the past, although there is an increasing focus on actively resolving new cases through adopting a faster and more active approach to restructuring and work-out. The Group's strong commitment to reducing the NPE legacy is maintained by precisely set targets and constantly monitoring progress. The existing non-performing credit portfolio stock in the Group was reduced in H1 2017 from EUR 1.299 million to EUR 1,181 million. The share of NPLs decreased from 13.8% to 12.6%, while the share of NPE by the EBA methodology fell from 10.0% to already below 9.0%.

The coverage ratio, which remains high at 76.1%, represents an important strength for the Group. The Group's direct NPL coverage ratio equals 65.4%, which is well above the EU average published by the EBA (45.2% as at the end of first quarter of 2017). As such, this means a further reduction in NPLs can be made without significantly influencing the cost of risk in the years ahead.

Figure 24: NLB Group NPE (NPE% by the EBA) and NPL ratio

Figure 25: NLB Group Coverage ratio⁹ and NPL Coverage ratio¹⁰

Note:

⁹ The coverage of the gross NPL portfolio with impairments on the entire loan portfolio

¹⁰ The coverage of the gross NPL portfolio with impairments on the NPL portfolio

When considering market risks, the Group takes the view that such risks should not significantly affect a single Group subsidiary or the whole Group's operations. The Group's net open FX position arising from transaction risk is very low and amounts to 1.22% of total capital.

The exposure to interest rate risk on the Group level is relatively low, but has increased moderately in the recent period. The Bank's net interest income sensitivity in the case of a Euribor increase of 50 bp would amount to EUR 12.7 million, whereas a decrease in exposure would be lower due to the zero floor clauses in place. Moreover, the basis point value (BPV) sensitivity (with inclusion of sight deposit allocation) of 200 bp equals 6.3% of capital.

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

Corporate governance

Management Board of the Bank

The Management Board of the Bank leads, represents, and acts on behalf of the Bank, independently and at its own discretion, as provided for by the law and the Bank's Articles of Association. In accordance with the Articles of Association, the Management Board may have three to six members (a president and up to five members), which are appointed and dismissed by the Supervisory Board. The president and members of the Management Board are appointed for a five-year term of office and may be reappointed or dismissed early in accordance with the law and the Articles of Association.

The Management Board of the Bank was reinforced already in 2016, when the Supervisory Board of the Bank at its meeting held on 4 July 2016 unanimously elected Blaž Brodnjak President of the Management Board of the Bank. In addition, the Supervisory Board of the Bank appointed László Pelle member of the Management Board in charge of operations (COO). He started performing his function on 26 October 2016. The President and the members of the Management Board of the Bank were appointed and elected for a new five-year term of office at the same meeting of the Supervisory Board of the Bank.

In H1 2017, the Bank's Management Board was composed of: Blaž Brodnjak (member of the Management Board since 1 December 2012, Deputy President of the Management Board since 5 February 2016, and President of the Management Board since 6 July 2016, with a new five-year term of office as at 6 July 2016), and members: Archibald Kremser, member of the Management Board in charge of financial operations (as at 31 July 2013 and with a new five-year term of office as at 6 July 2016), Andreas Burkhardt, member of the Management Board in charge of risk management (as of 18 September 2013 and with a new term of office as at 6 July 2016), and László Pelle, member of the Management Board in charge of operations (as of 26 October 2016 and with a five-year term of office as at 26 October 2016). The 5-year terms of office of the President of the Management Board Blaž Brodnjak and the members of the Management Board Archibald Kremser and Andreas Burkhardt expire on 6 July 2021, and of the Management Board member László Pelle on 26 October 2021.

The Management Board with a help of an internal project team and external legal advisors was actively involved in the highly demanding and complex privatization process run under leadership of Slovenski državni holding d.d. (Slovenian Sovereign Holding).

Supervisory Board

The Supervisory Board of the Bank implements its tasks in compliance with the provisions of the laws governing the operations of banks and companies, as well as with the Articles of Association of the Bank. In accordance with the two-tier governance system and the authorisations for supervising the Management Board, the Bank's Supervisory Board, among other tasks, is responsible for: issuing approvals to the Management Board related to the Bank's business policy and financial plan; approving the strategy of the Bank and the banking group, organising the internal control system, drafting an audit plan of the Internal Audit, all financial transactions (e.g. issuing of own securities, and equity stakes in companies and other legal entities), and supervising the work of the Internal Audit. The Supervisory Board acts in accordance with the highest ethical standards of management, considering the prevention of conflict of interests.

In H1 2017, the composition of the Supervisory Board of the Bank was as follows: Chairman Primož Karpe, Deputy Chair Dr. Sergeja Slapničar, and members: Uroš Ivanc, Andreas Klingen, Dr. László Urban, David E. Simon, David Kastelic, Matjaž Titan, and Alexander Bayr. Four new members of the Supervisory Board of the Bank, namely: David E. Simon, David Kastelic, Matjaž Titan, and Alexander Bayr were elected at the 27th General Meeting of Shareholders on 4 August 2016.

On 13 March 2017, Dr. Sergeja Slapničar, member of the Supervisory Board, submitted her statement of resignation. On the basis of the approval of the Supervisory Board of the Bank, her function was terminated on 20 March 2017. At the close of the 28th General Meeting of the Bank held on 7 April 2017, the four-year term of office of Supervisory Board member Uroš Ivanc expired. On 21 April 2017, the Supervisory Board of the Bank acknowledged the statement of resignation of Matjaž Titan (submitted on 18 April 2017), member of the Supervisory Board of the Bank, and his proposal for a shorter notice period. On the basis of the approval of the Supervisory Board, his function was terminated on 21 April 2017. The six-member Supervisory Board of the Bank continues its work as usual.

At the meeting of the Supervisory Board of the Bank on 7 April 2017, Andreas Klingen was appointed Deputy Chairman of the Supervisory Board of the Bank. On 11 May 2017, the Supervisory Board of the Bank passed a resolution to appoint committee members.

The General Meeting of the Bank

The shareholders exercise their rights related to the Bank's affairs at the general meetings of the Bank. The Republic of Slovenia is the 100-percent shareholder of the Bank, which is represented at the General Meeting by Slovenian Sovereign Holding.

The Bank's General Meeting adopts decisions in compliance with the legislation and the Bank's Articles of Association. The authorisations of the Bank's General Meeting are stipulated in the Companies Act, the Banking Act, and the Articles of Association of the Bank. The decisions adopted by the Bank's General Meeting include among others: adopting and amending the Articles of Association, using of distributable profit, granting of a discharge of liability to the Management and Supervisory Boards, changes in the Bank's share capital, appointing and discharging members of the Supervisory Board, remuneration and profit-sharing by the members of the Supervisory and Management Boards and the employees, annual schedules, and characteristics of the issues of securities convertible to shares and equity securities of the Bank. The rights of the Republic of Slovenia as the only shareholder of the Bank are represented at the General Meetings of the Bank by Slovenian Sovereign Holding.

The 28th General Meeting of Shareholders of the Bank was held on 7 April 2017, at which the rights of the Republic of Slovenia as the only shareholder of the Bank were represented by Slovenian Sovereign Holding. Among others, the General Meeting acknowledged the 2016 NLB Group Annual Report, the Supervisory Board's Report on the results of examining the Annual Report, the Information on the Remuneration of the Bank Management Board and Supervisory Board members in 2016, and the amendments to the Rules on determining other rights under management employment contracts or other documents of the Bank.

It adopted the resolution to allocate EUR 63.78 million of the distributable profit for 2016, amounting to EUR 145.31 million (which includes the profit brought forward from previous years in the amount of EUR 81.53 million, and the net profit for 2016 in the amount of EUR 63.78 million), to the sole shareholder of the Bank (EUR 3.189 per share). Share amounting to EUR 81.53 million is left undistributed and become part of the profit brought forward.

The General Meeting granted discharge to the Management Board and Supervisory Board for the business year 2016. At the end of the General Meeting, the four-year term of office of the member of the Supervisory Board Uroš Ivanc expired. The Supervisory Board shall continue its work as usual, with seven members.

The General Meeting of Shareholders of the Bank also acknowledged the adopted Internal Audit's Report for 2016, and the positive opinion of the Supervisory Board of the Bank.

At the General Meeting, the shareholder requested an additional item on the agenda, proposing the amendment to the Article of the Articles of Association which regulates the composition of the Supervisory Board and the supplementation of the Articles of Association by regulating the permission for the transfer of shares.

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Condensed Interim Financial Statements of NLB Group and NLB

as at 30 June 2017

Prepared in accordance with
International accounting standard 34
“Interim financial reporting”

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Condensed income statement

in EUR thousand

	Notes	NLB Group		NLB	
		June 2017	June 2016	June 2017	June 2016
Interest and similar income	4.1.	178,746	194,637	93,308	109,277
Interest and similar expenses	4.1.	(30,179)	(37,953)	(17,378)	(21,906)
Net interest income		148,567	156,684	75,930	87,371
Dividend income		142	964	24	885
Fee and commission income	4.2.	100,630	93,439	62,459	60,096
Fee and commission expenses	4.2.	(24,877)	(22,254)	(13,905)	(12,782)
Net fee and commission income		75,753	71,185	48,554	47,314
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	4.3.	11,814	13,017	11,420	12,882
Gains less losses from financial assets and liabilities held for trading	4.4.	5,680	2,516	3,061	(388)
Gains less losses from financial assets and liabilities designated at fair value through profit or loss		18	43	-	-
Fair value adjustments in hedge accounting		(1,374)	(234)	(1,374)	(234)
Foreign exchange translation gains less losses		1,022	937	170	1,023
Gains less losses on derecognition of assets other than held for sale		1,470	679	180	122
Other operating income	4.5.	12,890	12,630	7,032	6,496
Other operating expenses	4.6.	(15,101)	(15,194)	(8,830)	(6,006)
Administrative expenses	4.7.	(125,268)	(128,390)	(77,034)	(80,788)
Depreciation and amortisation		(13,787)	(14,364)	(8,936)	(9,609)
Provisions for other liabilities and charges	4.8.	5,229	4,477	4,382	6,810
Impairment charge	4.9.	20,391	(25,470)	11,517	(17,042)
Gains less losses from capital investments in subsidiaries, associates and joint ventures	4.10.	2,734	2,456	42,217	28,686
Net gain/(loss) from non-current assets held for sale		204	(172)	186	(172)
Profit before income tax		130,384	81,764	108,499	77,350
Income tax	4.11.	(8,093)	(9,641)	(3,181)	(6,149)
Profit for the period		122,291	72,123	105,318	71,201
Attributable to owners of the parent		117,919	69,491	105,318	71,201
Attributable to non-controlling interests		4,372	2,632	-	-
Earnings per share/diluted earnings per share (in EUR per share)		5.90	3.47	5.27	3.56

Condensed income statement – by quarter for NLB Group

in EUR thousand

	NLB Group			
	three months ended		three months ended	
	June 2017	March 2017	June 2016	March 2016
Interest and similar income	88,389	90,357	94,366	100,271
Interest and similar expenses	(15,153)	(15,026)	(18,130)	(19,823)
Net interest income	73,236	75,331	76,236	80,448
Dividend income	133	9	956	8
Fee and commission income	51,819	48,811	48,289	45,150
Fee and commission expenses	(13,467)	(11,410)	(11,715)	(10,539)
Net fee and commission income	38,352	37,401	36,574	34,611
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	120	11,694	8,100	4,917
Gains less losses from financial assets and liabilities held for trading	3,164	2,516	1,483	1,033
Gains less losses from financial assets and liabilities designated at fair value through profit or loss	(62)	80	55	(12)
Fair value adjustments in hedge accounting	(451)	(923)	(167)	(67)
Foreign exchange translation gains less losses	193	829	344	593
Gains less losses on derecognition of assets other than held for sale	1,172	298	324	355
Other operating income	5,490	7,400	6,535	6,095
Other operating expenses	(11,340)	(3,761)	(11,591)	(3,603)
Administrative expenses	(64,643)	(60,625)	(64,604)	(63,786)
Depreciation and amortisation	(6,913)	(6,874)	(7,107)	(7,257)
Provisions for liabilities and charges	2,928	2,301	4,935	(458)
Impairment charge	(1,826)	22,217	(29,724)	4,254
Gains less losses from capital investments in subsidiaries, associates and joint ventures	1,640	1,094	1,209	1,247
Net gain/(loss) from non-current assets held for sale	81	123	(181)	9
Profit before income tax	41,274	89,110	23,377	58,387
Income tax	(3,286)	(4,807)	(5,045)	(4,596)
Profit for the period	37,988	84,303	18,332	53,791
Attributable to owners of the parent	36,364	81,555	17,356	52,135
Attributable to non-controlling interests	1,624	2,748	976	1,656

Condensed income statement – by quarter for NLB

in EUR thousand

	NLB			
	three months ended		three months ended	
	June 2017	March 2017	June 2016	March 2016
Interest and similar income	45,495	47,813	51,651	57,626
Interest and similar expenses	(8,902)	(8,476)	(10,473)	(11,433)
Net interest income	36,593	39,337	41,178	46,193
Dividend income	19	5	885	-
Fee and commission income	32,019	30,440	31,256	28,840
Fee and commission expenses	(7,665)	(6,240)	(6,784)	(5,998)
Net fee and commission income	24,354	24,200	24,472	22,842
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	128	11,292	7,982	4,900
Gains less losses from financial assets and liabilities held for trading	1,792	1,269	(68)	(320)
Fair value adjustments in hedge accounting	(451)	(923)	(167)	(67)
Foreign exchange translation gains less losses	(429)	599	692	331
Gains less losses on derecognition of assets other than held for sale	(37)	217	55	67
Other operating income	2,732	4,300	3,319	3,177
Other operating expenses	(8,126)	(704)	(5,313)	(693)
Administrative expenses	(39,670)	(37,364)	(40,343)	(40,445)
Depreciation and amortisation	(4,497)	(4,439)	(4,774)	(4,835)
Provisions for liabilities and charges	3,259	1,123	7,425	(615)
Impairment charge	561	10,956	(20,553)	3,511
Gains less losses from capital investments in subsidiaries, associates and joint ventures	31,020	11,197	18,004	10,682
Net gain/(loss) from non-current assets held for sale	63	123	(181)	9
Profit before income tax	47,311	61,188	32,613	44,737
Income tax	(919)	(2,262)	(3,705)	(2,444)
Profit for the period	46,392	58,926	28,908	42,293

Condensed statement of comprehensive income

in EUR thousand					
	Note	NLB Group		NLB	
		June 2017	June 2016	June 2017	June 2016
Net profit for the period after tax		122,291	72,123	105,318	71,201
Other comprehensive income/(loss) after tax		(11,389)	4,860	(13,001)	2,813
<i>Items that will not be reclassified to income statement</i>					
Share of other comprehensive income/(losses) of entities accounted for using the equity method		(2)	-	-	-
<i>Items that may be reclassified subsequently to income statement</i>					
Foreign currency translation		1,702	(1,077)	-	-
Translation gains/(losses) taken to equity		1,702	(1,077)	-	-
Cash flow hedges (effective portion)		-	(165)	-	(165)
Valuation gains/(losses) taken to equity		-	(456)	-	(456)
Transferred to income statement		-	291	-	291
Available-for-sale financial assets		(15,464)	3,996	(16,050)	3,554
Valuation gains/(losses) taken to equity		(3,661)	17,032	(4,630)	16,455
Transferred to income statement	4.3. and 4.9.	(11,803)	(13,036)	(11,420)	(12,901)
Share of other comprehensive income of entities accounted for using the equity method		(801)	3,365	-	-
Income tax relating to components of other comprehensive income	5.11.	3,176	(1,259)	3,049	(576)
Total comprehensive income for the period after tax		110,902	76,983	92,317	74,014
Attributable to owners of the parent		106,450	74,361	92,317	74,014
Attributable to non-controlling interests		4,452	2,622	-	-

Condensed statement of comprehensive income – by quarter for NLB Group

in EUR thousand

	NLB Group			
	three months ended		three months ended	
	June 2017	March 2017	June 2016	March 2016
Net profit for the period after tax	37,988	84,303	18,332	53,791
Other comprehensive income/(loss) after tax	827	(12,216)	(1,890)	6,750
<i>Items that will not be reclassified to income statement</i>				
Share of other comprehensive income/(losses) of entities accounted for using the equity method	-	(2)	-	-
<i>Items that may be reclassified subsequently to income statement</i>				
Foreign currency translation	1,142	560	397	(1,474)
Translation gains/(losses) taken to equity	1,142	560	397	(1,474)
Cash flow hedges (effective portion)	-	-	(4)	(161)
Valuation gains/(losses) taken to equity	-	-	(151)	(305)
Transferred to income statement	-	-	147	144
Available-for-sale financial assets	430	(15,894)	(4,315)	8,311
Valuation gains/(losses) taken to equity	539	(4,200)	3,785	13,247
Transferred to income statement	(109)	(11,694)	(8,100)	(4,936)
Share of other comprehensive income/(loss) of entities accounted for using the equity method	(864)	63	1,583	1,782
Income tax relating to components of other comprehensive income	119	3,057	449	(1,708)
Total comprehensive income for the period after tax	38,815	72,087	16,442	60,541
Attributable to owners of the parent	37,194	69,256	15,440	58,921
Attributable to non-controlling interests	1,621	2,831	1,002	1,620

Condensed statement of comprehensive income – by quarter for NLB

in EUR thousand

	NLB			
	three months ended		three months ended	
	June 2017	March 2017	June 2016	March 2016
Net profit for the period after tax	46,392	58,926	28,908	42,293
Other comprehensive income/(loss) after tax	186	(13,187)	(3,752)	6,565
<i>Items that may be reclassified subsequently to income statement</i>				
Cash flow hedges (effective portion)	-	-	(4)	(161)
Valuation gains/(losses) taken to equity	-	-	(151)	(305)
Transferred to income statement	-	-	147	144
Available-for-sale financial assets	230	(16,280)	(4,517)	8,071
Valuation gains/(losses) taken to equity	358	(4,988)	3,465	12,990
Transferred to income statement	(128)	(11,292)	(7,982)	(4,919)
Income tax relating to components of other comprehensive income	(44)	3,093	769	(1,345)
Total comprehensive income for the period after tax	46,578	45,739	25,156	48,858

Condensed statement of financial position

in EUR thousand

	Notes	NLB Group		NLB	
		30.6.2017	31.12.2016	30.6.2017	31.12.2016
Cash, cash balances at central banks and other demand deposits at banks	5.1.	1,288,688	1,299,014	692,645	617,039
Trading assets	5.2.	120,357	87,699	120,377	87,693
Financial assets designated at fair value through profit or loss		5,877	6,694	2,140	2,011
Available-for-sale financial assets	5.3.	2,112,509	2,072,153	1,606,622	1,594,094
Derivatives - hedge accounting		1,934	217	1,934	217
Loans and advances					
- debt securities	5.4.1.	81,742	85,315	81,742	85,315
- loans and advances to banks	5.4.2.	450,831	435,537	423,422	408,056
- loans and advances to customers	5.4.3.	6,892,412	6,912,067	4,711,502	4,843,594
- other financial assets	5.4.4.	55,460	61,014	54,756	36,151
Held-to-maturity investments	5.5.	589,319	611,449	589,319	611,449
Fair value changes of the hedged items in portfolio hedge of interest rate risk		325	678	325	678
Non-current assets classified as held for sale		4,096	4,263	1,595	1,788
Property and equipment		192,200	196,849	87,486	90,496
Investment property	5.6.	82,818	83,663	8,151	8,151
Intangible assets		36,800	33,970	25,864	23,345
Investments in subsidiaries		-	-	351,338	339,693
Investments in associates and joint ventures		40,885	43,248	6,952	7,031
Current income tax assets		816	2,888	-	2,124
Deferred income tax assets	5.8.	11,036	7,735	13,533	10,622
Other assets	5.7.	101,480	94,558	9,557	8,419
TOTAL ASSETS		12,069,585	12,039,011	8,789,260	8,777,966
Trading liabilities	5.2.	14,057	18,791	14,055	18,787
Financial liabilities designated at fair value through profit or loss		2,140	2,011	2,140	2,011
Derivatives - hedge accounting		24,742	29,024	24,742	29,024
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	5.9.	62,798	42,334	80,103	74,977
- borrowings from banks and central banks	5.9.	309,974	371,769	284,605	338,467
- due to customers	5.9.	9,489,073	9,437,147	6,657,511	6,615,390
- borrowings from other customers	5.9.	80,734	83,619	7,079	4,274
- debt securities in issue	5.9.1.	282,035	277,726	282,035	277,726
- subordinated liabilities	5.9.2.	27,319	27,145	-	-
- other financial liabilities	5.9.3.	111,302	110,295	75,404	68,784
Provisions	5.10.	81,099	100,914	61,253	79,546
Current income tax liabilities		4,543	3,146	2,339	-
Deferred income tax liabilities	5.8.	1,124	727	-	-
Other liabilities	5.12.	9,589	8,703	4,663	4,186
TOTAL LIABILITIES		10,500,529	10,513,351	7,495,929	7,513,172
EQUITY AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT					
Share capital		200,000	200,000	200,000	200,000
Share premium		871,378	871,378	871,378	871,378
Accumulated other comprehensive income		18,499	29,969	21,580	34,581
Profit reserves		13,522	13,522	13,522	13,522
Retained earnings		434,583	380,444	186,851	145,313
		1,537,982	1,495,313	1,293,331	1,264,794
Non-controlling interests		31,074	30,347	-	-
TOTAL EQUITY		1,569,056	1,525,660	1,293,331	1,264,794
TOTAL LIABILITIES AND EQUITY		12,069,585	12,039,011	8,789,260	8,777,966

Condensed statement of changes in equity

in EUR thousand

NLB Group	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance as at 1 January 2017	200,000	871,378	29,968	13,522	380,444	1,495,312	30,347	1,525,659
- Net profit for the period	-	-	-	-	117,919	117,919	4,372	122,291
- Other comprehensive income	-	-	(11,469)	-	-	(11,469)	80	(11,389)
Total comprehensive income after tax	-	-	(11,469)	-	117,919	106,450	4,452	110,902
Dividends paid	-	-	-	-	(63,780)	(63,780)	(3,725)	(67,505)
Balance as at 30 June 2017	200,000	871,378	18,499	13,522	434,583	1,537,982	31,074	1,569,056

in EUR thousand

NLB Group	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance as at 1 January 2016	200,000	871,378	23,603	13,522	314,307	1,422,810	27,573	1,450,383
- Net profit for the period	-	-	-	-	69,491	69,491	2,632	72,123
- Other comprehensive income	-	-	4,870	-	-	4,870	(10)	4,860
Total comprehensive income after tax	-	-	4,870	-	69,491	74,361	2,622	76,983
Dividends paid	-	-	-	-	-	-	(2,798)	(2,798)
Other	-	-	-	-	4	4	-	4
Balance as at 30 June 2016	200,000	871,378	28,473	13,522	383,802	1,497,175	27,397	1,524,572

in EUR thousand

NLB	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Total equity
Balance as at 1 January 2017	200,000	871,378	34,581	13,522	145,313	1,264,794
- Net profit for the period	-	-	-	-	105,318	105,318
- Other comprehensive income	-	-	(13,001)	-	-	(13,001)
Total comprehensive income after tax	-	-	(13,001)	-	105,318	92,317
Dividends paid	-	-	-	-	(63,780)	(63,780)
Balance as at 30 June 2017	200,000	871,378	21,580	13,522	186,851	1,293,331

in EUR thousand

NLB	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Total equity
Balance as at 1 January 2016	200,000	871,378	31,841	13,522	125,410	1,242,151
- Net profit for the period	-	-	-	-	71,201	71,201
- Other comprehensive income	-	-	2,813	-	-	2,813
Total comprehensive income after tax	-	-	2,813	-	71,201	74,014
Balance as at 30 June 2016	200,000	871,378	34,654	13,522	196,611	1,316,165

Condensed statement of cash flows

in EUR thousand

	NLB Group		NLB	
	six months ended June 2017	June 2016	six months ended June 2017	June 2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	198,948	213,514	115,492	126,763
Interest paid	(27,794)	(38,216)	(15,199)	(20,762)
Dividends received	133	168	15	89
Fee and commission receipts	100,674	93,086	62,174	58,888
Fee and commission payments	(26,596)	(22,098)	(14,248)	(12,799)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	11,976	11,497	11,574	11,362
Realised losses from financial assets and financial liabilities not at fair value through profit or loss	-	(39)	-	(39)
Net gains/(losses) from financial assets and liabilities held for trading	2,315	3,129	(187)	1,033
Payments to employees and suppliers	(122,098)	(131,194)	(77,224)	(84,595)
Other income	14,654	14,998	7,348	7,789
Other expenses	(14,926)	(14,662)	(9,105)	(7,484)
Income tax paid	(3,834)	(12,446)	2,082	(9,812)
Cash flows from operating activities before changes in operating assets and liabilities	133,452	117,737	82,722	70,433
(Increases)/decreases in operating assets	(54,863)	(43,305)	38,080	(49,609)
Net (increase)/decrease in trading assets	(34,454)	(7,174)	(34,454)	(7,174)
Net (increase)/decrease in financial assets designated at fair value through profit or loss	946	817	-	1,737
Net (increase)/decrease in available-for-sale financial assets	(53,673)	(31,575)	(46,071)	(60,819)
Net (increase)/decrease in loans and advances	28,527	(10,934)	117,610	15,258
Net (increase)/decrease in other assets	3,791	5,561	995	1,389
Increases/(decreases) in operating liabilities	20,342	(104,736)	16,231	(37,730)
Net increase/(decrease) in financial liabilities designated at fair value through profit or loss	-	(1,737)	-	(1,737)
Net increase/(decrease) in deposits and borrowings measured at amortised cost	19,182	(100,425)	15,786	(33,809)
Net increase/(decrease) in securities measured at amortised cost	-	(2,000)	-	(2,000)
Net increase/(decrease) in other liabilities	1,160	(574)	445	(184)
Net cash from operating activities	98,931	(30,304)	137,033	(16,906)
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts from investing activities	61,399	53,445	83,374	71,119
Proceeds from sale of property and equipment and investment property	1,220	1,126	8	387
Proceeds from dividends from subsidiaries and associates	4,215	3,587	27,402	22,000
Proceeds from liquidation of subsidiaries and associates	238	-	238	-
Proceeds from sale of non-current assets held for sale	323	80	323	80
Proceeds from disposals of held-to-maturity financial assets	55,403	48,652	55,403	48,652
Payments from investing activities	(52,365)	(45,813)	(59,861)	(42,353)
Purchase of property and equipment and investment property	(4,136)	(10,687)	(2,146)	(6,658)
Purchase of intangible assets	(6,680)	(3,332)	(5,382)	(2,551)
Purchase of subsidiaries and increase in subsidiaries' equity	-	-	(10,784)	(1,350)
Purchase of held-to-maturity financial assets	(41,549)	(31,794)	(41,549)	(31,794)
Net cash from investing activities	9,034	7,632	23,513	28,766
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments from financing activities	(67,430)	(2,722)	(63,780)	-
Dividends paid	(67,430)	(2,722)	(63,780)	-
Net cash from financing activities	(67,430)	(2,722)	(63,780)	-
Effects of exchange rate changes on cash and cash equivalents	(5,366)	(1,907)	(7,661)	(1,182)
Net increase/(decrease) in cash and cash equivalents	40,535	(25,394)	96,766	11,860
Cash and cash equivalents at beginning of period	1,449,275	1,302,003	670,682	525,831
Cash and cash equivalents at end of period	1,484,444	1,274,702	759,787	536,509

in EUR thousand

		NLB Group		NLB	
	Notes	30.6.2017	31.12.2016	30.6.2017	31.12.2016
Cash and cash equivalents comprise:					
Cash, cash balances at central banks and other demand deposits at banks	5.1.	1,288,688	1,299,014	692,645	617,039
Loans and advances to banks with original maturity up to 3 months		110,778	85,103	67,142	53,643
Available for sale financial assets with original maturity up to 3 months		84,978	65,158	-	-
Total		1,484,444	1,449,275	759,787	670,682

Statement of management's responsibility

The Management Board hereby confirms the condensed interim financial statements of NLB Group and NLB for the six months ending 30 June 2017, and for the accompanying accounting policies and notes to the financial statements.

The Management Board is responsible for the preparation and presentation of these condensed 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 June 2017 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 condensed interim financial statements of NLB Group and NLB d.d. have been prepared on a going-concern basis for NLB Group and NLB, 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
Member of the
Management Board



Archibald Kremser
Member of the
Management Board



Andreas Burghardt
Member of the
Management Board



Blaž Brodnjak
Chief Executive Officer

Notes to the condensed interim financial statements

1. General information

Nova Ljubljanska banka d.d. Ljubljana (hereinafter: NLB) is a joint-stock entity providing universal banking services. NLB Group consists of NLB and its subsidiaries located in 10 countries.

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

The ultimate controlling party of NLB is the Republic of Slovenia, which was the sole shareholder as at 30 June 2017 and 31 December 2016.

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

2. Summary of significant accounting policies

2.1. Statement of compliance

These condensed interim financial statements have been prepared in accordance with IAS 34 "Interim financial reporting" and should be read in conjunction with the annual financial statements of NLB Group and NLB for the year ended 31 December 2016, 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 2016, except for accounting standards and other amendments effective for annual periods beginning on 1 January 2017 that were endorsed by the EU.

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

- IFRS 9 (new standard) – Financial instruments (effective for annual periods beginning on or after 1 January 2018).

- IFRS 15 (new standard) – Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018).

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

- IFRS 14 (new standard) – Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016). The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.
- IFRS 16 (new standard) – Leases (effective for annual periods beginning on or after 1 January 2019).
- IFRS 17 (new standard) – Insurance Contracts (effective for annual periods beginning on or after 1 January 2021).
- IFRS 10 and IAS 28 (amendment) – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (The IASB has deferred the effective date of amendments indefinitely).
- 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 15 (clarification) – Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018).
- IFRS 2 (amendment) – Classification and Measurement of share based Payment Transactions (effective for annual periods beginning on or after 1 January 2018).
- IFRS 4 (amendment) – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014–2016 Cycle. The improvements comprise a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 January 2017 or 1 January 2018.
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018).
- IAS 40 (amendment) – Investment Property (effective for annual periods beginning on or after 1 January 2018).

- IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019).

3. Changes in NLB Group

Six months ended 30 June 2017

Capital changes:

- An increase in share capital in the form of cash contribution in the amount of EUR 9,964 thousand in NLB Banka Beograd to ensure an increase in business operations.
- An increase in share capital in the form of cash contributions in the amount of EUR 745 thousand in REAM d.o.o. Zagreb due to an increase of business operations and CBS Invest, Sarajevo to ensure capital adequacy until the end of liquidation in the amount of EUR 75 thousand.

Other changes:

- Kreditni biro SISBON was liquidated. In accordance with a court order, the company was removed from the court register.
- SPV 2 d.o.o., Novi Sad was established and will manage certain real estate in NLB Group. NLB's ownership is 100%.

Changes in 2016

Capital changes:

- An increase in share capital in the form of cash contributions in the amount of EUR 2,503 thousand in SR-RE d.o.o., Beograd; REAM d.o.o., Podgorica; and REAM d.o.o., Beograd due to an increase of business operations.
- An increase in share capital in the form of cash contributions in the amount of EUR 13,050 thousand in NLB Leasing Podgorica, Podgorica; NLB Lizing, Skopje; and Prvi Faktor, Ljubljana to ensure capital adequacy until the end of liquidation.
- An increase in share capital in the form of a loan conversion in the amount of EUR 1,719 thousand in NLB Leasing Beograd to ensure capital adequacy until the end of liquidation.
- An increase in share capital in the form of cash contributions in the amount of EUR 7,004 thousand in NLB Leasing, Ljubljana to cover the loss from selling the portfolio of non-performing loans ("Project Pine"), and in the amount of EUR 7,000 thousand to ensure capital adequacy until the end of liquidation in Optima Leasing, Zagreb.

Other changes:

- FIN-DO d.o.o., Domžale and PRO-Avenija d.o.o., Ljubljana are merged with PRO-REM d.o.o., Ljubljana. The merger was formally registered on 1 July 2016, with the accounting date of merger as at 31 December 2015.

- BH-RE d.o.o., Sarajevo was established and will manage certain real estate in NLB Group. PRO-REM d.o.o., Ljubljana's ownership is 100%.
- Kreditni biro SISBON d.o.o., Ljubljana; Optima Leasing, Zagreb; NLB Leasing, Beograd; NLB Lizing, Skopje; PRO-REM d.o.o., Ljubljana; OL Nekretnine, Zagreb; NLB Leasing Podgorica, Podgorica; and NLB Interfinanz Zürich are formally in liquidation; and also NLB Propria, Ljubljana from 1 January 2017.
- Prvi faktor, Skopje and NLB Leasing Sofia were liquidated. In accordance with a court order, the companies were removed from the court register.

4. Notes to the condensed income statement

4.1. Interest income and expenses

in EUR thousand

	NLB Group			NLB		
	June 2017	June 2016	change	June 2017	June 2016	change
Interest and similar income						
Loans and advances to customers	151,439	162,833	-7%	72,150	83,932	-14%
Available-for-sale financial assets	13,829	16,033	-14%	7,435	9,041	-18%
Held-to-maturity investments	8,537	8,951	-5%	8,537	8,951	-5%
Financial assets held for trading	3,879	5,188	-25%	3,879	5,245	-26%
Loans and advances to banks and central banks	676	598	13%	1,126	1,240	-9%
Deposits with central banks and banks	386	481	-20%	181	318	-43%
Derivatives - hedge accounting	-	548	-100%	-	548	-100%
Other assets	-	5	-100%	-	2	-100%
Total	178,746	194,637	-8%	93,308	109,277	-15%
Interest and similar expenses						
Due to customers	15,482	22,163	-30%	4,907	8,623	-43%
Debt securities in issue	4,309	4,813	-10%	4,309	4,813	-10%
Financial liabilities held for trading	3,219	3,352	-4%	3,219	3,352	-4%
Derivatives - hedge accounting	2,680	2,951	-9%	2,680	2,951	-9%
Borrowings from banks and central banks	1,244	2,071	-40%	939	1,575	-40%
Borrowings from other customers	846	978	-13%	-	10	-100%
Subordinated liabilities	814	946	-14%	-	-	-
Deposits from banks and central banks	79	34	132%	61	32	91%
Other financial liabilities	1,506	645	133%	1,263	550	130%
Total	30,179	37,953	-20%	17,378	21,906	-21%
Net interest income	148,567	156,684	-5%	75,930	87,371	-13%

4.2. Fee and commission income and expenses

in EUR thousand						
	NLB Group			NLB		
	June 2017	June 2016	change	June 2017	June 2016	change
Fee and commission income						
Credit cards and ATMs	28,848	26,512	9%	18,830	18,317	3%
Payments	27,921	26,653	5%	14,138	14,023	1%
Customer transaction accounts	21,189	19,850	7%	16,147	15,656	3%
Investment funds	8,282	6,478	28%	2,437	1,690	44%
Guarantees	5,544	6,154	-10%	3,651	4,149	-12%
Investment banking	3,656	3,374	8%	2,964	2,642	12%
Agency of insurance products	2,087	1,680	24%	2,079	1,672	24%
Other services	3,103	2,738	13%	2,213	1,947	14%
Total	100,630	93,439	8%	62,459	60,096	4%
Fee and commission expenses						
Credit cards and ATMs	18,009	16,219	11%	10,970	10,262	7%
Payments	2,675	2,430	10%	411	394	4%
Investment banking	1,765	1,330	33%	1,235	928	33%
Insurance for holders of personal accounts and golden cards	928	1,007	-8%	638	695	-8%
Guarantees	121	163	-26%	89	137	-35%
Other services	1,379	1,105	25%	562	366	54%
Total	24,877	22,254	12%	13,905	12,782	9%
Net fee and commission income	75,753	71,185	6%	48,554	47,314	3%

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	
	June 2017	June 2016	June 2017	June 2016
Available-for-sale financial assets	11,814	13,056	11,420	12,921
Financial liabilities measured at amortised cost	-	(39)	-	(39)
Total	11,814	13,017	11,420	12,882

In February 2017, NLB Group successfully concluded a sale transaction of its major non-core equity participation and realised a gain in the amount of EUR 9,534 thousand.

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

in EUR thousand				
	NLB Group		NLB	
	six months ended	June	six months ended	June
	June 2017	June 2016	June 2017	June 2016
Foreign exchange trading	4,973	4,210	1,984	1,261
Derivatives	717	(372)	1,087	(327)
Debt instruments	(10)	(1,322)	(10)	(1,322)
Total	5,680	2,516	3,061	(388)

4.5. Other operating income

in EUR thousand						
	NLB Group			NLB		
	six months ended	June	change	six months ended	June	change
	June 2017	June 2016		June 2017	June 2016	
Income from non-banking services	6,112	7,722	-21%	4,078	5,103	-20%
Rental income from investment property	2,891	2,727	6%	185	112	65%
Other operating income	3,887	2,181	78%	2,769	1,281	116%
Total	12,890	12,630	2%	7,032	6,496	8%

4.6. Other operating expenses

in EUR thousand						
	NLB Group			NLB		
	six months ended	June	change	six months ended	June	change
	June 2017	June 2016		June 2017	June 2016	
Deposit guarantee	9,166	4,327	112%	4,731	-	-
Single Resolution Fund	2,590	3,894	-33%	2,590	3,894	-33%
Other taxes and compulsory public levies	1,450	1,601	-9%	574	463	24%
Membership fees and similar fees	522	451	16%	322	172	87%
Expenses related to issued service guarantees	183	797	-77%	183	797	-77%
Revaluation of investment property to fair value	48	2,877	-98%	-	124	-100%
Other operating expenses	1,142	1,247	-8%	430	556	-23%
Total	15,101	15,194	-1%	8,830	6,006	47%

4.7. Administrative expenses

in EUR thousand						
	NLB Group			NLB		
	six months ended	June	change	six months ended	June	change
	June 2017	June 2016		June 2017	June 2016	
Employee costs	80,414	81,601	-1%	50,441	51,895	-3%
Other general and administrative expenses	44,854	46,789	-4%	26,593	28,893	-8%
Total	125,268	128,390	-2%	77,034	80,788	-5%

4.8. Provisions for other liabilities and charges

	in EUR thousand			
	NLB Group		NLB	
	six months ended June 2017	June 2016	six months ended June 2017	June 2016
Guarantees and commitments	(5,995)	(7,828)	(4,447)	(6,849)
Provisions for legal issues	717	3,351	65	39
Total	(5,229)	(4,477)	(4,382)	(6,810)

4.9. Impairment charge

	in EUR thousand			
	NLB Group		NLB	
	six months ended June 2017	June 2016	six months ended June 2017	June 2016
Impairment of financial assets				
Loans and advances to customers (note 5.4.5.)	(22,137)	23,141	(11,991)	16,150
Loans and advances to banks (note 5.4.5.)	(129)	62	-	-
Held-to-maturity financial assets	(11)	82	(11)	82
Available-for-sale financial assets	11	20	-	20
Other financial assets (note 5.4.5.)	279	848	407	441
Impairment of investments in subsidiaries, associates and joint ventures				
Investments in subsidiaries	-	-	75	349
Impairment of other assets				
Other assets	1,596	1,317	3	-
Total	(20,391)	25,470	(11,517)	17,042

The bank recalculates PD's for collective provisions once a year in the first quarter of the year and the full impact is recognised in the first quarter accounts. Positive trends in economic environment and consequently lower transition of performing customers into default in years 2016 and 2015 positively contributed to lower percentages of PD's and consequently lower pool provisions mainly in the segment of corporate clients. In the first quarter of 2017 the effect of release of impairments on NLB Group level in the segment of corporate clients amounts to approximately EUR 21 million (in first quarter of 2016 approximately EUR 14 million) and in NLB approximately EUR 9 million (in first quarter of 2016 approximately EUR 6 million). There were no significant change in provisions for retail clients.

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

in EUR thousand

	NLB Group		NLB	
	six months ended		six months ended	
	June 2017	June 2016	June 2017	June 2016
Dividends from investments in subsidiaries, associates and joint ventures	-	-	42,058	28,686
Gains less losses on derecognition of subsidiaries	(2)	-	159	-
Share of net gains less losses of associates and joint ventures accounted for using the equity method	2,736	2,456	-	-
Total	2,734	2,456	42,217	28,686

4.11. Income tax

in EUR thousand

	NLB Group			NLB		
	six months ended			six months ended		
	June 2017	June 2016	change	June 2017	June 2016	change
Current income tax	7,980	9,139	-13%	3,043	5,996	-49%
Deferred tax (note 5.8.)	113	502	-77%	138	153	-10%
Total	8,093	9,641	-16%	3,181	6,149	-48%

5. Notes to the condensed statement of financial position

5.1. Cash, cash balances at central banks and other demand deposits at banks

in EUR thousand

	NLB Group			NLB		
	30.6.2017	31.12.2016	Change	30.6.2017	31.12.2016	Change
Balances and obligatory reserves with central banks	821,172	776,648	6%	441,769	375,561	18%
Cash	250,322	260,612	-4%	130,683	128,519	2%
Demand deposits at banks	217,194	261,754	-17%	120,193	112,959	6%
Total	1,288,688	1,299,014	-1%	692,645	617,039	12%

5.2. Financial instruments held for trading

a) Trading assets

in EUR thousand

	NLB Group			NLB		
	30.6.2017	31.12.2016	Change	30.6.2017	31.12.2016	Change
Derivatives, excluding hedging instruments						
Swap contracts	15,881	15,185	5%	15,902	15,179	5%
Forward contracts	814	3,352	-76%	813	3,352	-76%
Options	836	405	106%	836	405	106%
Total derivatives	17,531	18,942	-7%	17,551	18,936	-7%
Securities						
Treasury bills	80,070	30,012	167%	80,070	30,012	167%
Commercial papers	-	19,010	-100%	-	19,010	-100%
Bonds	22,756	19,735	15%	22,756	19,735	15%
Total securities	102,826	68,757	50%	102,826	68,757	50%
Total	120,357	87,699	37%	120,377	87,693	37%

b) Trading liabilities

in EUR thousand

	NLB Group			NLB		
	30.6.2017	31.12.2016	Change	30.6.2017	31.12.2016	Change
Derivatives, excluding hedging instruments						
Swap contracts	12,935	15,555	-17%	12,935	15,552	-17%
Forward contracts	748	3,236	-77%	746	3,235	-77%
Options	374	-	-	374	-	-
Total	14,057	18,791	-25%	14,055	18,787	-25%

5.3. Available-for-sale financial assets

in EUR thousand

	NLB Group			NLB		
	30.6.2017	31.12.2016	Change	30.6.2017	31.12.2016	Change
Bonds	1,636,720	1,619,228	1%	1,358,363	1,262,363	8%
Commercial bills	312,529	274,489	14%	146,375	209,331	-30%
Treasury bills	109,898	104,617	5%	55,005	55,093	0%
National Resolution Fund	44,455	44,570	0%	44,455	44,570	0%
Shares	8,844	29,050	-70%	2,424	22,737	-89%
Cash certificates	63	199	-68%	-	-	-
Total	2,112,509	2,072,153	2%	1,606,622	1,594,094	1%

5.4. Loans and advances

Analysis by type of loans and advances

in EUR thousand

	NLB Group			NLB		
	30.6.2017	31.12.2016	Change	30.6.2017	31.12.2016	Change
Loans and advances to customers	6,892,412	6,912,067	0%	4,711,502	4,843,594	-3%
Loans and advances to banks	450,831	435,537	4%	423,422	408,056	4%
Debt securities	81,742	85,315	-4%	81,742	85,315	-4%
Other financial assets	55,460	61,014	-9%	54,756	36,151	51%
Total	7,480,445	7,493,933	0%	5,271,422	5,373,116	-2%

5.4.1. Debt securities

in EUR thousand

	NLB Group and NLB		
	30.6.2017	31.12.2016	Change
Companies	81,742	85,315	-4%
Total	81,742	85,315	-4%

5.4.2. Loans and advances to banks

in EUR thousand

	NLB Group			NLB		
	30.6.2017	31.12.2016	Change	30.6.2017	31.12.2016	Change
Time deposits	447,089	433,883	3%	395,945	387,599	2%
Purchased receivables	2,002	1,058	89%	2,002	1,058	89%
Loans	1,998	945	111%	25,475	19,399	31%
	451,089	435,886	3%	423,422	408,056	4%
Allowance for impairment (note 5.4.5.)	(258)	(349)	-26%	-	-	-
Total	450,831	435,537	4%	423,422	408,056	4%

5.4.3. Loans and advances to customers

in EUR thousand

	NLB Group			NLB		
	30.6.2017	31.12.2016	Change	30.6.2017	31.12.2016	Change
Loans	7,136,275	7,198,486	-1%	4,952,262	5,098,336	-3%
Overdrafts	303,198	298,351	2%	169,419	178,899	-5%
Finance lease receivables	182,838	192,923	-5%	-	-	-
Credit card business	109,335	112,106	-2%	55,563	60,338	-8%
Called guarantees	12,658	13,577	-7%	10,236	10,744	-5%
Reverse sale and repurchase agreement	-	25	-100%	-	25	-100%
	7,744,304	7,815,468	-1%	5,187,480	5,348,342	-3%
Allowance for impairment (note 5.4.5.)	(851,892)	(903,401)	-6%	(475,978)	(504,748)	-6%
Total	6,892,412	6,912,067	0%	4,711,502	4,843,594	-3%

5.4.4. Other financial assets

in EUR thousand

	NLB Group			NLB		
	30.6.2017	31.12.2016	Change	30.6.2017	31.12.2016	Change
Receivables in the course of collection	20,337	13,235	54%	18,687	11,481	63%
Credit card receivables	12,667	21,961	-42%	9,900	17,375	-43%
Debtors	11,583	11,934	-3%	707	929	-24%
Fees and commissions	6,250	7,311	-15%	4,271	5,699	-25%
Receivables to brokerage firms and others for sell of securities and custody services	4,560	612	645%	4,540	610	644%
Prepayments	2,163	2,217	-2%	-	-	-
Accrued income	1,264	365	246%	1,429	206	594%
Receivables from purchase agreements for equity securities	162	164	-1%	162	164	-1%
Dividends	53	49	8%	14,709	49	-
Other financial assets	11,076	18,619	-41%	4,147	3,409	22%
	70,115	76,467	-8%	58,552	39,922	47%
Allowance for impairment (note 5.4.5.)	(14,655)	(15,453)	-5%	(3,796)	(3,771)	1%
Total	55,460	61,014	-9%	54,756	36,151	51%

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

in EUR thousand

	NLB Group					
	Banks		Customers		Other financial assets	
	2017	2016	2017	2016	2017	2016
Balance as at 1 January	349	242	903,401	1,262,835	15,453	27,078
Exchange differences on opening balance	2	1	562	(1,113)	58	62
Impairment (note 4.9.)	(129)	62	(22,137)	23,141	279	848
Write offs	-	-	(38,061)	(68,039)	(1,189)	(4,791)
Repayment of write offs	35	35	8,048	5,538	65	263
Exchange differences	1	-	224	(9)	(11)	6
Other	-	-	(145)	(67)	-	-
Balance as at 30 June	258	340	851,892	1,222,286	14,655	23,466

in EUR thousand

	NLB					
	Banks		Customers		Other financial assets	
	2017	2016	2017	2016	2017	2016
Balance as at 1 January	-	197	504,748	694,718	3,771	5,123
Impairment (note 4.9.)	-	-	(11,991)	16,150	407	441
Write offs	-	-	(18,708)	(22,355)	(390)	(865)
Repayment of write offs	-	-	1,978	1,494	8	245
Exchange differences	-	-	(49)	(62)	-	(1)
Balance as at 30 June	-	197	475,978	689,945	3,796	4,943

5.5. Held-to-maturity financial assets

in EUR thousand

	NLB Group and NLB		
	30.6.2017	31.12.2016	Change
Bonds	589,391	611,532	-4%
	589,391	611,532	-4%
Allowance for impairment	(72)	(83)	-13%
Total	589,319	611,449	-4%

5.6. Investment property

in EUR thousand

	NLB Group			NLB		
	30.6.2017	31.12.2016	Change	30.6.2017	31.12.2016	Change
Buildings	77,693	78,529	-1%	7,553	7,553	0%
Land	5,125	5,134	0%	598	598	0%
Total	82,818	83,663	-1%	8,151	8,151	0%

5.7. Other assets

in EUR thousand

	NLB Group			NLB		
	30.6.2017	31.12.2016	Change	30.6.2017	31.12.2016	Change
Assets, received as collateral	82,134	79,059	4%	3,441	4,263	-19%
Inventories	9,690	8,913	9%	448	460	-3%
Deferred expenses	7,406	4,597	61%	5,131	3,096	66%
Prepayments	914	684	34%	237	211	12%
Claim for taxes and other dues	1,336	1,305	2%	300	389	-23%
Total	101,480	94,558	7%	9,557	8,419	14%

5.8. Deferred tax

in EUR thousand

	NLB Group			NLB		
	30.6.2017	31.12.2016	Change	30.6.2017	31.12.2016	Change
Deferred income tax assets						
Valuation of financial instruments and capital investments	73,859	75,917	-3%	73,837	75,895	-3%
Impairment provisions	3,671	3,956	-7%	3,571	3,571	0%
Employee benefit provisions	3,161	3,208	-1%	2,690	2,736	-2%
Depreciation and valuation of non-financial assets	1,108	1,113	0%	167	175	-5%
Tax losses	205,801	206,866	-1%	207,270	208,678	-1%
Reduction of deferred tax assets	(263,847)	(267,051)	-1%	(265,198)	(268,718)	-1%
Total deferred income tax assets	23,753	24,009	-1%	22,337	22,337	0%
Deferred income tax liabilities						
Valuation of financial instruments	9,357	12,233	-24%	8,555	11,463	-25%
Depreciation and valuation of non-financial assets	1,332	1,278	4%	249	252	-1%
Impairment provisions	3,133	3,471	-10%	-	-	-
Other	19	19	0%	-	-	-
Total deferred income tax liabilities	13,841	17,001	-19%	8,804	11,715	-25%
Net deferred income tax assets	11,036	7,735	43%	13,533	10,622	27%
Net deferred income tax liabilities	(1,124)	(727)	55%	-	-	-

in EUR thousand

	NLB Group		NLB	
	six months ended		six months ended	
	June 2017	June 2016	June 2017	June 2016
Included in the income statement for the current year	(113)	(502)	(138)	(153)
- valuation of financial instruments and capital investments	(2,199)	51	(2,199)	48
- impairment provisions	53	(198)	-	(5)
- employee benefit provisions	(47)	(92)	(46)	(90)
- depreciation and valuation of non-financial assets	(59)	(89)	(5)	(9)
- tax losses	(1,065)	(6,651)	(1,408)	(5,552)
- adjustment of deferred income tax assets	3,204	6,477	3,520	5,455
Included in other comprehensive income for the current period	3,018	(636)	3,049	(576)
- valuation of available-for-sale financial assets	3,018	(664)	3,049	(604)
- cash flow hedges	-	28	-	28

As at 30 June 2017, NLB recognised EUR 22,337 thousand deferred tax assets (31 December 2016: EUR 22,337 thousand). Unrecognised deferred tax assets amount to EUR 265,198 thousand (31

December 2016: EUR 268,718 thousand) of which the majority relates to unrecognised deferred tax assets from tax losses and unrecognised deferred tax assets from impairments of capital investments.

5.9. Financial liabilities measured at amortised cost

Analysis by type of financial liabilities, measured at amortised cost

in EUR thousand						
	NLB Group			NLB		
	30.6.2017	31.12.2016	Change	30.6.2017	31.12.2016	Change
Deposits from banks and central banks	62,798	42,334	48%	80,103	74,977	7%
- Deposits on demand	41,493	34,828	19%	72,681	74,434	-2%
- Other deposits	21,305	7,506	184%	7,422	543	-
Borrowings from banks and central banks	309,974	371,769	-17%	284,605	338,467	-16%
Due to customers	9,489,073	9,437,147	1%	6,657,511	6,615,390	1%
- Deposits on demand	6,727,419	6,415,927	5%	5,066,146	4,781,616	6%
- Other deposits	2,761,654	3,021,220	-9%	1,591,365	1,833,774	-13%
Borrowings from other customers	80,734	83,619	-3%	7,079	4,274	66%
Debt securities in issue	282,035	277,726	2%	282,035	277,726	2%
Subordinated liabilities	27,319	27,145	1%	-	-	-
Other financial liabilities	111,302	110,295	1%	75,404	68,784	10%
Total	10,363,235	10,350,035	0%	7,386,737	7,379,618	0%

5.9.1. Debt securities in issue

in EUR thousand			
	NLB Group and NLB		
	30.6.2017	31.12.2016	Change
Carrying amount of issued securities			
- traded on active markets	282,035	277,726	2%
Total	282,035	277,726	2%
Bonds (in %)			
- fixed rated	100.00	100.00	

5.9.2. Subordinated liabilities

				in EUR thousand			
NLB Group				30.6.2017		31.12.2016	
	Currency	Due date	Interest rate	Carrying amount	Nominal value	Carrying amount	Nominal value
Subordinated loans							
	EUR	30.6.2018	6-month EURIBOR + 5 % p. a. with zero floor clause	12,203	12,000	12,103	12,000
	EUR	30.6.2020	6-month EURIBOR + 7.7% p. a.	5,141	5,000	5,151	5,000
	EUR	26.6.2025	6-month EURIBOR + 6.25% p. a.	9,975	10,000	9,891	10,000
Total				27,319	27,000	27,145	27,000

5.9.3. Other financial liabilities

in EUR thousand

	NLB Group			NLB		
	30.6.2017	31.12.2016	Change	30.6.2017	31.12.2016	Change
Items in the course of payment	28,760	28,671	0%	14,134	8,499	66%
Liabilities to brokerage firms and others for securities purchase and custody services	18,443	1,038	-	16,862	181	-
Accrued expenses	13,951	13,382	4%	7,091	5,593	27%
Debit or credit card payables	14,243	32,704	-56%	13,517	29,350	-54%
Suppliers	11,380	11,781	-3%	8,695	8,393	4%
Accrued salaries	11,227	8,537	32%	6,513	6,583	-1%
Fees and commissions due	154	1,440	-89%	96	1,398	-93%
Other financial liabilities	13,144	12,742	3%	8,496	8,787	-3%
Total	111,302	110,295	1%	75,404	68,784	10%

5.10. Provisions

in EUR thousand

	NLB Group			NLB		
	30.6.2017	31.12.2016	Change	30.6.2017	31.12.2016	Change
Provisions for non-financial guarantees	21,229	22,745	-7%	20,851	21,777	-4%
Employee benefit provisions	19,765	19,758	0%	15,576	15,384	1%
Provision for legal issues	15,724	15,194	3%	3,192	3,282	-3%
Restructuring provisions	8,910	10,014	-11%	8,093	8,750	-8%
Provisions for financial guarantees	8,594	25,327	-66%	7,053	23,131	-70%
Provisions for other credit commitments	4,578	5,609	-18%	4,223	4,957	-15%
Other provisions	2,299	2,267	1%	2,265	2,265	0%
Total	81,099	100,914	-20%	61,253	79,546	-23%

The biggest amount within material monetary claims relates to civil claims filed by Privredna banka Zagreb (the PBZ) and Zagrebačka banka (the ZaBa) against NLB, referring to the old savings of LB Branch Zagreb savers, which were transferred to these two banks in the principal amount of approximately EUR 172.2 million. Due to the fact the proceedings have been pending for such a long time, the penalty interest already exceeds the principal amount. As NLB is not liable for the old foreign currency savings, based on numerous process and content-related reasons, NLB has all along objected to these claims. Two key reasons NLB is no longer liable for the old foreign currency savings are that it was only founded on the basis of the Constitutional Act on 27 July 1994 (at the time the savings were deposited with LB Branch Zagreb, NLB did not exist yet), and NLB did not assume any of such obligations. Moreover, this is a former Yugoslavia succession matter as the governments of the Republic of Slovenia and the Republic of Croatia agreed in a Memorandum of Understanding signed in 2013 to find a solution to the transferred foreign currency savings of Ljubljanska banka in Croatia (LB) on the basis of the Agreement on Succession Issues and that the Republic of Croatia would stay all the proceedings commenced by the PBZ and the ZaBa in relation to the transferred foreign currency savings until the issue is finally resolved.

Despite the agreement in the Memorandum of Understanding (Memorandum) to stay all the proceedings commenced, in May 2015 the Court of Appeal, the County Court of Zagreb, ruled in one claim to reject

the complaints raised by the LB and NLB. NLB then filed a constitutional appeal against the aforementioned final judgement. In this case the ruled claim was enforced in the enforcement proceeding from the account of NLB with the Croatian bank. In the other cases, with respect to the court procedures described above, are still pending, and final judgments have not yet been issued.

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

In the one of the cases on 29 March 2016, the court of second instance allowed the appeal and returned the case to the Court of first instance, which initially decided in favour of the ZaBa. The appeal court explained in its decree that the Court of first instance will have to assess what the position of the Memorandum is in the hierarchy of legal acts of the Republic of Croatia, and if it notices that the Memorandum in the specific case takes precedence, it will have to determine what was the intention of the parties in concluding the Memorandum.

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

5.11. Income tax relating to components of other comprehensive income

in EUR thousand

	NLB Group					
	30.6.2017			30.6.2016		
	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Available-for-sale financial assets	(15,464)	3,018	(12,446)	3,996	(664)	3,332
Cash flow hedge	-	-	-	(165)	28	(137)
Share of associates and joint ventures	(801)	158	(643)	3,365	(623)	2,742
Total	(16,265)	3,176	(13,089)	7,196	(1,259)	5,937

in EUR thousand

	NLB					
	30.6.2017			30.6.2016		
	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Available-for-sale financial assets	(16,050)	3,049	(13,001)	3,554	(604)	2,950
Cash flow hedge	-	-	-	(165)	28	(137)
Total	(16,050)	3,049	(13,001)	3,389	(576)	2,813

5.12. Other liabilities

in EUR thousand

	NLB Group			NLB		
	30.6.2017	31.12.2016	Change	30.6.2017	31.12.2016	Change
Taxes payable	3,316	3,699	-10%	2,869	3,049	-6%
Deferred income	2,630	2,964	-11%	838	661	27%
Payments received in advance	3,643	2,040	79%	956	476	101%
Total	9,589	8,703	10%	4,663	4,186	11%

5.13. Book value per share

The book value of a NLB share on a consolidated level as at 30 June 2017 was EUR 76.9 (31 December 2016: EUR 74.8) and on solo it was EUR 64.7 (31 December 2016: EUR 63.2). It is calculated as the ratio of net assets' book value without other equity instruments issued and the number of shares. NLB Group and NLB do not have any other equity instruments issued or treasury shares.

5.14. Capital adequacy ratio

in EUR thousand

	NLB Group		NLB	
	30.6.2017	31.12.2016	30.6.2017	31.12.2016
Paid up capital instruments	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Retained earnings - from previous years	296,605	246,656	81,533	81,530
Profit or loss eligible - from current year	-	49,890	-	-
Accumulated other comprehensive income	(13,147)	(6,053)	(557)	5,205
Other reserves	13,522	13,522	13,522	13,522
Minority interest	-	-	-	-
Prudential filters: Cash flow hedge reserve	-	-	-	-
Prudential filters: Value adjustments due to the requirements for prudent valuation	(2,276)	(2,213)	(1,770)	(1,734)
(-) Goodwill	(3,529)	(3,529)	-	-
(-) Other intangible assets	(33,225)	(30,397)	(25,864)	(23,345)
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	(6,075)	(3,013)	(7,902)	(4,626)
(-) Investments in CET1 instruments of financial sector - significant share	-	-	-	-
COMMON EQUITY TIER 1 CAPITAL (CET1)	1,323,253	1,336,241	1,130,340	1,141,930
Additional Tier 1 capital	-	-	-	-
TIER 1 CAPITAL	1,323,253	1,336,241	1,130,340	1,141,930
Tier 2 capital	-	-	-	-
TOTAL CAPITAL (OWN FUNDS)	1,323,253	1,336,241	1,130,340	1,141,930
RWA for credit risk	6,956,322	6,864,737	4,394,407	4,292,262
RWA for market risks	127,526	104,175	76,501	27,975
RWA for credit valuation adjustment risk	1,525	463	1,525	463
RWA for operational risk	949,493	892,753	593,750	561,091
TOTAL RISK EXPOSURE AMOUNT (RWA)	8,034,866	7,862,128	5,066,183	4,881,791
Common Equity Tier 1 Ratio	16.5%	17.0%	22.3%	23.4%
Tier 1 Ratio	16.5%	17.0%	22.3%	23.4%
Total Capital Ratio	16.5%	17.0%	22.3%	23.4%

5.15. Off-balance sheet liabilities

in EUR thousand

	NLB Group			NLB		
	30.6.2017	31.12.2016	Change	30.6.2017	31.12.2016	Change
Commitments to extend credit	1,069,200	1,075,940	-1%	865,273	881,198	-2%
Non-financial guarantees	416,601	417,149	0%	335,657	345,440	-3%
Financial guarantees	314,313	332,281	-5%	178,341	189,642	-6%
Letters of credit	15,071	17,485	-14%	913	3,761	-76%
Other	3,421	917	273%	69	118	-42%
	1,818,606	1,843,772	-1%	1,380,253	1,420,159	-3%
Provisions (note 5.10.)	(34,401)	(53,681)	-36%	(32,127)	(49,865)	-36%
Total	1,784,205	1,790,091	0%	1,348,126	1,370,294	-2%

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. 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

30.6.2017	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Financial instruments held for trading	102,826	17,068	463	120,357	102,826	17,088	463	120,377
<i>Debt instruments</i>	102,826	-	-	102,826	102,826	-	-	102,826
<i>Derivatives</i>	-	17,068	463	17,531	-	17,088	463	17,551
Derivatives - hedge accounting	-	1,934	-	1,934	-	1,934	-	1,934
Financial assets designated at fair value through profit or loss	5,877	-	-	5,877	2,140	-	-	2,140
<i>Debt instruments</i>	103	-	-	103	-	-	-	-
<i>Equity instruments</i>	5,774	-	-	5,774	2,140	-	-	2,140
Financial assets available-for-sale	1,710,092	396,514	5,903	2,112,509	1,405,522	199,220	1,880	1,606,622
<i>Debt instruments</i>	1,709,363	349,847	-	2,059,210	1,404,978	154,765	-	1,559,743
<i>Equity instruments</i>	729	46,667	5,903	53,299	544	44,455	1,880	46,879
Financial liabilities								
Financial instruments held for trading	-	14,057	-	14,057	-	14,055	-	14,055
<i>Derivatives</i>	-	14,057	-	14,057	-	14,055	-	14,055
Derivatives - hedge accounting	-	24,742	-	24,742	-	24,742	-	24,742
Financial liabilities designated at fair value through profit or loss	-	2,140	-	2,140	-	2,140	-	2,140
Non-financial assets								
Investment properties	-	82,818	-	82,818	-	8,151	-	8,151
Non-current assets classified as held for sale	-	4,096	-	4,096	-	1,595	-	1,595

in EUR thousand

31.12.2016	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Financial instruments held for trading	49,747	37,547	405	87,699	49,747	37,541	405	87,693
<i>Debt instruments</i>	49,747	19,010	-	68,757	49,747	19,010	-	68,757
<i>Derivatives</i>	-	18,537	405	18,942	-	18,531	405	18,936
Derivatives - hedge accounting	-	217	-	217	-	217	-	217
Financial assets designated at fair value through profit or loss	6,694	-	-	6,694	2,011	-	-	2,011
<i>Debt instruments</i>	734	-	-	734	-	-	-	-
<i>Equity instruments</i>	5,960	-	-	5,960	2,011	-	-	2,011
Financial assets available-for-sale	1,648,721	417,529	5,903	2,072,153	1,330,150	262,134	1,810	1,594,094
<i>Debt instruments</i>	1,627,608	370,925	-	1,998,533	1,309,223	217,564	-	1,526,787
<i>Equity instruments</i>	21,113	46,604	5,903	73,620	20,927	44,570	1,810	67,307
Financial liabilities								
Financial instruments held for trading	-	18,791	-	18,791	-	18,787	-	18,787
<i>Derivatives</i>	-	18,791	-	18,791	-	18,787	-	18,787
Derivatives - hedge accounting	-	29,024	-	29,024	-	29,024	-	29,024
Financial liabilities designated at fair value through profit or loss	-	2,011	-	2,011	-	2,011	-	2,011
Non-financial assets								
Investment properties	-	83,663	-	83,663	-	8,151	-	8,151
Non-current assets classified as held for sale	-	4,263	-	4,263	-	1,788	-	1,788

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
1	market value from exchange market		regular valuation by fund management company	market value from exchange market		
2				valuation model	valuation model (underlying instrument on level 1)	valuation model
3	valuation model	valuation model	valuation model	valuation model	valuation model (underlying instrument on level 3)	
Transfers						
	from level 1 to 3 equity excluded from exchange market		from level 1 to 3 fund management stops publishing regular valuation	from level 1 to 2 fixed income excluded from exchange market	from level 2 to 3 underlying excluded from exchange market	
	from level 1 to 3 companies in insolvency proceedings		from level 3 to 1 fund management starts publishing regular valuation	from level 1 to 2 fixed income not liquid (not trading for 6 months)	from level 3 to 2 underlying included in exchange market	
	from level 3 to 1 equity included in exchange market			from level 1 to 3 and from 2 to 3 companies in insolvency proceedings		
				from level 2 to 1 and from 3 to 1 start trading with fixed income on exchange market		
				from level 3 to 2 until valuation parameters are confirmed on ALCO (at least on a quarterly basis)		

For the six months ended 30 June 2017 and 30 June 2016, NLB Group nor NLB 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 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 include:

- debt securities: structured debt securities from inactive emerging markets;
- equities: corporate and financial equities that are not quoted on active markets; and
- derivative financial instruments: forward derivatives and options on equity instruments that are not quoted on an active organised market. Fair values for forward derivatives are determined using the discounted cash flow model. Fair values for equity options are determined using valuation models for options (Garman and Kohlhagen model, binomial model and Black-Scholes model). Unobservable inputs include the fair values of underlying instruments determined using valuation models. The source of observable market inputs is the Reuters information system.

NLB Group uses three valuation methods for the valuation of equity financial assets: the income approach, market approach and cost approach.

The most commonly used valuation technique is the income approach. The income approach is based on an estimation of future cash flows discounted to the present value. One of the key elements of the valuation is the projection of the cash flows that the company is able to generate in the future. Based on that, the projection of the future cash flow is generated. The key variables that affect the amount of cash flows, and thus the estimated fair value of the financial asset, also include an assumption regarding the long-term EBITDA margin. A discount rate that is appropriate for the risks associated with the realisation of these benefits is used to discount cash flows. The discount rate is determined as the weighted average cost of capital. A forecast of future cash flows and a calculation of the weighted average cost of capital is prepared for an accurate forecasting period (usually 10 years from the date of the prediction value), and for a period following the period of accurate forecasting. Assumptions of long-term stable growth in the amount of 2.5% are used for the period following the period of accurate forecasting. NLB Group can select values of unobservable input data within a reasonable possible range, but uses those input data that other market participants would use.

Movements of financial assets and liabilities on Level 3

in EUR thousand			
	Trading assets	Available-for-sale financial assets	Total financial assets
	Derivatives	Equity instruments	
NLB Group			
Balance as at 1 January 2017	405	5,903	6,308
Effects of translation of foreign operations to presentation currency	-	(57)	(57)
Valuation:			
- through profit or loss	58	(11)	47
- recognised in other comprehensive income	-	133	133
Decreases	-	(65)	(65)
Balance as at 30 June 2017	463	5,903	6,366

				in EUR thousand	
		Trading assets		Available-for-sale financial assets	Total financial assets
NLB Group		Debt instruments	Derivatives	Equity instruments	
Balance as at 1 January 2016		993	114	9,960	11,067
Effects of translation of foreign operations to presentation currency		-	-	(9)	(9)
Valuation:					
- through profit or loss		-	218	-	218
- recognised in other comprehensive income		-	-	175	175
Exchange differences		(37)	-	-	(37)
Increases		-	-	1,066	1,066
Decreases		(956)	-	(5,828)	(6,784)
Balance as at 30 June 2016		-	332	5,364	5,696

in EUR thousand			
	Trading assets	Available-for-sale financial assets	Total financial assets
	Derivatives	Equity instruments	
NLB			
Balance as at 1 January 2017	405	1,810	2,215
Valuation:			
- through profit or loss	58	-	58
- recognised in other comprehensive income	-	135	135
Decreases	-	(65)	(65)
Balance as at 30 June 2017	463	1,880	2,343

in EUR thousand				
	Trading assets		Available-for-sale financial assets	Total financial assets
	Debt instruments	Derivatives	Equity instruments	
NLB				
Balance as at 1 January 2016	993	114	6,874	7,981
Valuation:				
- through profit or loss		218	-	218
- recognised in other comprehensive income		-	197	197
Exchange differences	(37)	-	-	(37)
Increases	-	-	1,066	1,066
Decreases	(956)	-	(5,828)	(6,784)
Balance as at 30 June 2016	-	332	2,309	2,641

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

in EUR thousand								
	NLB Group				NLB			
	30.6.2017		31.12.2016		30.6.2017		31.12.2016	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Loans and advances								
- debt securities	81,742	78,379	85,315	78,953	81,742	78,379	85,315	78,953
- loans and advances to banks	450,831	448,923	435,537	434,958	423,422	430,553	408,056	415,771
- loans and advances to customers	6,892,412	6,920,472	6,912,067	6,962,419	4,711,502	4,719,039	4,843,594	4,884,828
- other financial assets	55,460	55,460	61,014	61,014	54,756	54,756	36,151	36,151
Held-to-maturity investments	589,319	638,878	611,449	671,344	589,319	638,878	611,449	671,344
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	62,798	65,813	42,334	42,314	80,103	80,102	74,977	74,977
- borrowings from banks and central banks	309,974	315,862	371,769	377,037	284,605	289,759	338,467	348,331
- due to customers	9,489,073	9,509,353	9,437,147	9,461,925	6,657,511	6,664,844	6,615,390	6,626,851
- borrowings from other customers	80,734	81,396	83,619	83,851	7,079	7,038	4,274	4,258
- debt securities in issue	282,035	282,383	277,726	280,278	282,035	282,383	277,726	280,278
- subordinated liabilities	27,319	28,169	27,145	28,777	-	-	-	-
- other financial liabilities	111,302	111,302	110,295	110,295	75,404	75,404	68,784	68,784

Loans and advances to banks

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

Loans and advances to customers

Loans and advances are 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

30.6.2017	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Loans and advances								
- debt securities	-	78,379	-	78,379	-	78,379	-	78,379
- loans and advances to banks	-	448,923	-	448,923	-	430,553	-	430,553
- loans and advances to customers	-	6,920,472	-	6,920,472	-	4,719,039	-	4,719,039
- other financial assets	-	55,460	-	55,460	-	54,756	-	54,756
Held-to-maturity investments	638,878	-	-	638,878	638,878	-	-	638,878
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	65,813	-	65,813	-	80,102	-	80,102
- borrowings from banks and central banks	-	315,862	-	315,862	-	289,759	-	289,759
- due to customers	-	9,509,353	-	9,509,353	-	6,664,844	-	6,664,844
- borrowings from other customers	-	81,396	-	81,396	-	7,038	-	7,038
- debt securities in issue	282,383	-	-	282,383	282,383	-	-	282,383
- subordinated liabilities	-	28,169	-	28,169	-	-	-	-
- other financial liabilities	-	111,302	-	111,302	-	75,404	-	75,404

in EUR thousand

31.12.2016	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Loans and advances								
- debt securities	-	78,953	-	78,953	-	78,953	-	78,953
- loans and advances to banks	-	434,958	-	434,958	-	415,771	-	415,771
- loans and advances to customers	-	6,962,419	-	6,962,419	-	4,884,828	-	4,884,828
- other financial assets	-	61,014	-	61,014	-	36,151	-	36,151
Held-to-maturity investments	671,344	-	-	671,344	671,344	-	-	671,344
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	42,314	-	42,314	-	74,977	-	74,977
- borrowings from banks and central banks	-	377,037	-	377,037	-	348,331	-	348,331
- due to customers	-	9,461,925	-	9,461,925	-	6,626,851	-	6,626,851
- borrowings from other customers	-	83,851	-	83,851	-	4,258	-	4,258
- debt securities in issue	280,278	-	-	280,278	280,278	-	-	280,278
- subordinated liabilities	-	28,777	-	28,777	-	-	-	-
- other financial liabilities	-	110,295	-	110,295	-	68,784	-	68,784

6. Related-party transactions

The volumes of related party transactions and the outstanding balances:

in EUR thousand

	Management Board and other Key management personnel		Family members of the Management Board and other key management personnel		Companies in which members of the Management Board, key management personnel or their family members have control, joint control or a significant influence		Supervisory Board	
	30.6.2017	31.12.2016	30.6.2017	31.12.2016	30.6.2017	31.12.2016	30.6.2017	31.12.2016
NLB Group and NLB								
Loans and deposits issued	2,063	2,110	434	492	370	371	-	-
Loans and deposits received	2,203	2,079	757	697	404	480	69	130
Other financial liabilities	2,407	1,536	-	-	1	2	-	-
Guarantees issued and commitments to extend credit	242	248	90	83	102	147	6	3
	six months ended June 2017	June 2016	six months ended June 2017	June 2016	six months ended June 2017	June 2016	six months ended June 2017	June 2016
Interest income	19	22	4	5	3	5	-	-
Interest expenses	(5)	(7)	(2)	(4)	-	-	-	-
Fee income	5	7	3	3	4	4	-	-
Other income	-	1	-	-	-	-	-	-
Other expenses	(3)	-	-	-	-	-	-	-

in EUR thousand

	NLB Group Ultimate parent		NLB Ultimate parent	
	30.6.2017	31.12.2016	30.6.2017	31.12.2016
Loans and deposits issued	151,235	178,589	146,454	173,160
Loans and deposits received	70,009	70,005	70,009	70,005
Investments in securities	918,703	934,336	855,546	869,941
Other financial assets	2	153	2	1
Other financial liabilities	3	6	3	6
Guarantees issued and commitments to extend credit	820	849	820	849
	six months ended June 2017	June 2016	six months ended June 2017	June 2016
Interest income	13,254	17,427	12,958	16,946
Interest expenses	(4)	(2)	(4)	(2)
Fee income	68	94	68	94
Fee expenses	(19)	(19)	(19)	(19)
Other income	3	2	3	2
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

	Amount of significant transactions concluded during the period		Number of significant transactions concluded during the period	
	1.1. - 30.6.2017	1.1. - 31.12.2016	1.1. - 30.6.2017	1.1. - 31.12.2016
NLB Group and NLB				
Loans	-	158,136	-	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	
	30.6.2017	31.12.2016	30.6.2017	31.12.2016
Loans	695,673	770,407	6	5
Debt securities classified as loans and advances	81,742	85,315	1	1
Borrowings, deposits and business accounts	135,011	135,020	2	3
Commitments to extend credit	-	140,000	-	2
	Effects in income statement during the period			
	1.1. - 30.6.2017	1.1. - 30.6.2016		
Interest income from loans	3,362	1,637		
Effects from net interest income and net valuation from debt securities classified as loans and receivables	799	11,131		
Interest expense from borrowings, deposits and business accounts	(68)	(151)		
Interest income from commitments to extend credit	-	730		

in EUR thousand

	NLB Group			
	Associates		Joint ventures	
	30.6.2017	31.12.2016	30.6.2017	31.12.2016
Loans and deposits issued	1,337	1,418	4,856	19,857
Loans and deposits received	3,826	5,838	5,626	5,198
Other financial assets	-	30	151	141
Other financial liabilities	214	927	109	92
Guarantees issued and commitments to extend credit	42	40	29	28
	six months ended June 2017		six months ended June 2016	
	2017	2016	2017	2016
Interest income	22	25	35	582
Interest expenses	-	(11)	(46)	(26)
Fee income	63	57	1,898	1,688
Fee expenses	(5,358)	(4,639)	(1,067)	(971)
Other income	114	118	64	150
Other expenses	(497)	(398)	(13)	(89)

in EUR thousand

	NLB					
	Subsidiaries		Associates		Joint ventures	
	30.6.2017	31.12.2016	30.6.2017	31.12.2016	30.6.2017	31.12.2016
Loans and deposits issued	367,188	349,155	1,337	1,418	4,828	19,822
Loans and deposits received	44,990	54,556	3,826	5,838	4,713	4,443
Derivatives						
Fair value	35	-	-	-	-	-
Contractual amount	5,758	-	-	-	-	-
Other financial assets	405	723	-	30	147	140
Other financial liabilities	62	296	97	849	1	1
Guarantees issued and commitments to extend credit	30,968	34,451	42	40	28	27
Received loan commitments and financial guarantees	700	500	-	-	-	-
	six months ended June 2017	June 2016	six months ended June 2017	June 2016	six months ended June 2017	June 2016
Interest income	3,249	3,950	22	25	34	581
Interest expenses	(32)	(12)	-	(11)	(43)	(7)
Fee income	2,784	2,004	63	57	1,842	1,564
Fee expenses	(17)	(28)	(4,654)	(4,195)	(638)	(694)
Other income	223	190	114	118	59	130
Other expenses	(901)	(1,399)	(375)	(390)	(13)	(89)

Key management compensation

in EUR thousand

	Management Board		Other key management personnel	
	six months ended		six months ended	
	June 2017	June 2016	June 2017	June 2016
NLB Group and NLB				
Short-term benefits	319	258	2,319	2,520
Cost refunds	2	2	43	57
Long-term bonuses	3	2	64	39
Bonuses	63	-	673	-
Total	387	262	3,099	2,616

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.

7. Analysis by segment for NLB Group

a) Segments

The six months ended 30 June 2017

in EUR thousand

NLB Group	Corporate banking in Slovenia	Retail banking in Slovenia	Financial markets and investment banking in Slovenia	Foreign strategic markets	Non-strategic markets and activities	Other activities	Unallocated	Total
Total net income	35,257	66,908	18,900	93,238	24,839	3,361	-	242,504
Net income from external customers	37,923	67,115	13,773	94,362	24,415	3,495	-	241,083
Intersegment net income	(2,667)	(207)	5,127	(1,124)	424	(133)	-	1,421
Net interest income	20,314	35,144	16,036	70,258	6,987	(172)	-	148,567
Net interest income from external customers	22,981	35,490	10,908	71,249	7,982	(42)	-	148,567
Intersegment net interest income	(2,667)	(346)	5,128	(991)	(995)	(130)	-	-
Administrative expenses	(19,448)	(44,340)	(5,519)	(42,504)	(10,357)	(4,519)	-	(126,687)
Depreciation and amortisation	(2,167)	(5,104)	(507)	(4,436)	(826)	(747)	-	(13,787)
Reportable segment profit/(loss) before impairment and provision charge	13,642	17,464	12,874	46,298	13,656	(1,904)	-	102,030
Gains less losses from capital investment in subsidiaries, associates and joint ventures	-	2,575	159	-	-	-	-	2,734
Impairment and provisions charge	4,574	(83)	(42)	12,497	8,651	23	-	25,620
Profit/(loss) before income tax	18,216	19,956	12,992	58,795	22,307	(1,882)	-	130,384
Owners of the parent	18,216	19,956	12,992	54,423	22,307	(1,882)	-	126,012
Non-controlling interests	-	-	-	4,372	-	-	-	4,372
Income tax	-	-	-	-	-	-	(8,093)	(8,093)
Profit for the period								117,919
30.6.2017								
Reportable segment assets	2,178,339	2,131,128	3,477,667	3,608,395	478,786	154,384	-	12,028,700
Investments in associates and joint ventures	-	40,885	-	-	-	-	-	40,885
Reportable segment liabilities	1,117,930	5,343,421	900,031	3,034,369	31,442	73,336	-	10,500,529

The six months ended 30 June 2016

in EUR thousand

	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
NLB Group								
Total net income	38,808	70,602	21,835	86,226	16,227	11,308	-	245,005
Net income from external customers	42,313	64,627	21,360	86,744	16,531	11,479	-	243,055
Intersegment net income	(3,505)	5,975	474	(518)	(304)	(172)	-	1,950
Net interest income	24,110	37,221	22,273	65,931	7,428	(279)	-	156,684
Net interest income from external customers	27,615	31,315	21,799	67,181	8,881	(107)	-	156,684
Intersegment net interest income	(3,505)	5,906	474	(1,250)	(1,453)	(172)	-	-
Administrative expenses	(20,569)	(46,740)	(5,558)	(41,702)	(10,815)	(4,957)	-	(130,340)
Depreciation and amortisation	(2,324)	(5,516)	(528)	(3,926)	(1,229)	(840)	-	(14,364)
Reportable segment profit/(loss) before impairment and provision charge	15,915	18,346	15,748	40,598	4,182	5,511	-	100,301
Gains less losses from capital investment in subsidiaries, associates and joint ventures	-	2,456	-	-	-	-	-	2,456
Impairment and provisions charge	139	(7,314)	(6)	(6,264)	(7,506)	(43)	-	(20,993)
Profit/(loss) before income tax	16,055	13,488	15,743	34,334	(3,324)	5,468	-	81,764
Owners of the parent	16,055	13,488	15,743	31,702	(3,324)	5,468	-	79,132
Non-controlling interests	-	-	-	2,632	-	-	-	2,632
Income tax	-	-	-	-	-	-	(9,641)	(9,641)
Profit for the period								69,491
31.12.2016								
Reportable segment assets	2,338,698	2,074,736	3,375,667	3,540,474	502,610	163,578	-	11,995,763
Investments in associates and joint ventures	-	43,248	-	-	-	-	-	43,248
Reportable segment liabilities	1,198,058	5,229,761	907,159	3,038,921	57,935	81,517	-	10,513,351
Additions to non-current assets	2,305	7,286	363	7,882	2,928	463	-	21,227

b) Geographical information

in EUR thousand

	Revenues		Net income		Non-current assets		Total assets	
	June 2017	June 2016	June 2017	June 2016	30.6.2017	31.12.2016	30.6.2017	31.12.2016
NLB Group								
Slovenia	161,458	174,609	145,052	156,673	221,859	225,643	8,354,408	8,393,754
South East Europe	118,020	113,536	96,043	85,413	129,683	130,949	3,673,318	3,602,358
Macedonia	42,008	40,853	32,047	30,276	32,935	33,448	1,122,912	1,147,375
Serbia	11,837	10,326	11,131	8,936	24,727	24,822	365,391	316,023
Montenegro	13,643	13,857	10,541	7,345	29,544	29,476	477,516	478,682
Croatia	150	257	629	557	2,517	2,568	32,924	27,164
Bosnia and Herzegovina	33,397	32,041	27,486	24,722	26,580	27,222	1,150,434	1,116,169
Bulgaria	-	-	-	45	-	-	-	-
Kosovo	16,985	16,202	14,209	13,532	13,380	13,413	524,141	516,945
Western Europe	40	895	(40)	971	245	247	38,658	39,742
Germany	-	2	71	178	222	222	4,582	2,782
Switzerland	40	893	(111)	793	23	25	34,276	36,960
Czech Republic	-	-	30	(2)	916	891	3,001	3,157
Total	279,518	289,040	241,085	243,055	352,703	357,730	12,069,585	12,039,011

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

8. Subsidiaries

NLB Group's subsidiaries as at 30 June 2017 were:

	Nature of Business	Country of Incorporation	NLB Group's shareholding %	NLB's shareholding %
Core members				
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	99.36	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., Beograd	Banking	Republic of Serbia	99.998	99.998
NLB Srbija d.o.o., Beograd	Real estate	Republic of Serbia	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	100	100
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	100	51
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	100	100
Non-core members				
NLB Leasing d.o.o., Ljubljana	Finance	Republic of Slovenia	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Republic of Croatia	100	-
NLB Leasing Podgorica d.o.o., Podgorica - "u likvidaciji"	Finance	Republic of Montenegro	100	100
NLB Leasing d.o.o., Beograd - u likvidaciji	Finance	Republic of Serbia	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	100	100
NLB Lizing d.o.o.e.l., Skopje - vo likvidacija	Finance	Republic of Macedonia	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	100	12.71
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Republic of Croatia	100	-
BH-RE d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	100	-
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	100	100
REAM d.o.o., Beograd	Real estate	Republic of Serbia	100	100
SR-RE d.o.o., Beograd	Real estate	Republic of Serbia	100	100
SPV 2 d.o.o., Novi Sad	Real estate	Republic of Serbia	100	100
NLB Propria d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	100	100
NLB InterFinanz Praha s.r.o., Prague	Finance	Czech Republic	100	-
NLB InterFinanz d.o.o., Beograd	Finance	Republic of Serbia	100	-
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	100	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 2016 were:

	Nature of Business	Country of Incorporation	NLB Group's shareholding %	NLB's shareholding %
Core members				
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	99.36	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., Beograd	Banking	Republic of Serbia	99.997	99.997
NLB Srbija d.o.o., Beograd	Real estate	Republic of Serbia	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	100	100
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	100	51
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	100	100
Non-core members				
NLB Leasing d.o.o., Ljubljana	Finance	Republic of Slovenia	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Republic of Croatia	100	-
NLB Leasing Podgorica d.o.o., Podgorica -	Finance	Republic of Montenegro	100	100
NLB Leasing d.o.o., Beograd - u likvidaciji	Finance	Republic of Serbia	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	100	100
NLB Lizing d.o.o.e.l., Skopje - vo likvidacija	Finance	Republic of Macedonia	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	100	12.71
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Republic of Croatia	100	-
BH-RE d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	100	-
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	100	100
REAM d.o.o., Beograd	Real estate	Republic of Serbia	100	100
SR-RE d.o.o., Beograd	Real estate	Republic of Serbia	100	100
NLB Propria d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	100	100
NLB InterFinanz Praha s.r.o., Prague	Finance	Czech Republic	100	-
NLB InterFinanz d.o.o., Beograd	Finance	Republic of Serbia	100	-
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	100	100
LHB AG, Frankfurt	Finance	Republic of Germany	100	100
NLB Factoring a.s. - "v likvidaci", Brno	Finance	Czech Republic	100	100

9. Events after the end of the reporting period

In July 2017, NLB sold its non-core subsidiary NLB Factoring – "v likvidaci", Brno.

