

Semi-annual Report 2016

NLB d.d., Ljubljana	
Number of branches	113
Number of employees	2,970
Market share (in %)	24.0
Number of active clients	705,391
Total assets (in EUR million)	8,714

NLB Skladi, Ljubljana	
Number of employees	39
Market share ¹ (in %)	25.9
Assets under management (in EUR million)	936

¹ Market share of assets under management in mutual funds

NLB Banka, Belgrade	
Number of branches	34
Number of employees	449
Market share (in %)	1.0
Number of active clients	132,558
Total assets (in EUR million)	245

NLB Vita, Ljubljana	
Number of employees	41
Market share ² (in %)	10.8
Assets of covered funds without own resources (in EUR million)	376

² Market share in traditional life insurances

	NLB Banka, Banja Luka	NLB Banka, Sarajevo
Number of branches	64	38
Number of employees	497	440
Market share (in %)	19.0 ³	5.6 ⁴
Number of active clients	229,342	136,499
Total assets (in EUR million)	607	484

³ Market share in the Republic of Srpska

⁴ Market share in the Federation of BiH

NLB Banka, Podgorica	
Number of branches	18
Number of employees	330
Market share (in %)	13.1
Number of active clients	56,549
Total assets (in EUR million)	464

NLB Banka, Skopje	
Number of branches	51
Number of employees	830
Market share (in %)	16.3
Number of active clients	354,050
Total assets (in EUR million)	1,072

NLB Banka, Prishtina	
Number of branches	46
Number of employees	492
Market share (in %)	14.4
Number of active clients	176,229
Total assets (in EUR million)	471

NLB Nov penziski fond, Skopje	
Number of employees	29
Market share of mandatory pension insurance (in %)	47.8
Market share of voluntary pension insurance (in %)	40.0
Net value of pension funds (in EUR million)	330



KEY FINANCIAL *and operating data*

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

	NLB Group			NLB d.d.		
	1.1. - 30.6.2016	1.1. - 30.6.2015	Change YoY	1.1. - 30.6.2016	1.1. - 30.6.2015	Change YoY
Key income statement data (in EUR million)						
Net operating income ¹	243.1	243.6	0%	178.0	178.6	0%
Costs	-142.8	-145.0	-2%	-90.4	-92.4	-2%
Result before impairments and provisions ¹	100.3	98.6	2%	87.6	86.2	2%
Impairments and provisions	-21.0	-41.0	-49%	-10.2	-42.8	-76%
Result after tax	69.5	53.4	30%	71.2	40.1	78%
Key financial indicators						
Return on equity after tax (ROE a.t.)	9.4%	7.8%	1.6 p.p.	11.1%	6.6%	4.5 p.p.
Return on assets after tax (ROA a.t.)	1.2%	0.9%	0.3 p.p.	1.6%	0.9%	0.7 p.p.
Costs to income ratio (CIR)	58.7%	59.5%	-0.8 p.p.	50.8%	51.7%	-0.9 p.p.
Interest margin (on interest bearing assets) ²	2.61%	2.73%	-0.1 p.p.	2.01%	2.40%	-0.4 p.p.
Interest margin (on total assets - BoS ratio)	2.64%	2.90%	-0.3 p.p.	1.99%	2.47%	-0.5 p.p.

	NLB Group			NLB d.d.		
	30.06.2016	31.12.2015	Change YTD	30.06.2016	31.12.2015	Change YTD
Key financial position statement data (in EUR million)						
Total assets	11,761	11,822	-1%	8,714	8,707	0%
Loans to customers (net)	7,090	7,088	0%	5,146	5,221	-1%
Deposits from customers	9,068	9,026	0%	6,419	6,298	2%
Total equity	1,497	1,423	5%	1,316	1,242	6%
Loans to customers/deposits from customers (L/D) ³	74.7%	75.1%	-0.4 p.p.	75.3%	78.0%	-2.7 p.p.
Common Equity Tier 1 Ratio ⁵	16.6%	16.2%	0.4 p.p.	23.2%	22.6%	0.6 p.p.
Total capital ratio	16.6%	16.2%	0.4 p.p.	23.2%	22.6%	0.6 p.p.
Asset quality indicators						
NPL- Gross (in EUR million)	1,749	1,896	-8%	1,031	1,101	-6%
Coverage ratio	76.0%	72.2%	3.8 p.p.	72.7%	67.9%	4.8 p.p.
NPL ratio - Gross	17.9%	19.3%	-1.4 p.p.	15.5%	16.5%	-1.0 p.p.
NPL ratio - Net	6.9%	8.3%	-1.4 p.p.	6.4%	7.6%	-1.2 p.p.
NPE ratio ⁴	13.2%	14.3%	-1.2 p.p.	11.1%	12.1%	-1.1 p.p.
Employees						
Number of employees	6,297	6,372	-1%	2,970	3,028	-2%

¹ NLB d.d. includes dividends from subsidiaries, associates and joint ventures.

² Further analysis of interest margins are based on interest bearing assets.

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

⁴ EBA definition.

⁵ It does not include H1 2016 Result after tax, as it is unaudited.

International credit ratings NLB d.d.		30.06.2016	31.12.2015	Outlook
Standard & Poor's		BB-	BB-	Positive
Fitch		BB-	B+	Stable

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MACROECONOMIC *environment*

The global economy proved itself resilient to the significant worries and events that affected markets in the first half of 2016. From the equity market crash at the start of the year through to the 'Brexit', it has been an eventful year for financial markets. In spite of the aforementioned, the eurozone's economic recovery continued, with positive news from Greece and the Spanish elections contrasting with the surprise referendum decision in the United Kingdom. The region experienced a continuation of subdued inflation dynamics, while the resultant monetary policy action put further pressure on interest rates and their expectations.

Given Slovenia's strong trade linkages with the eurozone and the export-oriented nature of the nascent recovery, it is not surprising that the country's economy has also continued to develop on a positive note. Economic growth of 2.5% was recorded in the first quarter of the year, the positive economic trends continuing into the second quarter. In the first five months of the year, industrial production expanded by 5.5%, exports grew by 4.9%, while the country's labour market made significant progress and the revival of domestic demand is still ongoing.

In recognition of the significant macroeconomic progress it has achieved in recent years, Standard and Poor's upgraded Slovenia's credit rating by one notch to its current rating of 'A' with a stable outlook.

Outlook

The surprise referendum vote in Britain has clouded the outlook for the eurozone. Numerous outstanding political and financial issues remain unresolved as we transition into the second half of the year. However, given the past resilience of the eurozone's economy and expectations of continued support from the European Central Bank, a continued regional recovery, at a slightly moderated pace, remains the base case scenario. Ongoing support for Slovenia's economic growth from the eurozone is expected.

One of the most notable impacts of the British referendum result has been the re-emergence of central-bank support as a measure to combat market instability. With the prospect of further uncertainty and subdued global growth, the likelihood of additional central-bank action remains elevated in the medium term. As a result the outlook for interest rates and fixed income yields throughout the rest of the year and beyond remains restrained.

Banking System

The stability of Slovenia's banking system has continued to improve throughout the period, the quality of the credit portfolio experienced a substantial improvement, with non-performing loans decreasing by almost two percentage points to the level of 8.0% at the end of May. The improving quality of the credit portfolio had a positive impact on profitability. Compared with the first five months of 2015 the banking system generated 76% higher profit, resulting in a ROE of 13.51%. This result is primarily due to the decreasing need for impairments and provisions. In spite of the increase in profitability, it has been a difficult year for the banking system. The low interest rate environment and the high degree of competition mean there is considerable pressure on net interest income. The banking system's assets and the credit portfolio continued to contract during the period, while household loans maintained their positive trend.

In the medium term, the improving economic picture should have a positive impact on the country's banking system and credit quality. Continued regional growth will ensure that export-oriented companies slowly begin to reach production capacities that will positively impact loan growth to corporates due to a renewed cycle. Improving domestic demand and positive developments in labour markets will boost production for the domestic market. Over time as the stated trends continue, a positive impact on corporate loan growth is projected along with a further strengthening of the positive trends in the household loan portfolio. The mentioned leading indicators of a credit revival are in contrast to expectations of continuing net interest income pressures arising from the low interest rate environment and the considerable competition in the country's banking system. The year promises to be challenging for the banking system, although, the system's growth potential is becoming evident in light of the continued regional economic recovery.

BUSINESS *operations*

Sales

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

- **A proactive approach to sales activities** is bringing results in the form of a maintained market share in retail (23.7%). This was achieved despite pursuing profitability before volume. In addition, the market share of corporate loans from the end of 2015 to May 2016 increased by 1.3 of a percentage point to 24.3% in NLB d.d. With trade finance products (including guarantees, letters of credit and other instruments), due to intensified sales efforts and the high quality team in Slovenia in the same period it grew by 2.5 of a percentage point to as much as 29.1%.
- NLB d.d. **successfully organised three issues of corporate debt securities** in a total amount exceeding EUR 150 million (Gorenje, d.d. and Mercator, d.d. commercial papers and Telekom Slovenije d.d. bonds).
- The Bank as a co-agent and co-organiser **facilitated the biggest international syndicated loan in the last few years, totalling EUR 300 million** (Telekom Slovenije d.d.).
- In the first half of the year, NLB d.d. as a sales side financial consultant for the bank syndicate and the Republic of Slovenia **successfully divested a non-strategic equity investment** in the Trimo Group. This sale is one of the biggest transactions of this type in 2016 in Slovenia and one of the largest ever organised by Slovenian financial consultants.
- In securities trading, the volume of business increased by 60% compared to the same period of 2015 (7,034 client orders in a total amount of EUR 604 million), while the **value of assets in custody exceeded EUR 10 billion** for the first time since NLB d.d. has been providing custodian services.
- A team of mobile bankers was launched in retail to provide clients with tailored services and a professional, efficient and discreet relationship through the convenience of the timing and venue of meetings.
- Clients can now open an NLB Personal Account online in only a few steps, supported by mobile advisors.
- The number of Klikin (a mobile app for private individuals) users has been growing quickly and, by the end of June 2016, already reached 37,000.
- As one of the first banks in Slovenia to do so, the ePero (E-pen) solution was introduced in the branch network, enabling digital signing via tablets and the storing of signed documents in NLB Klik. ePero combined with the streamlining of credit process and the abolition of paper documentation was introduced in a record eight months.
- A new mobile app NLB Klikpro for companies and small businesses for smart mobile devices was introduced in June, enabling basic banking transactions to be carried out in a simple and quick 24/7 way.
- In 2016 NLB d.d. is continuing to refurbish and optimise the traditional branches. In H1 2016, four were refurbished following an open-space concept to boost sales, while on 1 June, eight insufficiently profitable or geographically overlapping ones were closed to responsibly manage the costs. This has been a regular process and will be continued diligently and decisively. Routine and transactional banking services will be further simplified, standardised and moved

to online channels, while traditional channels and personal contacts will be used for extending advisory services and thereby for fostering long-term relationships and loyalty.

- In order to boost housing loan sales and demonstrate our commitment to corporate social responsibility, a marketing campaign with donation support for Slovenian maternity hospitals was carried out. From each housing loan concluded in June, the Bank put aside EUR 100 into the respective pool for the purchase of necessary medical equipment. The campaign was very successful and a total of EUR 55,000 was donated to six Slovenian hospitals.
- NLB d.d. opened a mini bank branch in the creative playing centre Minicity in BTC in Ljubljana. Here through playing children learn about the bank's operations and the profession of a banker, as well as about money and how to handle it.
- **Supporting development of the business environment:** the NLB Centre of Innovative Entrepreneurship is in full operation, partnering with young and other entrepreneurs to build a business community. Overall 81 educational and corporate events with a total of 2,580 participants were held, along with many other daily visits by entrepreneurs who used the reserved meeting rooms for individual work or business meetings.
- For NLB clients three very **notable** and very well-attended **client events** were organised:
 - the 2nd Investment forum for individuals and corporates, addressing investment challenges and opportunities in the current environment;
 - a meeting of mayors and representatives of Slovenian municipalities;
 - the 3rd NLB Business Forum with a focus on regional business development and the active participation of all banking members of NLB Group from the core region.
- NLB Group further **strengthened its position outside of Slovenia:** In the western Serbia within less than 2 months, three new branches were opened in cities of Čačak, Šabac and Užice, thus decisively repositioning NLB Group in the Serbian market. NLB Banka Belgrade was, in addition, one of the top three banks in terms of the absolute production of new loans to clients in the market in first quarter of 2016. Parallel to this, a new branch was opened on Ferhadija Street in the very centre of Sarajevo, allowing NLB Group to further strengthen its appearance in FBiH after moving its headquarters from Tuzla to Sarajevo.
- The rebranding of all subsidiary banks under the NLB Bank brand was finished in first half of 2016, finally facilitating the full exploitation of brand and activity synergies on NLB Group level.
- All Group banks have been highly active in pursuing business opportunities via a continued focus on clients, the effectiveness of the sales force and the launching of digitalised services and channels. In the next step, clients' experience and satisfaction will be addressed by converging service levels, to be performed via comparable look and feel front-end systems and client interfaces.

Risk

- **The volume of non-performing loans** dropped by EUR 146.3 million and stood at EUR 1.75 billion at the end of June 2016. The share of non-performing loans decreased by 1.4 of a percentage point to 17.9%. In addition to the organic decrease, NLB Group was able to sell receivables to investors in two tranches (corporate and retail) in a gross claim value of approximately EUR 500 million, for which closing is expected for the third quarter of 2016. At the same time, the restructuring of corporate and SME exposures continued, while the majority of restructuring efforts was successfully completed in 2014 and 2015. In Slovenia, in the first six months of 2016 the Bank restructured almost 40 clients, with total exposure exceeding EUR 55 million.
- NLB Group's risk management system is being constantly upgraded and improved in order to proactively co-steer and support NLB Group's strategic business model. Moreover, the restructuring and work-out capacities and approaches, which were built in the past period, are

increasingly focused on actively solving new cases with a faster and more active approach to restructuring and work-out.

Strategic initiatives

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

Other

- **Fitch** upgraded the NLB's Long-term IDR to "**BB-**" from "B+" and its Viability Rating to "bb-" from "b+". The Outlook remains Stable (12.5.2016).
- **Standard & Poor's** affirmed the NLB's long-term counterparty credit rating "**BB-**". The stand-alone credit profile (SACP) was upgraded from "b+" to "bb-" due to the NLB's improved risk position. **The agency** revised its outlook on NLB d.d. to Positive from Stable (27.5.2016).

OVERVIEW OF NLB GROUP'S *financial performance*

Key developments

- **Net profit after tax** of EUR 69.5 million in the first half of 2016 was 30% higher than in the first half of 2015. Profitability of all banks of NLB Group was improved. The return on equity (**ROE after tax**) increased by 1.6 of a percentage point to 9.4% YoY. Key business activities (Retail Slovenia, Key/Mid/Small corporates Slovenia and core subsidiaries in Foreign Strategic Markets) showed improved results by EUR 10.5 million or 18% YoY.
- Pre-provision profit developed slightly positive at EUR 100.3 million (2015: EUR 98.6 million), with positive one-off effects from successful divestments offsetting lower recurring revenues, mostly from lower interest income in Financial Markets business due to a substantially reduced interest rates in the eurozone. Key business activities showed positive developments (Net interest income +4% YoY) with a stable corporate segment, slightly growing retail business and strong contribution from core banking subsidiaries. Non-recurring effects influenced first half of 2016 positively in amount of EUR 11.9 million, including effects from the sale of a non-core equity investment with positive effect of EUR 5.5 million and the Visa EU share transaction with positive effect of EUR 7.8 million, offset with non-recurring restructuring costs of EUR 1.3 million.
- The conclusion of an agreement to sell a portfolio of non-performing loans ("Project Pine") resulted in lower interest income by EUR 4.3 million and additional credit impairments in the amount of EUR 22.6 million. The de-recognition of non-performing loans will be concluded in third quarter with actual transfer to the investors.
- Net interest margin¹ decreased slightly from 2.73% in the first half of 2015 to 2.61%, normalised of the effects of the sale of non-performing loans the result would have been 2.68% in the first half of 2016. Key business activities increased the net interest income for EUR 4.8 million or 4% YoY. The biggest drop was recorded in Financial markets in Slovenia where net interest income decreased by EUR 10.9 million or 33% YoY due to an environment of substantially lower interest rates.
- **Costs** dropped by 2% YoY due to a reduction in non-labour costs. CIR decreased by 0.8 of a percentage point to 58.7%.
- **Sustainable credit risk provision** as a consequence of improving the quality of the credit portfolio. The cost of risk was impacted negatively by a non-recurring effect in the amount of EUR 22.6 million from an agreement on the sale of a package of non-performing loans.
- Gross loans in key business activities increased by EUR 127.0 million or 2% YtD. The volume of loans in the **Non-core segment** of NLB Group was actively reduced, resulting in a drop of EUR 87.6 million in the first half of 2016 to the level of EUR 950.6 million.
- **The CET1 ratio** grew to 16.6% and comfortably exceeds the regulatory requirements.

¹ Calculated on interest-bearing assets

Income statement

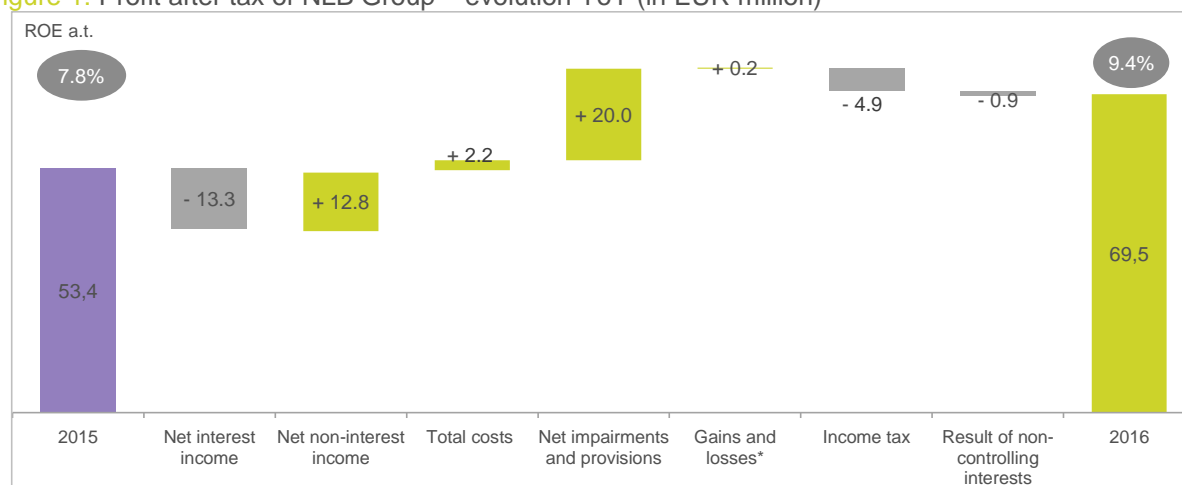
Table 2: Income statement of NLB Group and NLB d.d.

in EUR million	NLB Group			NLB d.d.		
	1.1. - 30.6.2016	1.1. - 30.6.2015	Change YoY	1.1. - 30.6.2016	1.1. - 30.6.2015	Change YoY
Net interest income	156.7	170.0	-8 %	87.4	107.6	-19 %
Net fee and commission income	66.9	69.0	-3 %	47.3	49.0	-3 %
Dividend income	1.0	1.3	-24 %	0.9	1.2	-27 %
Net income from financial transactions	16.3	-1.0	-	13.3	6.7	97 %
Net other income	2.3	4.3	-48 %	0.4	0.3	33 %
Net non-interest income	86.4	73.6	17 %	61.9	57.3	8 %
Total net operating income	243.1	243.6	0 %	149.3	164.9	-9 %
Employee costs	-81.6	-79.9	2 %	-51.9	-50.7	2 %
Other general and administrative expenses	-46.8	-48.9	-4 %	-28.9	-30.7	-6 %
Depreciation and amortisation	-14.4	-16.2	-11 %	-9.6	-11.0	-12 %
Total costs	-142.8	-145.0	-2 %	-90.4	-92.4	-2 %
Result before impairments and provisions	100.3	98.6	2 %	58.9	72.5	-19 %
Impairments of AFS and HTM financial assets	-0.1	0.1	-	-0.1	0.1	-
Credit impairments and provisions	-16.2	-34.4	-53 %	-9.7	-39.2	-75 %
Other impairments and provisions	-4.7	-6.8	-31 %	-0.4	-3.7	-89 %
Impairments and provisions	-21.0	-41.0	-49 %	-10.2	-42.8	-76 %
Gains less losses from capital investments in subsidiaries, associates and joint ventures ¹	2.5	2.2	9 %	28.7	13.7	109 %
Profit before income tax	81.8	59.9	37 %	77.4	43.5	78 %
Income tax	-9.6	-4.7	103 %	-6.1	-3.3	84 %
Result of non-controlling interests	2.6	1.8	50 %	0.0	0.0	-
Profit for the period	69.5	53.4	30 %	71.2	40.1	78 %

¹NLB d.d. includes dividends from subsidiaries, associates and joint ventures

Profit

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



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

NLB Group recorded EUR 69.5 million in profit after tax, of which NLB d.d. contributed EUR 49.1 million, other banks in SEE EUR 29.9 million, while non-core members contributed negative effects. Profit after tax in 2016 was positively impacted by the lower costs (EUR 2.2 million) and non-recurring profits (EUR 11.9 million) whereas additional effects from the sale of a package of non-performing loans (EUR 26.9 million) and expenses from the payment to the Single Resolution Fund in the amount of EUR 3.9 million had a negative impact.

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

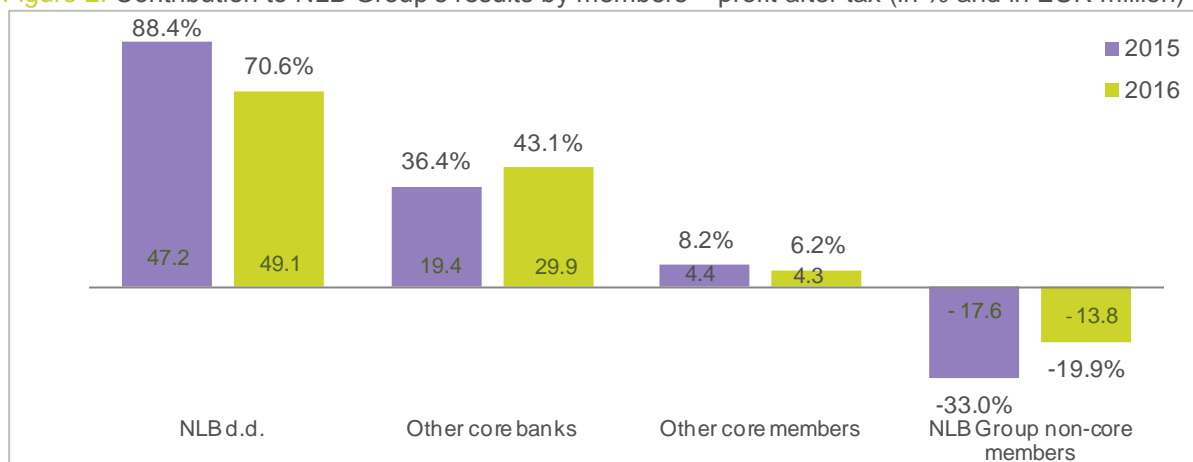
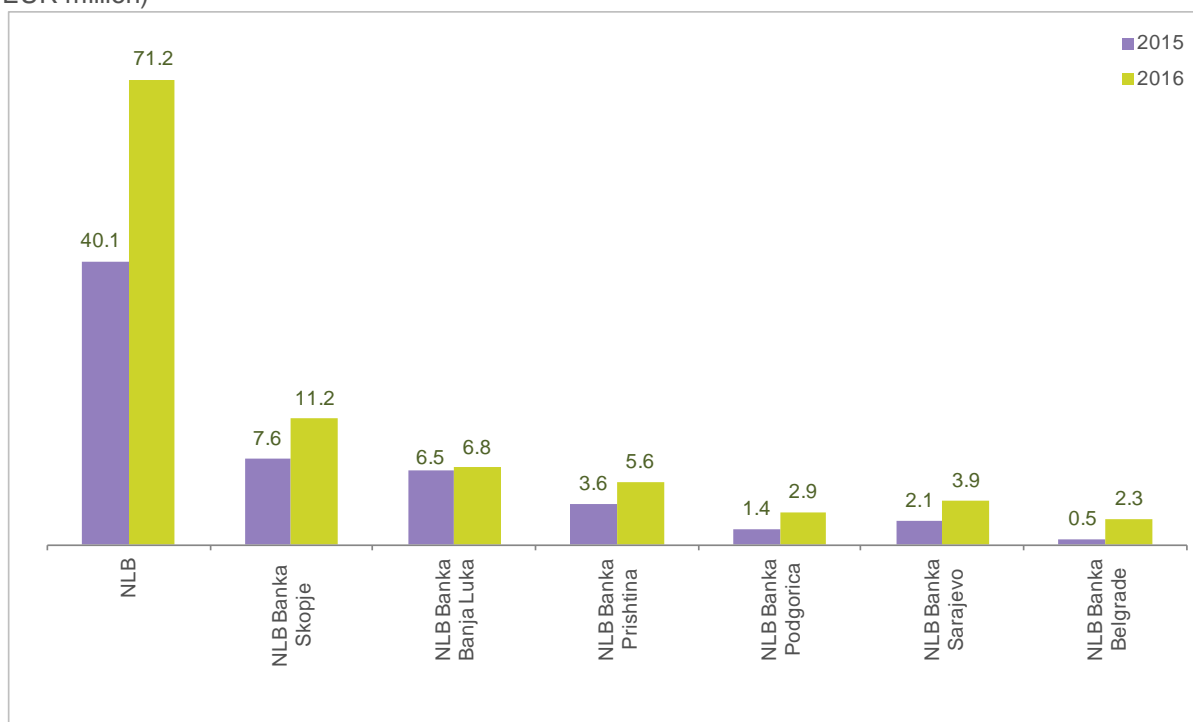


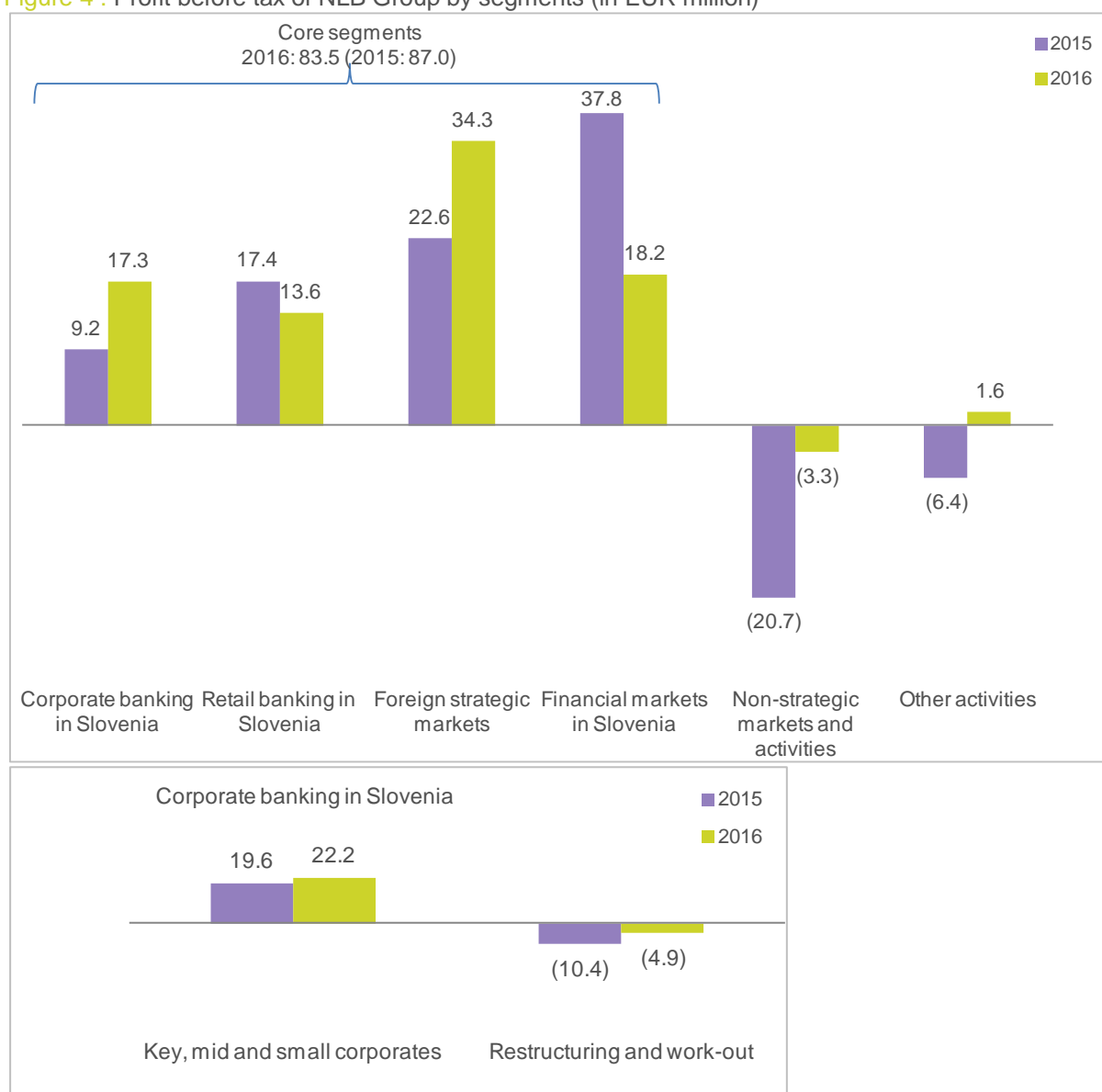
Figure 3: Profit after tax of the strategic NLB Group banks (on a stand-alone basis) - evolution YoY (in EUR million)



All banks of NLB Group increased the profit after tax compared to the same period last year. In first half of 2016, NLB d.d. received dividends from core subsidiaries and associates in the amount of EUR 28.7 million. In August 2016 NLB d.d. paid out dividend to the shareholder in the amount of EUR 43.9 million.

Profit before tax – segment results

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



Key business activities² increased their profit before tax by EUR 10.5 million or 18% YoY due to net interest income growing by EUR 4.8 million or 4% YoY and the volume of loans rising by EUR 127.0 million or 2% YtD.

- **Retail banking in Slovenia** ended the first half of 2016 with profit before tax of EUR 13.6 million (EUR -3.8 million YoY). This result was burdened by negative effects of EUR 8.8 million due to an agreement on the sale of non-performing loans. The retail loan volume and net interest income increased slightly while a drop in net fee and commission income of EUR 3.0 million was recorded in card operations, mainly due to implementation of the EU card directive (MiFID).
- **Key/Mid/Small corporates Slovenia** increased their profit before tax by EUR 2.6 million or 13% YoY based on positive loan volume growth of 3% and lower cost of risk.
- **Foreign strategic markets** continued their positive trend showing a profit of EUR 34.4 million in the first half of 2016, an increase of EUR 11.7 million or 52% YoY. The contribution to NLB Group result of the foreign banks in SEE thus increased to 41% of the Group's result (from 36% in first half of 2015).

² Key/Mid/Small corporates in Slovenia, Retail banking in Slovenia and Foreign strategic markets

Restructuring and work-out units operated with a loss in amount of EUR 4.9 million including negative effects in June 2016 related to agreement on sale of non-performing loans in the amount of EUR 11.2 million.

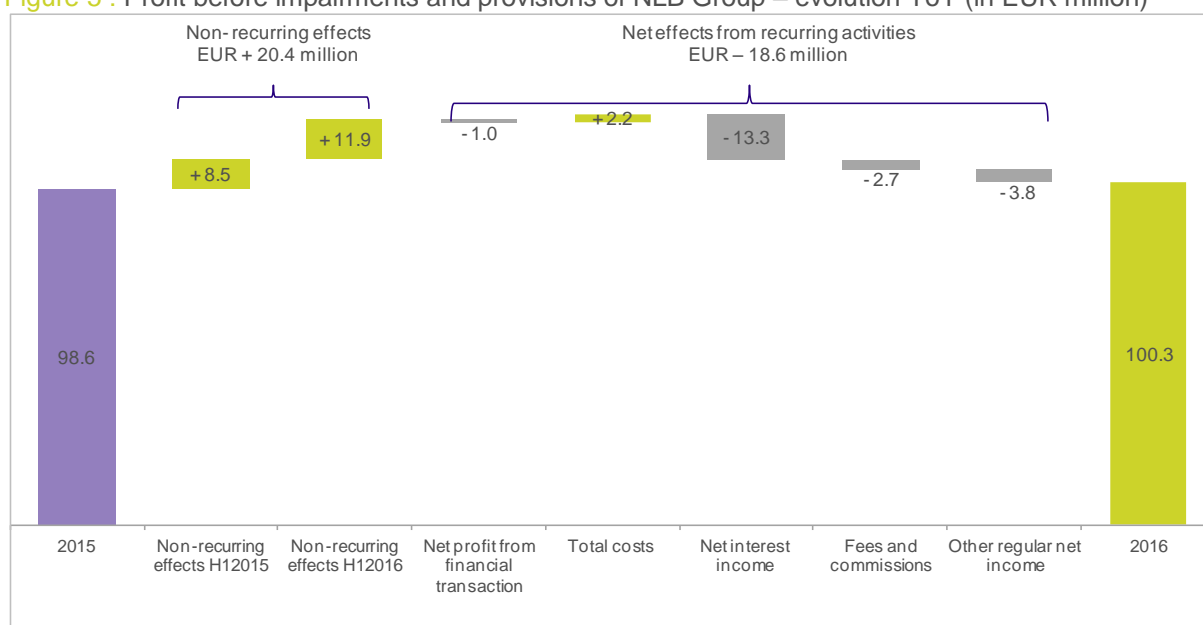
Financial markets in Slovenia recorded the profit before tax of EUR 18.2 million in the first half of 2016 which is EUR 19.6 million lower YoY, largely due to lower interest income in amount of EUR 10.9 million YoY and positive non-recurring effects in 2015 from sales of RS bonds (EUR 5.2 million).

The **Non-strategic markets and activities** of NLB Group ended the first half of this year with a loss of EUR 3.3 million including positive effects of the sale of an equity investment totalling EUR 5.5 million and negative effects of EUR 6.9 million due to an agreement of the sale of non-performing loans. Costs were reduced by 17% YoY.

Within **Other activities**, NLB Group recorded non-recurring proceeds from the transaction of the Visa EU share in the amount of EUR 7.8 million, which is the main reason for the deviation of the result YoY.

Profit before impairments and provisions

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

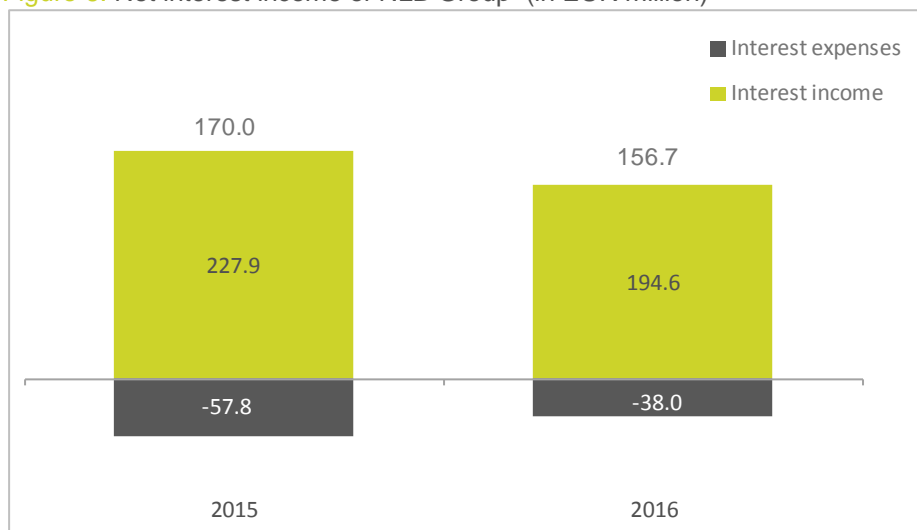


Profit before impairments and provisions of NLB Group totalled EUR 100.3 million, i.e. EUR 1.7 million higher YoY. In 2016 it was mainly impacted by lower costs (EUR 2.2 million) and especially non-recurring events where the positive effect from the sale of an equity investment in the non-core part of NLB Group totalling EUR 5.5 million and the transaction of the Visa EU share totalling EUR 7.8 million were recorded while lower interest income due to an agreement on the sale of a package of non-performing loans (EUR 4.3 million) and the restructuring costs of EUR 1.3 million created a negative effect. By excluding non-recurring effects in 2015³ and 2016 and lower net interest income due to an agreement of the sale, the result before impairments and provisions YoY decreased by 13% on the basis of lower net operating income (-7%) and a lower cost base (-2%). The drop in normalised operating income was chiefly the result of decreasing yields on the securities portfolio, maturity of high yield BAMC bond and high level of excess liquidity recorded in segment Financial markets in Slovenia.

³ Non-recurring events in 2015 were: negative effects from the CHF exchange rate and change of the deductible portion of VAT which was partly compensated by the positive effects of the sale of bonds of the Republic of Slovenia. A negative effect from restructuring costs amounted to EUR 1.4 million.

Net interest income

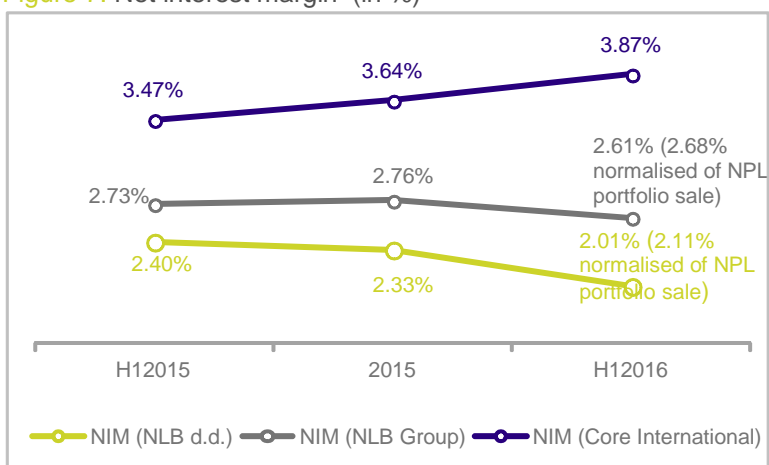
Figure 6: Net interest income of NLB Group (in EUR million)



Net interest income of NLB Group accounted for 64% of the total net revenues of NLB Group or EUR 156.7 million in the first half of 2016 and decreased by 8% YoY mostly due to one-off effects from sale of non-performing loans ("Project Pine").

Net interest margin (NIM)⁴ decreased to 2.61% in the first half of 2016 compared to 2.73% YoY. Margin improvements from 3.47% to 3.87% of core banks in SEE markets partially off-set the slight decline in margins in Slovenia from 2.76% to 2.61% (excluding the effect of lower interests in the amount of EUR 4.3 million related to the agreement on the sale of a package of non-performing loans, the interest margin in Slovenia was 2.68%).

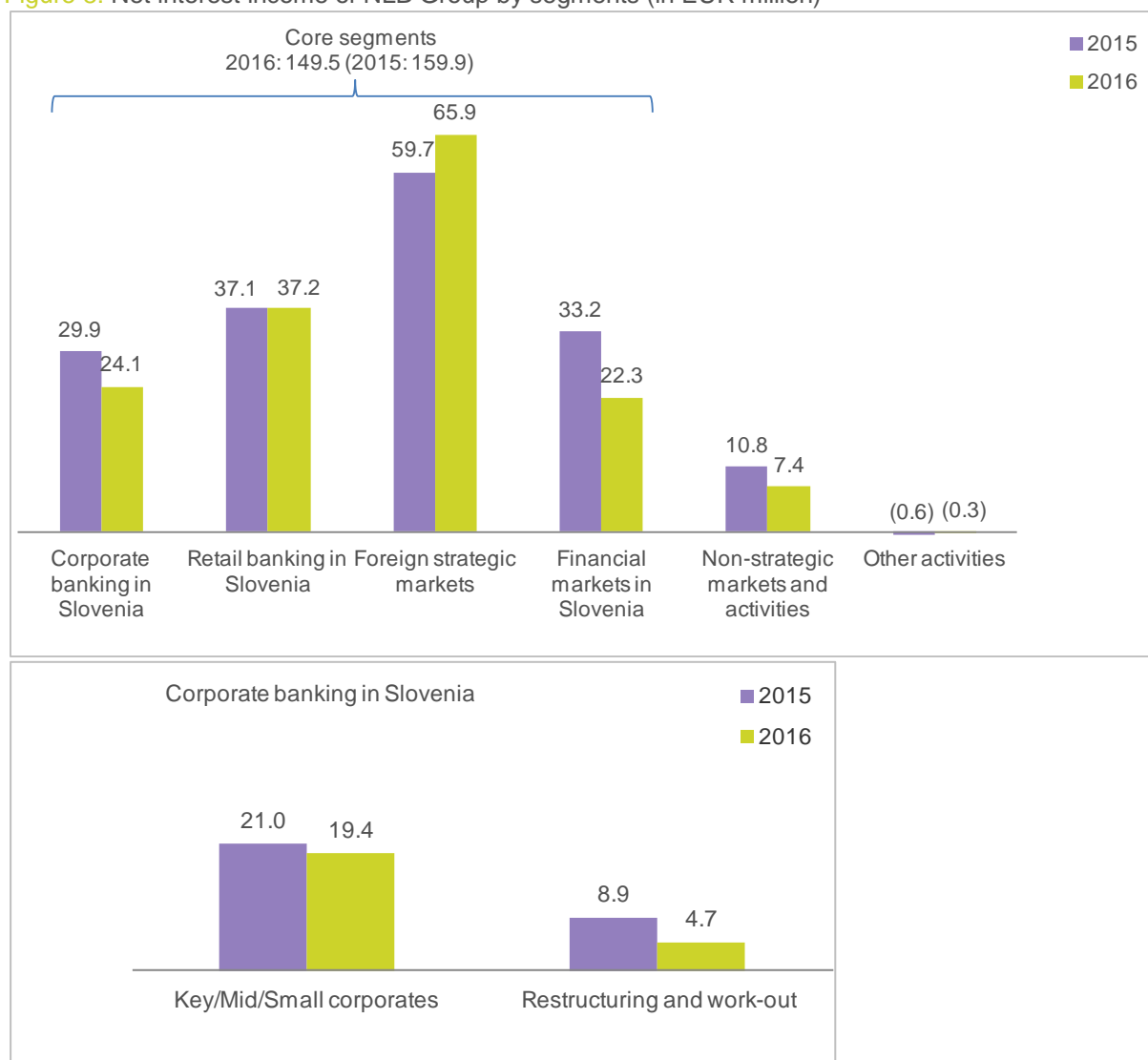
Figure 7: Net interest margin (in %)



⁴ Calculated on the basis of gross average interest-bearing assets.

Net interest income – segment results

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



Key business activities increased net interest income by EUR 4.8 million or 4% YoY.

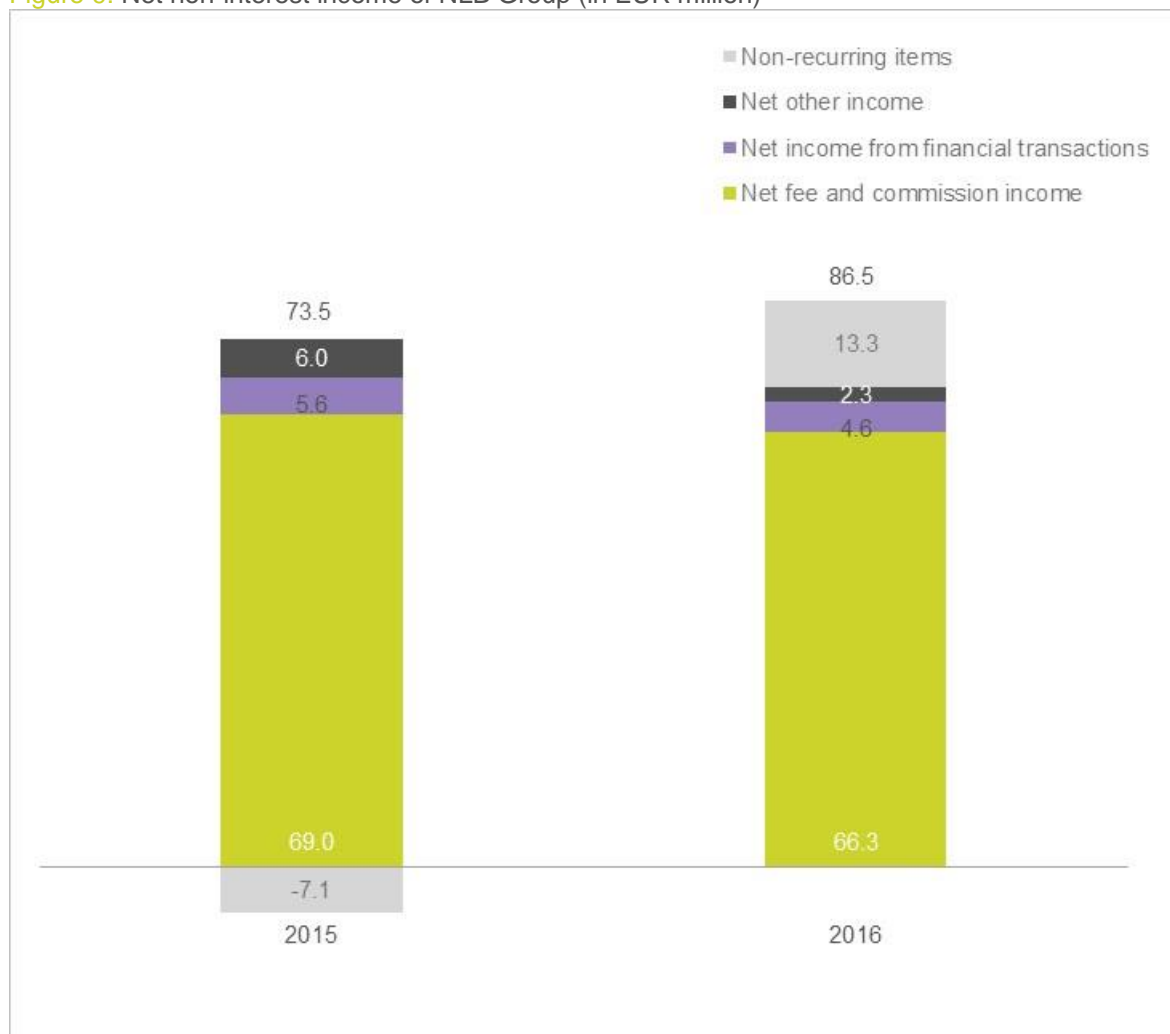
- **Retail banking in Slovenia** slightly increased net interest income as a result of higher interest margins on housing and consumer loans and a stable volume of loans. This includes negative effects of EUR 2.0 million due to agreement of sale of non-performing loans. Without this effect, net interest in Retail banking in Slovenia would have been 6% YoY higher.
- Net interest income in **Key/Mid/Small corporates Slovenia** dropped by EUR 1.6 million or 7% YoY on slightly higher loan volumes (+3% YtD) due to intense competition and the low interest environment.
- In **Foreign strategic markets**, net interest income rose by EUR 6.3 million or 11% due to interest margins in the SEE region increasing by 0.4 of a percentage point YoY and the volume of loans increasing by 3% YtD.

Net interest income of the **Restructuring and work-out** units was affected by additional impairments of interest due to agreement of sale of non-performing loans in the amount of EUR 1.9 million.

Net interest income in **Financial markets in Slovenia** decreased by EUR 10.9 million or 33% YoY due to decreasing yields in the securities portfolio, the maturity of the high-yield BAMC bond and lower net interest income resulting from the high level of excess liquidity.

Net non-interest income

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



Net non-interest income of NLB Group amounted to EUR 86.5 million, namely EUR 12.8 million or 17% higher YoY, due to the non-recurring proceeds from the sale of a non-core investment and the transaction of the Visa EU share. The most important and most stable source of net non-interest income is **Net fees and commissions** which amounted to EUR 66.9 million, namely EUR 2.1 million YoY lower. The strongest drop compared to the year before arose from card operations that were mostly affected by implementation of the EU card directive (MiFID).

Net non-interest income – segment results

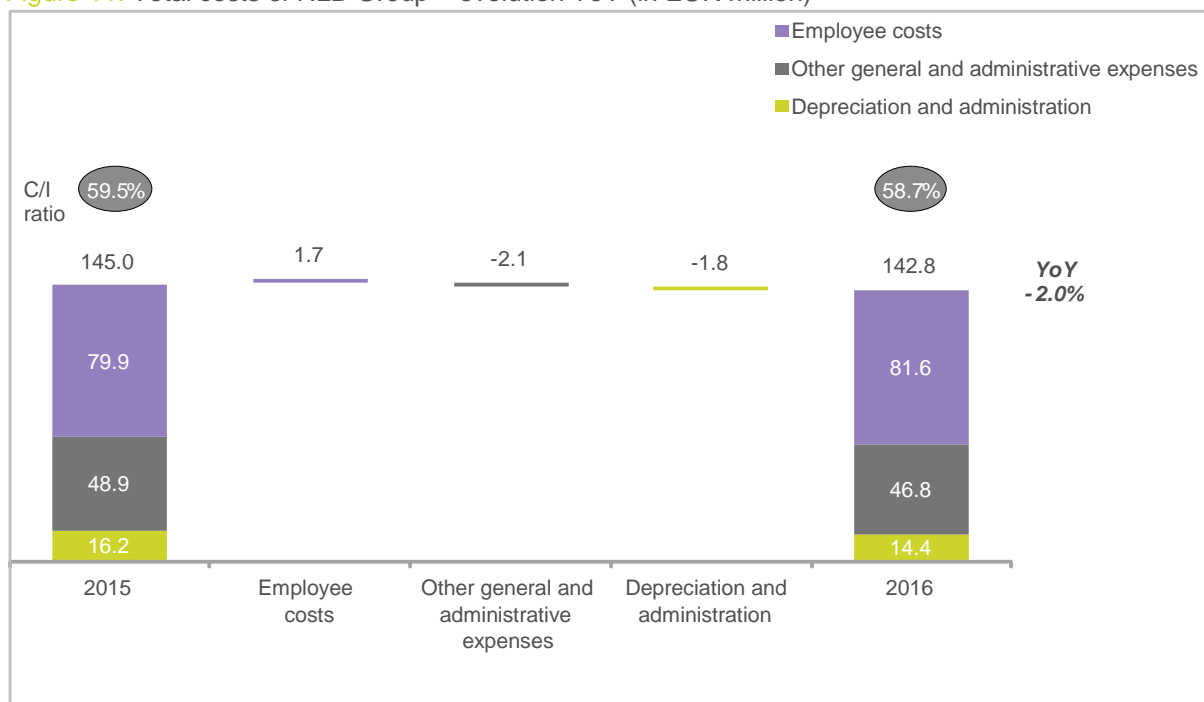
Figure 10: Net non-interest income by segments of NLB Group (in EUR million)



In **Retail banking in Slovenia** net non-interest income decreased by EUR 3.4 million or 9% with a drop in card operations (EUR 3 million), mainly due to implementation of EU card directive (MiFID). Net non-interest income in **Key/Mid/Small corporates Slovenia** amounted to EUR 14.5 million in the first half of 2016, which is EUR 1.2 million or 9% lower YoY. Net non-interest income in **Financial markets in Slovenia** is lower by EUR 8.6 million YoY, mainly, as the 2015 result included the profits from non-recurring event of selling RS bonds (EUR 5.2 million). The largest increase in this segment relates to advisory services for consortium of banks in relation to the sale of an equity investment in the amount of EUR 0.6 million. **Non-strategic markets and activities** recorded a profit in amount of EUR 8.8 million resulting from non-recurring event in 2016 from the sale of equity investment in non-core part of NLB Group in amount of EUR 5.5 million, whereas 2015 result included a loss from a non-recurring event incurred upon the sudden change in the Swiss franc exchange rate. **Other activities** recorded a profit in amount of EUR 7.7 million, mainly from transaction of Visa EU share (EUR 7.8 million).

Total costs

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



Total costs amounted to EUR 142.8 million (of which EUR 1.3 million were non-recurring costs of restructuring) and were 2% lower YoY. The small increase in overall employee costs was compensated by reduced **general and administrative costs** and **depreciation costs**. Employee costs increased due to the results of the suspension of restructuring measures, while the headcount continues to decrease.

Cost/income ratio decreased by 0.8 of a percentage point to 58.7%.

Net impairments and provisions

Net impairments and provisions amounted to EUR 21.0 million in the first half of 2016 compared to EUR 41.0 million YoY. The net cost of risk decreased from 101 basis points to 48 basis points due to the continued improvement in the quality of the portfolio and the improved economic conditions in Slovenia despite the additional impairments related to the signed agreement on the sale of a package of non-performing loans in the amount of EUR 22.6 million.

Statement of financial position

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

in EUR million	NLB Group			NLB d.d.		
	30.6.2016	31.12.2015	Change YtD	30.6.2016	31.12.2015	Change YtD
Cash, cash balances at central banks and other demand deposits at banks	1,087.7	1,162.0	-6 %	484.4	496.8	-3 %
Loans to banks	479.9	431.8	11 %	408.4	345.2	18 %
Loans to customers	7,089.8	7,088.2	0 %	5,146.4	5,220.7	-1 %
Gross loans	8,312.1	8,351.0	0 %	5,836.3	5,915.4	-1 %
- corporate	4,211.6	4,282.3	-2 %	3,007.1	3,063.0	-2 %
- individuals	3,118.4	3,050.8	2 %	1,959.4	1,957.9	0 %
- state	665.7	708.3	-6 %	553.4	585.0	-5 %
- BAMC bonds	316.4	309.6	2 %	316.4	309.6	2 %
Impairments	-1,222.3	-1,262.8	-3 %	-689.9	-694.7	-1 %
Financial assets	2,558.7	2,577.7	-1 %	2,113.3	2,086.7	1 %
- Held for trading	263.4	267.4	-2 %	263.9	267.9	-1 %
- Available-for-sale, held to maturity and designated at fair value through income statement	2,295.4	2,310.3	-1 %	1,849.5	1,818.8	2 %
Investments in subsidiaries, associates and joint ventures	41.3	39.7	4 %	354.1	353.1	0 %
Property and equipment, investment property	292.6	301.2	-3 %	99.9	103.2	-3 %
Intangible assets	35.9	39.3	-9 %	25.8	29.6	-13 %
Other assets	175.4	181.7	-3 %	82.1	71.5	15 %
TOTAL ASSETS	11,761.3	11,821.6	-1 %	8,714.4	8,706.8	0 %
Deposits from customers	9,068.1	9,025.6	0 %	6,418.8	6,298.3	2 %
- corporate	2,088.2	2,168.5	-4 %	1,406.1	1,416.0	-1 %
- individuals	6,665.1	6,493.5	3 %	4,805.8	4,630.1	4 %
- state	314.9	363.6	-13 %	207.0	252.1	-18 %
Deposits from banks and central banks	49.6	58.0	-14 %	82.8	96.7	-14 %
Debt securities in issue	307.2	305.0	1 %	307.2	305.0	1 %
Borrowings	504.7	671.3	-25 %	370.6	536.1	-31 %
Other liabilities	279.7	284.1	-2 %	218.9	228.6	-4 %
Subordinated liabilities	27.3	27.3	0 %	-	-	-
Equity	1,497.2	1,422.8	5 %	1,316.2	1,242.2	6 %
Non-controlling interests	27.4	27.6	-1 %	-	-	-
TOTAL LIABILITIES AND EQUITY	11,761.3	11,821.6	-1 %	8,714.4	8,706.8	0 %

Assets

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

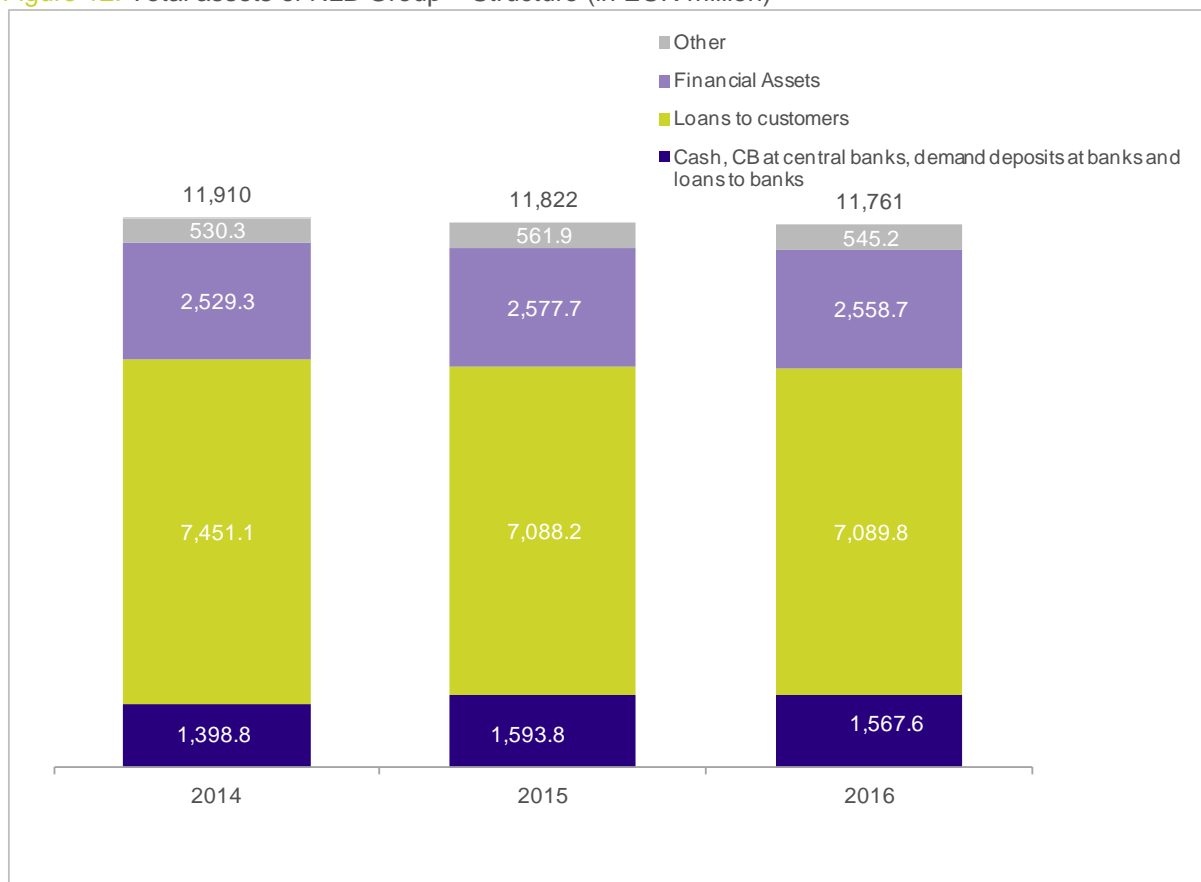
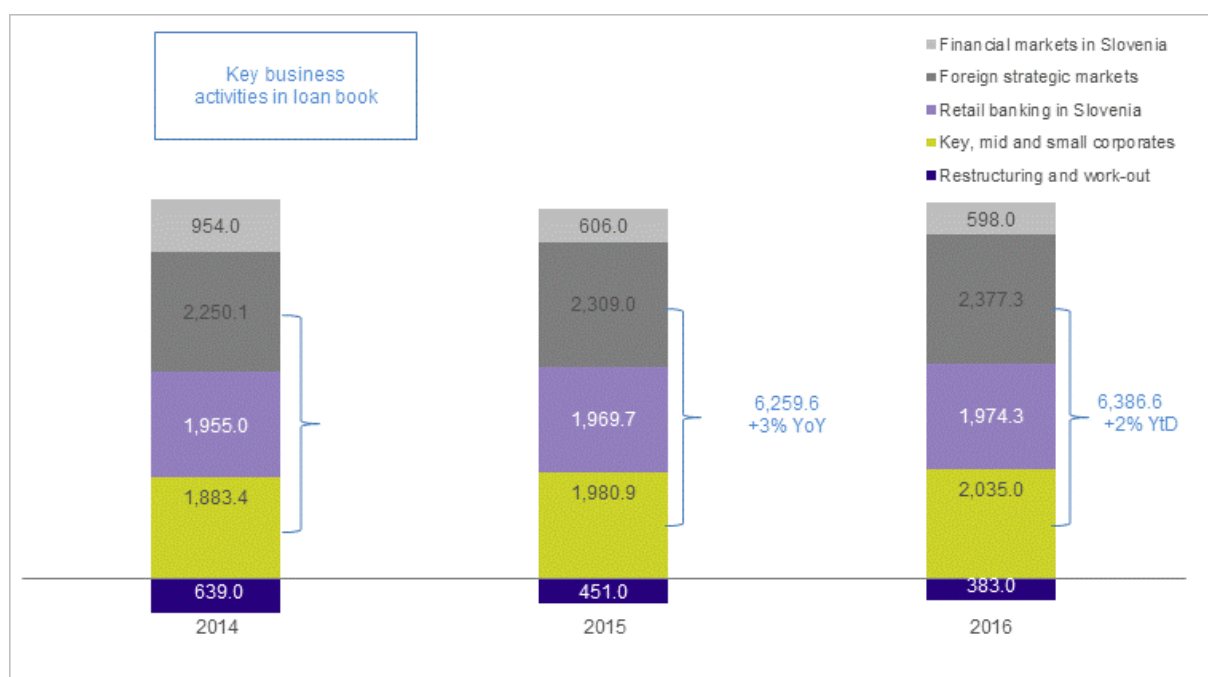


Figure 13: Gross loans to customers by core segment (in EUR million)



Gross loans in key business activities⁵ increased by EUR 127.0 million or 2% YtD. Gross loans to **Key/Mid/Small corporates Slovenia** increased by EUR 54.1 million or 3% YtD and in **Foreign strategic markets** for EUR 68.2 million or 3% YtD. Gross loans to Retail clients in Slovenia remained stable.

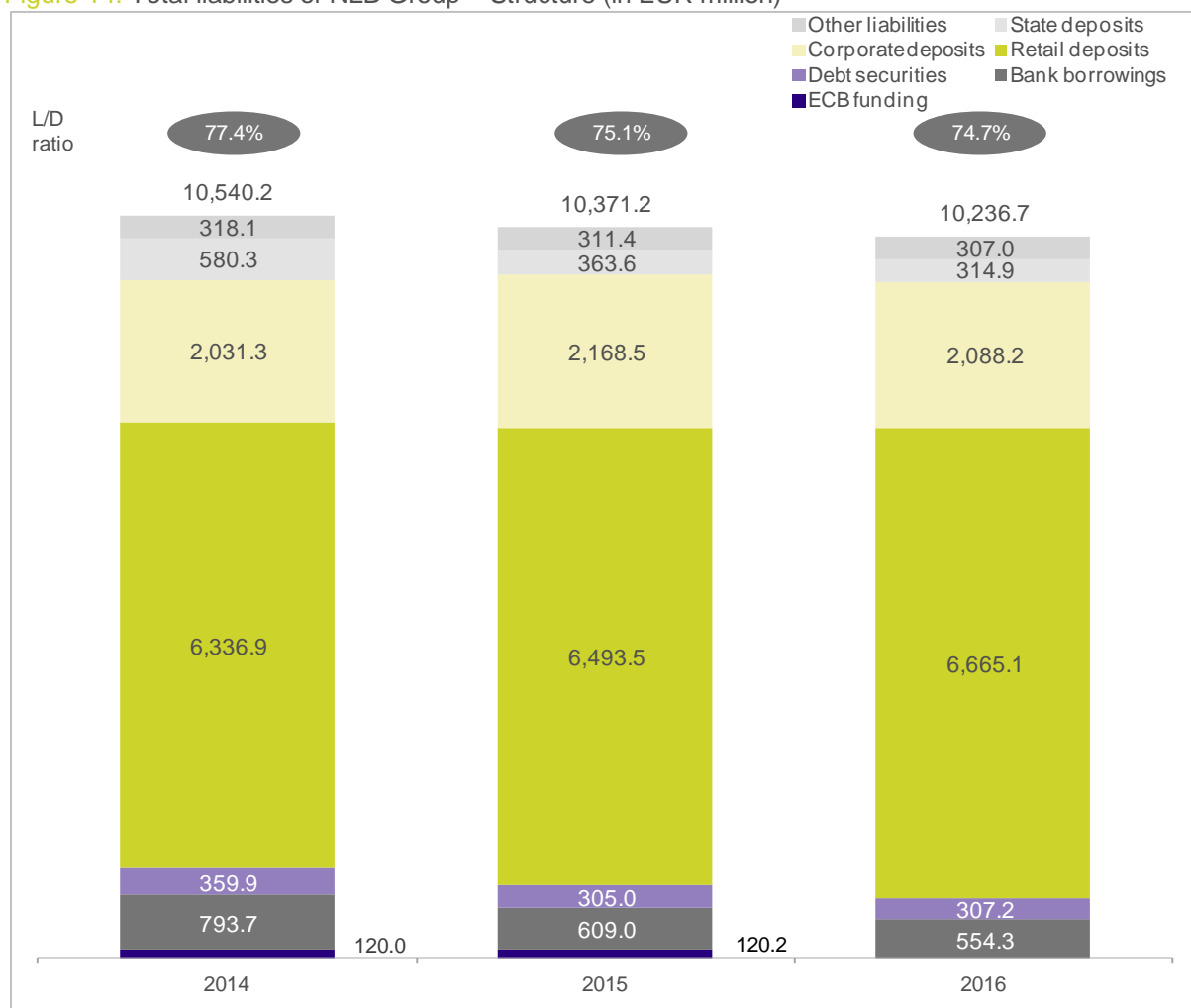
Liabilities

Total liabilities fell by EUR 134.4 million to EUR 10,236.8 million compared to 31 December 2015, mainly due to the TLTRO⁶ repayment in the amount of EUR 120.2 million and the decrease in corporate and government deposits.

Deposits from customers increased, accounting for 77% of the total funding of NLB Group. Retail segment deposits were 2.6% higher, while corporate and government deposits decreased by 5.1%. In June, NLB d.d. introduced a fee on corporate deposits above EUR 3 million.

L/D ratio (net) decreased by 0.4 of a percentage point compared to the end of 2015 as a result of the low demand for loans and the “cash-rich” retail and corporate sector.

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



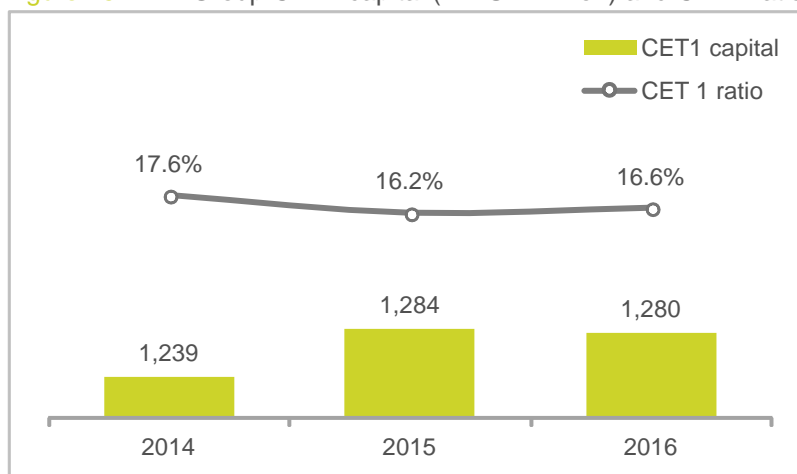
⁵ Retail Slovenia, Key/Mid/Small corporates Slovenia and core subsidiaries in Foreign Strategic Markets

⁶ Targeted longer-term refinancing operations

Equity

Total equity⁷ increased by EUR 74.2 million to EUR 1,524.6 million as at 30 June 2016, mainly due to the inclusion of the first half-year result.

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



The **capital adequacy** of NLB Group equalled 16.6%, increasing by 0.4 of a percentage point in 2016. The primary factor driving the improvement is the decrease in risk-weighted exposure amounts (RWA) for credit risk, mostly in the segment of non-performing loans. As at June 2016 CET1 capital and ratio (in figure 15) and the capital adequacy do not include the result of the first half-year 2016, as it is unaudited.

⁷ Including non-controlling interests

RISK *management*

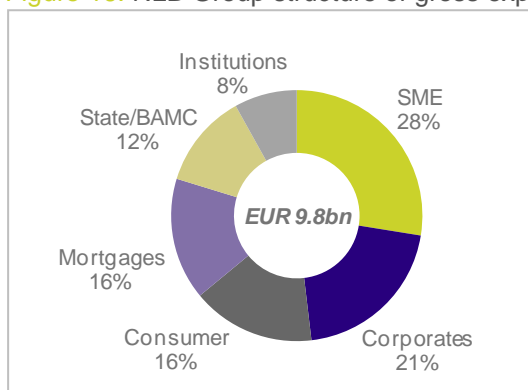
The key goal of Risk Management is to comprehensively assess, steer and monitor risks within NLB Group in line with the Group's Risk Appetite Statement and Risk Strategy.

One of the key aims of Risk Management is to preserve a prudent level of the Group's capital adequacy. NLB Group monitors its capital adequacy within the established ICAAP process, under both normal conditions (regulatory capital adequacy) and stressed conditions. As at 30 June 2016, NLB Group had a strong level of capital adequacy of 16.6% which is well within the stated risk appetite limit.

The second key aim is to maintain a solid level and structure of liquidity. NLB Group holds a strong liquidity position, which is well above the risk appetite with LCR of 310% and unencumbered eligible reserves in the amount of EUR 4,604 million. The main funding base of NLB Group predominately entails customer deposits with a conformable level of LTD in the amount of 74.7%, which allows the Group the potential for further customer loan placements.

The constantly improving quality of the credit portfolio represents the third and the still most important key aim, with a focus on the quality of new placements leading to a diversified portfolio of customers. The current structure of gross exposures (on- and off-balance sheet) consists of 32% of retail clients, 21% of large corporate clients, 28% of SME and micro companies, while the remainder of the portfolio entails other liquid assets.

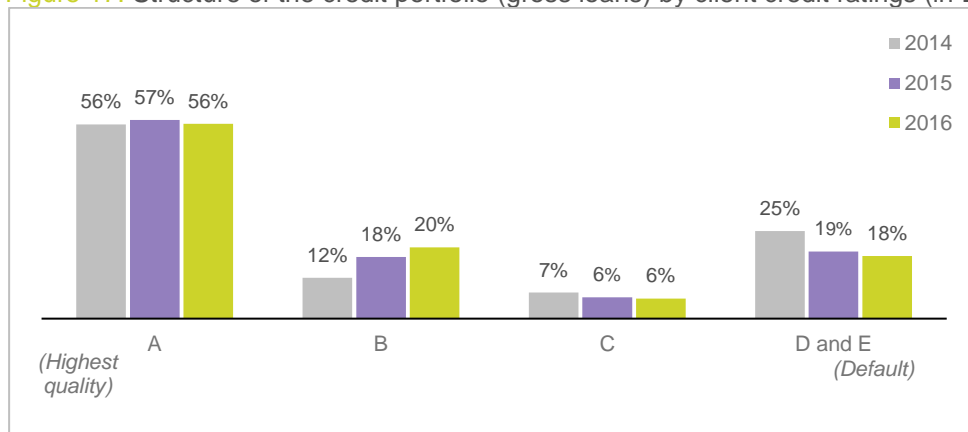
Figure 16: NLB Group structure of gross exposures and advances by segment



Gross exposures include also reserves at Central Banks and demand deposits at banks

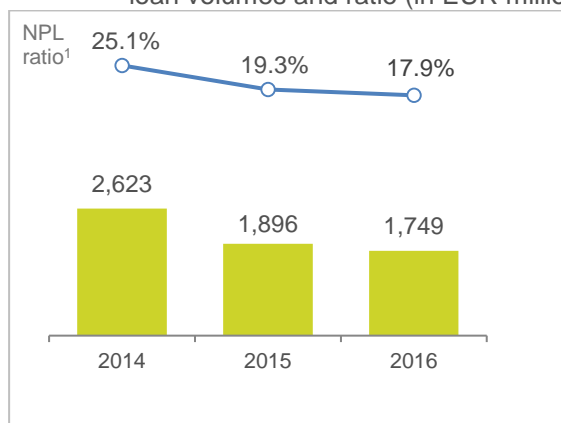
NLB Group is constantly improving its internal rating and scoring models to assure the high quality of newly approved loans, closely following the sustainability of the credit risk volatility and the sustainable size of the subsidiary banking members. Our efforts have so far resulted in minimising the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

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



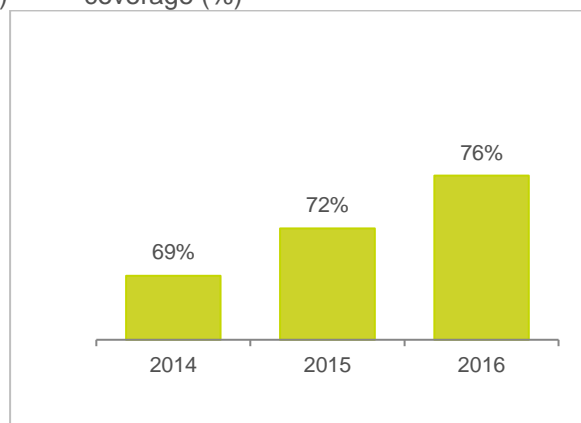
The restructuring and work-out capacities and approaches built in the past are partly still occupied with the legacy of non-performing loans, although increasingly focused on actively resolving new cases with a faster and more active approach to restructuring and work-out. In addition to the organic reduction of non-performing loans, NLB Group was able to sell off part of the receivables due to investors in two tranches (corporate and retail) in a gross claim amount of approximately EUR 500 million, which after closing in the third quarter of 2016 will result in an NPL reduction of EUR 233.3 million. An additional negative effect from the sale is already included in profit and loss statement for first half of 2016, while the transfer to the investors (and subsequently the reduction of non-performing loans) is expected in the third quarter of 2016. The existing non-performing loan stock in NLB Group was reduced from EUR 1,896 million to EUR 1,749 million, which does not include the decrease due to the signed sales agreement as well the potential and restructured exposures in the last year, which hold good potential to be cured in 2016 in a range of EUR 30 to 50 million. The share of non-performing loans was reduced to 17.9%.

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



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

Figure 19: Non-performing loan provision coverage (%)²



² The coverage of gross non-performing loans with impairments on all loans balances and obligatory

The Group's exposure to interest rate risk, trading and FX risk is relatively low. The Bank's net interest income sensitivity in the case of a Euribor decrease by 50bp would amount to EUR 11.5 million, while the net open FX position amounts to less than 1.2% of capital.

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

Moreover, the Group enhanced its risk management system in order to support the business decision-making process by upgrading the ICAAP, ILAAP, stress testing and steering processes. Due to the Brexit result, the Group did not encounter any significant negative influences from FX positions, trading positions, bonds or loans and is further closely monitoring developments in the FX, bonds and bank markets.

CORPORATE *governance*

Management Board

The Management Board of NLB d.d. 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.

As a result of certain disagreements with the Bank's owner, Janko Medja, the chief executive officer, submitted his letter of resignation on 05 February 2016. The Supervisory Board of NLB d.d. adopted on 05 February 2016 the resolution on mutually agreed early termination of the term of office of the President of the Management Board entering into force on the same day. Until 06 July 2016, the three-member Management Board of NLB d.d. had been chaired by Blaž Brodnjak as the deputy president of the Management Board.

Blaž Brodnjak was unanimously appointed as the president of the Management Board of NLB d.d. at the Supervisory Board meeting held on 04 July 2016. The Supervisory Board appointed Laszlo Pelle as the chief operating officer. He will begin to perform his office once he receives a licence from the Bank of Slovenia.

The Management Board consists of Blaž Brodnjak (member since 01 December 2012, deputy president since 05 February 2016 and president/CEO since 06 July 2016) and members Archibald Kremser (since 31 July 2013), Andreas Burkhardt (since 18 September 2013) and Laszlo Pelle, all of them newly appointed for a five-year term of office.

Supervisory Board

The Supervisory Board of NLB d.d. 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 NLB d.d.

In accordance with the two-tier governance system and the authorisations for supervising the Management Board, the Bank's Supervisory Board among other issues approves to the Management Board related to the Bank's business policy and financial plan, approves the strategy of the Bank and the banking group, organisation of the internal control system, draft audit plan of the Internal Audit and all financial transactions (e.g. issuing of own securities, equity stakes in companies and other legal entities) and supervises 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.

Pursuant to the Articles of Association, the Supervisory Board of the Bank was composed of seven members in 2015 who are appointed and recalled by the General Meeting of the Bank from among the persons nominated by shareholders or the Supervisory Board. Owing to an enlarged scope of tasks and the expectations of the European Central Bank, the Supervisory Board was expanded to nine members at the 26th General Meeting held on 10 February 2016. The General Meeting dismissed the previous members of the Supervisory Board of NLB d.d. Gorazd Podbevšek and Miha Košak and appointed the following new members to fill in the vacated positions: Janko Gedrih, Anton Macuh and Anton Ribnikar. Sergeja Slapničar, Tit A. Erker, Uroš Ivanc and Andreas Klinge have remained members of the Bank's Supervisory Board. In view of the above amendment to the Articles of Association (increased number of the members of the Supervisory Board of NLB d.d. to nine), the General Meeting appointed two additional members, namely Primož Karpe and Laszlo Urban.

The Supervisory Board of NLB d.d. held its 31st regular meeting on 19 February 2016. The Supervisory Board members elected Janko Gedrih as their chair and Sergeja Slapničar as his deputy.

On 15 April 2016, the Bank's Supervisory Board acknowledged the resignation statements of the president and two members of the Supervisory Board: Janko Gedrih, Anton Macuh and Anton Ribnikar and agreed to a shorter notice period so that their term of office expired on 15 April 2016.

Pursuant to the Bank's Articles of Association, the Supervisory Board then appointed Primož Karpe as the new chair, and elected members of committees of the Supervisory Board and committee chairs and their deputies. The Supervisory Board had six members (Primož Karpe – Chair, dr. Sergeja Slapničar – Deputy Chair, Tit A. Erker, Uroš Ivanc, Andreas Klingen and dr. Laszlo Urban (members)). In August 2016 Tit A. Erker offered his resignation from post. The Supervisory Board of NLB d.d. was acknowledged with his resignation statement on session dated 3 August 2016 and agreed with his proposal to discontinue the function as member of the Supervisory Board of NLB d.d. with expiry at the end of 3 August 2016.

From 4 August 2016 the composition of the Supervisory Board is as follows: Primož Karpe – Chair, dr. Sergeja Slapničar – Deputy Chair, Uroš Ivanc, Andreas Klingen, dr. Laszlo Urban, David Simon, David Kastelic, Matjaž Titan and Aleksander Bayr (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. A 100-percent shareholder of NLB d.d. is the Republic of Slovenia which is represented at the General Meeting by Slovenski državni holding d.d. (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 NLB d.d. The decisions adopted by the Bank's General Meeting include among other: 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.

On 10 February 2016 the 26th General Meeting of Shareholders of NLB d.d. was held, at which the rights of the Republic of Slovenia as the only shareholder of the Bank were represented by Slovenski državni holding, d.d. The General Meeting adopted amendments to the Articles of Association of NLB d.d. Significant changes include the increase in the number of Supervisory Board members from seven to nine.

At the 27th General Meeting dated 4 August 2016 four new members of the Supervisory Board were elected namely: David Simon, David Kastelic, Matjaž Titan and Aleksander Bayr.

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

Prepared in accordance with IAS 34 "Interim financial reporting"

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Condensed income statement

in EUR thousand

	Notes	NLB Group			NLB d.d.		
		six months ended			six months ended		
		June 2016	June 2015	Change	June 2016	June 2015	Change
Interest and similar income	4.1.	194,637	227,880	-15%	109,277	142,720	-23%
Interest and similar expenses	4.1.	(37,953)	(57,849)	-34%	(21,906)	(35,098)	-38%
Net interest income		156,684	170,031	-8%	87,371	107,622	-19%
Dividend income		964	1,272	-24%	885	1,208	-27%
Fee and commission income	4.2.	93,439	95,786	-2%	60,096	63,802	-6%
Fee and commission expenses	4.2.	(26,581)	(26,812)	-1%	(12,782)	(14,814)	-14%
Net fee and commission income		66,858	68,974	-3%	47,314	48,988	-3%
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	4.3.	13,017	9,583	36%	12,882	9,603	34%
Gains less losses from financial assets and liabilities held for trading	4.4.	2,516	(25,788)	-	(388)	(28,799)	-99%
Gains less losses from financial assets and liabilities designated at fair value through profit or loss		43	30	43%	-	-	-
Fair value adjustments in hedge accounting		(234)	379	-	(234)	379	-
Foreign exchange translation gains less losses		937	14,792	-94%	1,023	25,564	-96%
Gains less losses on derecognition of assets other than held for sale		679	(60)	-	122	(8)	-
Other operating income	4.5.	12,630	12,903	-2%	6,496	6,938	-6%
Other operating expenses	4.6.	(10,867)	(8,515)	28%	(6,006)	(6,598)	-9%
Administrative expenses	4.7.	(128,390)	(128,812)	0%	(80,788)	(81,380)	-1%
Depreciation and amortisation		(14,364)	(16,166)	-11%	(9,609)	(10,980)	-12%
Provisions for other liabilities and charges	4.8.	4,477	1,765	154%	6,810	2,112	222%
Impairment charge	4.9.	(25,470)	(42,782)	-40%	(17,042)	(44,911)	-62%
Gains less losses from capital investments in subsidiaries, associates and joint ventures	4.10.	2,456	2,249	9%	28,686	13,713	109%
Net gain/(loss) from non-current assets held for sale		(172)	1	-	(172)	(1)	-
PROFIT BEFORE INCOME TAX		81,764	59,856	37%	77,350	43,450	78%
Income tax	4.11.	(9,641)	(4,739)	103%	(6,149)	(3,349)	84%
PROFIT FOR THE PERIOD		72,123	55,117	31%	71,201	40,101	78%
Attributable to owners of the parent		69,491	53,362	30%	71,201	40,101	78%
Attributable to non-controlling interests		2,632	1,755	50%	-	-	-
Earnings per share (in EUR per share)		3.47	2.67	30%	3.56	2.01	78%

Condensed income statement – by quarter for NLB Group

in EUR thousand

	NLB Group					
	three months ended			three months ended		
	June 2016	March 2016	Change	June 2015	March 2015	Change
Interest and similar income	94,366	100,271	-6%	112,386	115,494	-3%
Interest and similar expenses	(18,130)	(19,823)	-9%	(26,961)	(30,888)	-13%
Net interest income	76,236	80,448	-5%	85,425	84,606	1%
	=====	=====		=====	=====	
Dividend income	956	8	-	1,266	6	-
Fee and commission income	48,289	45,150	7%	49,444	46,342	7%
Fee and commission expenses	(13,834)	(12,747)	9%	(14,169)	(12,643)	12%
Net fee and commission income	34,455	32,403	6%	35,275	33,699	5%
	=====	=====		=====	=====	
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	8,100	4,917	65%	67	9,516	-99%
Gains less losses from financial assets and liabilities held for trading	1,483	1,033	44%	2,153	(27,941)	-
Gains less losses from financial assets and liabilities designated at fair value through profit or loss	55	(12)	-	(46)	76	-
Fair value adjustments in hedge accounting	(167)	(67)	149%	(46)	425	-
Foreign exchange translation gains less losses	344	593	-42%	(1,932)	16,724	-
Gains less losses on derecognition of assets other than held for sale	324	355	-9%	(47)	(13)	262%
Other operating income	6,535	6,095	7%	5,993	6,910	-13%
Other operating expenses	(9,472)	(1,395)	579%	(3,170)	(5,345)	-41%
Administrative expenses	(64,604)	(63,786)	1%	(65,903)	(62,909)	5%
Depreciation and amortisation	(7,107)	(7,257)	-2%	(7,901)	(8,265)	-4%
Provisions for liabilities and charges	4,935	(458)	-	(3,184)	4,949	-
Impairment charge	(29,724)	4,254	-	(16,677)	(26,105)	-36%
Gains less losses from capital investments in subsidiaries, associates and joint ventures	1,209	1,247	-3%	1,098	1,151	-5%
Net gain/(loss) from non-current assets held for sale	(181)	9	-	3	(2)	-
PROFIT/(LOSS) BEFORE INCOME TAX	23,377	58,387	-60%	32,374	27,482	18%
	=====	=====		=====	=====	
Income tax	(5,045)	(4,596)	10%	(3,050)	(1,689)	81%
PROFIT FOR THE PERIOD	18,332	53,791	-66%	29,324	25,793	14%
	=====	=====		=====	=====	
Attributable to owners of the parent	17,356	52,135	-67%	28,377	24,985	14%
Attributable to non-controlling interests	976	1,656	-41%	947	808	17%

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

in EUR thousand

	NLB d.d.					
	three months ended			three months ended		
	June 2016	March 2016	Change	June 2015	March 2015	Change
Interest and similar income	51,651	57,626	-10%	68,874	73,846	-7%
Interest and similar expenses	(10,473)	(11,433)	-8%	(16,092)	(19,006)	-15%
Net interest income	41,178	46,193	-11%	52,782	54,840	-4%
	=====	=====		=====	=====	
Dividend income	885	-	-	1,208	-	-
Fee and commission income	31,256	28,840	8%	33,104	30,698	8%
Fee and commission expenses	(6,784)	(5,998)	13%	(7,991)	(6,823)	17%
Net fee and commission income	24,472	22,842	7%	25,113	23,875	5%
	=====	=====		=====	=====	
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	7,982	4,900	63%	52	9,551	-99%
Gains less losses from financial assets and liabilities held for trading	(68)	(320)	-79%	674	(29,473)	-
Gains less losses from financial assets and liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Fair value adjustments in hedge accounting	(167)	(67)	149%	(46)	425	-
Foreign exchange translation gains less losses	692	331	109%	(884)	26,448	-
Gains less losses on derecognition of assets other than held for sale	55	67	-18%	(79)	71	-
Other operating income	3,319	3,177	4%	3,170	3,768	-16%
Other operating expenses	(5,313)	(693)	667%	(1,852)	(4,746)	-61%
Administrative expenses	(40,343)	(40,445)	0%	(41,700)	(39,680)	5%
Depreciation and amortisation	(4,774)	(4,835)	-1%	(5,350)	(5,630)	-5%
Provisions for liabilities and charges	7,425	(615)	-	(2,680)	4,792	-
Impairment charge	(20,553)	3,511	-	(13,132)	(31,779)	-59%
Gains less losses from capital investments in subsidiaries, associates and joint ventures	18,004	10,682	69%	12,297	1,416	768%
Net gain/(loss) from non-current assets held for sale	(181)	9	-	-	(1)	-
PROFIT/(LOSS) BEFORE INCOME TAX	32,613	44,737	-27%	29,573	13,877	113%
	=====	=====		=====	=====	
Income tax	(3,705)	(2,444)	52%	(3,036)	(313)	870%
PROFIT FOR THE PERIOD	28,908	42,293	-32%	26,537	13,564	96%
	=====	=====		=====	=====	

Condensed statement of comprehensive income

		in EUR thousand			
		NLB Group		NLB d.d.	
	Note	six months ended		six months ended	
		June 2016	June 2015	June 2016	June 2015
Net profit for the period after tax		72,123	55,117	71,201	40,101
Other comprehensive income/(loss) after tax		4,860	(17,272)	2,813	(13,998)
<i>Items that will not be reclassified to income statement</i>					
Actuarial gains/(losses) on defined benefit pension plans		-	(78)	-	-
<i>Items that may be reclassified subsequently to income statement</i>					
Foreign currency translation		(1,077)	(1,479)	-	-
Translation gains/(losses) taken to equity		(1,077)	(1,479)	-	-
Cash flow hedges (effective portion)		(165)	457	(165)	457
Valuation gains/(losses) taken to equity		(456)	162	(456)	162
Transferred to income statement		291	295	291	295
Available-for-sale financial assets		3,996	(17,556)	3,554	(17,321)
Valuation gains/(losses) taken to equity		17,032	(7,908)	16,455	(7,654)
Transferred to income statement		(13,036)	(9,648)	(12,901)	(9,667)
Share of other comprehensive income of entities accounted for using the equity method		3,365	(1,905)	-	-
Income tax relating to components of other comprehensive income	5.11.	(1,259)	3,289	(576)	2,866
Total comprehensive income/(loss) for the period after tax		76,983	37,845	74,014	26,103
Attributable to owners of the parent		74,361	36,078	74,014	26,103
Attributable to non-controlling interests		2,622	1,767	-	-

Condensed statement of comprehensive income – by quarter for NLB Group

in EUR thousand

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

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

in EUR thousand

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

Condensed statement of financial position

in EUR thousand

	Notes	NLB Group			NLB d.d.		
		30.6.2016	31.12.2015	Change	30.6.2016	31.12.2015	Change
Cash, cash balances at central banks and other demand deposits at banks	5.1.	1,087,730	1,161,983	-6%	484,376	496,806	-3%
Trading assets	5.2.	263,359	267,413	-2%	263,869	267,880	-1%
Financial assets designated at fair value through profit or loss		6,197	7,595	-18%	2,595	4,913	-47%
Available-for-sale financial assets	5.3.	1,747,278	1,737,191	1%	1,304,965	1,248,359	5%
Derivatives - hedge accounting		1,072	1,083	-1%	1,072	1,083	-1%
Loans and advances							
- debt securities	5.4.1.	402,926	394,579	2%	402,926	394,579	2%
- loans and advances to banks	5.4.2.	479,882	431,775	11%	408,416	345,207	18%
- loans and advances to customers	5.4.3.	6,686,883	6,693,621	0%	4,743,432	4,826,139	-2%
- other financial assets	5.4.4.	65,039	69,521	-6%	58,465	48,944	19%
Held-to-maturity investments	5.5.	541,911	565,535	-4%	541,911	565,535	-4%
Fair value changes of the hedged items in portfolio hedge of interest rate risk		828	741	12%	828	741	12%
Non-current assets classified as held for sale		5,203	4,629	12%	2,330	1,776	31%
Property and equipment		200,603	207,730	-3%	91,411	94,570	-3%
Investment property	5.6.	92,029	93,513	-2%	8,511	8,613	-1%
Intangible assets		35,862	39,327	-9%	25,818	29,627	-13%
Investments in subsidiaries		-	-	-	347,002	346,001	0%
Investments in associates and joint ventures		41,304	39,696	4%	7,094	7,094	0%
Current income tax assets		950	929	2%	-	-	-
Deferred income tax assets	5.8.	8,435	9,400	-10%	8,410	9,139	-8%
Other assets	5.7.	93,841	95,354	-2%	11,006	9,779	13%
TOTAL ASSETS		11,761,332	11,821,615	-1%	8,714,437	8,706,785	0%
		=====	=====		=====	=====	
Trading liabilities	5.2.	23,320	29,920	-22%	23,304	29,909	-22%
Financial liabilities designated at fair value through profit or loss		2,594	4,912	-47%	2,594	4,912	-47%
Derivatives - hedge accounting		36,614	33,842	8%	36,614	33,842	8%
Financial liabilities measured at amortised cost							
- deposits from banks and central banks	5.9.	49,647	57,982	-14%	82,800	96,736	-14%
- borrowings from banks and central banks	5.9.	418,437	571,029	-27%	365,109	519,926	-30%
- due to customers	5.9.	9,065,552	9,020,666	0%	6,416,186	6,293,339	2%
- borrowings from other customers	5.9.	86,264	100,267	-14%	5,475	16,168	-66%
- debt securities in issue	5.9.1.	307,240	304,962	1%	307,240	304,962	1%
- subordinated liabilities	5.9.2.	27,341	27,340	0%	-	-	-
- other financial liabilities	5.9.3.	91,940	75,307	22%	57,658	47,346	22%
Provisions	5.10.	115,005	122,639	-6%	95,540	105,137	-9%
Current income tax liabilities		2,953	7,514	-61%	1,927	6,681	-71%
Deferred income tax liabilities	5.8.	490	313	57%	-	-	-
Other liabilities	5.12.	9,363	14,539	-36%	3,825	5,676	-33%
TOTAL LIABILITIES		10,236,760	10,371,232	-1%	7,398,272	7,464,634	-1%
		=====	=====		=====	=====	
EQUITY AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT							
Share capital		200,000	200,000	0%	200,000	200,000	0%
Share premium		871,378	871,378	0%	871,378	871,378	0%
Accumulated other comprehensive income		28,473	23,603	21%	34,654	31,841	9%
Profit reserves		13,522	13,522	0%	13,522	13,522	0%
Retained earnings		383,802	314,307	22%	196,611	125,410	57%
		1,497,175	1,422,810	5%	1,316,165	1,242,151	6%
Non-controlling interests		27,397	27,573	-1%	-	-	-
TOTAL EQUITY		1,524,572	1,450,383	5%	1,316,165	1,242,151	6%
TOTAL LIABILITIES AND EQUITY		11,761,332	11,821,615	-1%	8,714,437	8,706,785	0%
		=====	=====		=====	=====	

Condensed statement of changes in equity

in EUR thousand								
NLB Group	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance at 1 January 2016	200,000	871,378	23,603	13,522	314,307	1,422,810	27,573	1,450,383
- Net profit for the period	-	-	-	-	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 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								
	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance at 1 January 2015	200,000	871,378	36,485	13,522	221,676	1,343,061	26,234	1,369,295
- Net profit for the period	-	-	-	-	53,362	53,362	1,755	55,117
- Other comprehensive income	-	-	(17,284)	-	-	(17,284)	12	(17,272)
Total comprehensive income after tax	-	-	(17,284)	-	53,362	36,078	1,767	37,845
Dividends paid	-	-	-	-	-	-	(1,048)	(1,048)
Other*	-	-	-	-	244	244	(251)	(7)
Balance at 30 June 2015	200,000	871,378	19,201	13,522	275,282	1,379,383	26,702	1,406,085

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

in EUR thousand						
	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Total equity
Balance at 1 January 2015	200,000	871,378	38,491	13,522	81,529	1,204,920
- Net profit for the period	-	-	-	-	40,101	40,101
- Other comprehensive income	-	-	(13,998)	-	-	(13,998)
Total comprehensive income after tax	-	-	(13,998)	-	40,101	26,103
Balance at 30 June 2015	200,000	871,378	24,493	13,522	121,630	1,231,023

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

Condensed statement of cash flows

	in EUR thousand			
	NLB Group		NLB d.d.	
	six months ended		six months ended	
	June 2016	June 2015	June 2016	June 2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	213,514	238,250	126,763	156,948
Interest paid	(38,216)	(65,753)	(20,762)	(40,311)
Dividends received	168	172	89	109
Fee and commission receipts	93,086	95,148	58,888	62,858
Fee and commission payments	(26,425)	(27,270)	(12,799)	(14,948)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	11,497	9,641	11,362	9,572
Realised losses from financial assets and financial liabilities not at fair value through profit or loss	(39)	(2)	(39)	(2)
Gains/(losses) from financial assets and liabilities held for trading	3,129	(24,874)	1,033	(26,875)
Payments to employees and suppliers	(131,194)	(132,988)	(84,595)	(86,531)
Other income	14,998	18,467	7,789	8,113
Other expenses	(10,335)	(8,654)	(7,484)	(6,401)
Income tax (paid)/refunded	(12,446)	(2,716)	(9,812)	(462)
Cash flows from operating activities before changes in operating assets and liabilities	117,737	99,421	70,433	62,070
(Increases)/decreases in operating assets	(43,305)	111,242	(49,609)	128,952
Net (increase)/decrease in trading assets	(7,174)	(57,031)	(7,174)	(57,031)
Net (increase)/decrease in financial assets designated at fair value through profit or loss	817	(229)	1,737	-
Net (increase)/decrease in available-for-sale financial assets	(31,575)	129,172	(60,819)	78,812
Net (increase)/decrease in loans and advances	(10,934)	37,894	15,258	107,817
Net (increase)/decrease in other assets	5,561	1,436	1,389	(646)
Increases/(decreases) in operating liabilities	(104,736)	(367,824)	(37,730)	(360,256)
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	(100,425)	(324,418)	(33,809)	(317,243)
Net increase/(decrease) in securities measured at amortised cost	(2,000)	(43,169)	(2,000)	(43,169)
Net increase/(decrease) in other liabilities	(574)	(237)	(184)	156
Net cash used in operating activities	(30,304)	(157,161)	(16,906)	(169,234)
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts from investing activities	53,445	136,260	71,119	148,919
Proceeds from sale of property and equipment and investment property	1,126	640	387	13
Proceeds from dividends from subsidiaries and associates	3,587	-	22,000	13,354
Proceeds from sale of non-current assets held for sale	80	120	80	52
Proceeds from maturity of held-to-maturity investments	48,652	135,500	48,652	135,500
Payments from investing activities	(45,813)	(17,401)	(42,353)	(22,503)
Purchase of property and equipment and investment property	(10,687)	(4,255)	(6,658)	(1,711)
Purchase of intangible assets	(3,332)	(3,417)	(2,551)	(2,828)
Purchase of subsidiaries and increase in subsidiaries' equity	-	(40)	(1,350)	(8,275)
Purchase of held-to-maturity investments	(31,794)	(9,689)	(31,794)	(9,689)
Net cash used in investing activities	7,632	118,859	28,766	126,416
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from financing activities	-	9,900	-	-
Issue of subordinated debt	-	9,900	-	-
Payments from financing activities	(2,722)	(977)	-	-
Dividends paid	(2,722)	(977)	-	-
Net cash from financing activities	(2,722)	8,923	-	-
Effects of exchange rate changes on cash and cash equivalents	(1,907)	13,411	(1,182)	10,828
Net increase/(decrease) in cash and cash equivalents	(25,394)	(29,379)	11,860	(42,818)
Cash and cash equivalents at beginning of period	1,302,003	1,292,984	525,831	519,223
Cash and cash equivalents at end of period	1,274,702	1,277,016	536,509	487,233

Statement of management's responsibility

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

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

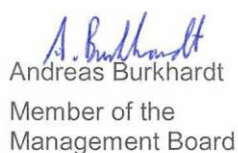
The Management Board also confirms that appropriate accounting policies were consistently applied, and that the accounting estimates were prepared in accordance with the principles of prudence and good management. The Management Board further confirms that the interim financial statements of NLB Group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

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

Management Board



Archibald Kremser
Member of the
Management Board



Andreas Burkhardt
Member of the
Management Board



Blaž Brodnjak
President of the
Management Board

Notes to the condensed financial statements

1. General information

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

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

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

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

2. Summary of significant accounting policies

2.1. Statement of compliance

These condensed interim financial statements have been prepared in accordance with IAS 34 "Interim financial reporting" and should be read in conjunction with the annual financial statements of NLB Group and NLB d.d. for the year ended 31 December 2015, which have been prepared in accordance with the International Financial Reporting Standards (hereinafter: IFRS) as adopted by the European Union.

2.2. Accounting policies

The same accounting policies and methods of computation were followed in the preparation of these consolidated condensed interim financial statements as for the year ended 31 December 2015, except for accounting standards and other amendments effective for annual periods beginning on 1 January 2016 that were endorsed by the EU.

Accounting standards and amendments to existing standards that were endorsed by the EU and adopted by NLB Group from 1 January 2016

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

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

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

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

3. Changes in NLB Group

SIX MONTHS ENDED 30 June 2016

Capital changes:

- An increase in share capital in the form of cash contributions in the amount of EUR 1,350 thousand in SR-RE d.o.o., Belgrade, NLB Leasing Podgorica, Podgorica and NLB Lizing, Skopje.

Other changes:

- 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 and Prvi faktor, Skopje are formally in liquidation.

CHANGES IN 2015

Capital changes:

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

Other changes:

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

4. Notes to the condensed income statement

4.1. Interest income and expenses

in EUR thousand						
	NLB Group			NLB d.d.		
	six months ended		change	six months ended		change
	June 2016	June 2015		June 2016	June 2015	
Interest and similar income						
Loans and advances to customers	162,833	190,519	-15%	83,932	111,535	-25%
Available-for-sale financial assets	16,033	16,854	-5%	9,041	10,207	-11%
Held-to-maturity investments	8,951	12,006	-25%	8,951	12,006	-25%
Financial assets held for trading	5,188	6,485	-20%	5,245	6,550	-20%
Loans and advances to banks and central banks	598	461	30%	1,240	1,125	10%
Derivatives - hedge accounting	548	950	-42%	548	950	-42%
Deposits with central banks and banks	481	605	-20%	318	347	-8%
Other assets	5	-	-	2	-	-
TOTAL	194,637	227,880	-15%	109,277	142,720	-23%
	=====	=====		=====	=====	
Interest and similar expenses						
Due to customers	22,163	37,147	-40%	8,623	17,495	-51%
Debt securities in issue	4,813	5,547	-13%	4,813	5,547	-13%
Financial liabilities held for trading	3,352	4,860	-31%	3,352	4,860	-31%
Derivatives - hedge accounting	2,951	3,053	-3%	2,951	3,053	-3%
Borrowings from banks and central banks	2,071	4,496	-54%	1,575	3,334	-53%
Borrowings from other customers	978	1,227	-20%	10	89	-89%
Deposits from banks and central banks	34	73	-53%	32	19	68%
Subordinated liabilities	946	580	63%	-	-	-
Other financial liabilities	645	866	-26%	550	701	-22%
TOTAL	37,953	57,849	-34%	21,906	35,098	-38%
	=====	=====		=====	=====	
NET INTEREST INCOME	156,684	170,031	-8%	87,371	107,622	-19%
	=====	=====		=====	=====	

4.2. Net fee and commission income

in EUR thousand						
	NLB Group			NLB d.d.		
	six months ended		change	six months ended		change
	June 2016	June 2015		June 2016	June 2015	
Fee and commission income						
Credit cards and ATMs	26,512	28,569	-7%	18,317	21,475	-15%
Payments	26,653	26,086	2%	14,023	13,918	1%
Customer transaction accounts	19,850	19,885	0%	15,656	15,887	-1%
Investment funds	6,478	7,433	-13%	1,690	2,308	-27%
Guarantees	6,154	6,987	-12%	4,149	4,398	-6%
Investment banking	3,374	2,759	22%	2,642	2,854	-7%
Agency of insurance products	1,680	1,317	28%	1,672	1,317	27%
Other services	2,738	2,750	0%	1,947	1,645	18%
TOTAL	93,439	95,786	-2%	60,096	63,802	-6%
	=====	=====		=====	=====	
Fee and commission expenses						
Credit cards and ATMs	16,219	16,831	-4%	10,262	11,912	-14%
Deposit insurance	4,327	4,120	5%	-	-	-
Payments	2,430	2,201	10%	394	395	0%
Investment banking	1,330	1,571	-15%	928	1,178	-21%
Insurance for holders of personal accounts and golden cards	1,007	799	26%	695	685	1%
Guarantees	163	297	-45%	137	268	-49%
Other services	1,105	993	11%	366	376	-3%
TOTAL	26,581	26,812	-1%	12,782	14,814	-14%
	=====	=====		=====	=====	
NET FEE AND COMMISSION INCOME	66,858	68,974	-3%	47,314	48,988	-3%
	=====	=====		=====	=====	

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

	NLB Group		NLB d.d.	
	June 2016	June 2015	June 2016	June 2015
Available-for-sale financial assets	13,056	9,531	12,921	9,551
Financial liabilities measured at amortised cost	(39)	52	(39)	52
TOTAL	13,017	9,583	12,882	9,603
	=====	=====	=====	=====

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

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

	NLB Group		NLB d.d.	
	June 2016	June 2015	June 2016	June 2015
Foreign exchange trading	4,210	4,986	1,261	1,932
Debt instruments	(1,322)	(455)	(1,322)	(457)
Derivatives	(372)	(30,319)	(327)	(30,274)
TOTAL	2,516	(25,788)	(388)	(28,799)
	=====	=====	=====	=====

4.5. Other operating income

	NLB Group			NLB d.d.		
	June 2016	June 2015	change	June 2016	June 2015	change
Income from non-banking services	7,722	7,771	-1%	5,103	5,440	-6%
Rental income from investment property	2,727	2,769	-2%	112	38	195%
Other operating income	2,181	2,363	-8%	1,281	1,460	-12%
TOTAL	12,630	12,903	-2%	6,496	6,938	-6%
	=====	=====		=====	=====	

4.6. Other operating expenses

	NLB Group			NLB d.d.		
	six months ended			six months ended		
	June	June		June	June	
	2016	2015	change	2016	2015	change
Single Resolution Fund	3,894	-	-	3,894	-	-
Revaluation of investment property to fair value	2,877	52	-	124	52	138%
Taxes and other duties	1,601	1,165	37%	463	461	0%
Expenses related to issued service guarantees	797	3,494	-77%	797	3,494	-77%
Membership fees	451	763	-41%	172	444	-61%
Other operating expenses	1,247	3,041	-59%	556	2,147	-74%
TOTAL	10,867	8,515	28%	6,006	6,598	-9%
	=====	=====		=====	=====	

4.7. Administrative expenses

	NLB Group			NLB d.d.		
	six months ended			six months ended		
	June	June		June	June	
	2016	2015	change	2016	2015	change
Employee costs	81,601	79,894	2%	51,895	50,669	2%
Other general and administrative expenses	46,789	48,918	-4%	28,893	30,711	-6%
TOTAL	128,390	128,812	0%	80,788	81,380	-1%
	=====	=====		=====	=====	

4.8. Provisions for other liabilities and charges

	NLB Group		NLB d.d.	
	six months ended		six months ended	
	June	June	June	June
	2016	2015	2016	2015
Guarantees and commitments	(7,828)	(4,849)	(6,849)	(5,447)
Provisions for legal issues	3,351	2,158	39	2,409
Other provisions	-	926	-	926
TOTAL	(4,477)	(1,765)	(6,810)	(2,112)
	=====	=====	=====	=====

4.9. Impairment charge

	in EUR thousand			
	NLB Group		NLB d.d.	
	six months ended		six months ended	
	June 2016	June 2015	June 2016	June 2015
Impairment of financial assets				
Loans and advances to customers (note 5.4.5.)	23,141	34,138	16,150	43,724
Held-to-maturity financial assets	82	-	82	-
Loans and advances to banks (note 5.4.5.)	62	2,577	-	200
Available-for-sale financial assets	20	(117)	20	(117)
Other financial assets (note 5.4.5.)	848	2,509	441	690
Impairment of investments in subsidiaries, associates and JV				
Investments in subsidiaries	-	-	349	70
Impairment of other assets				
Property and equipment	-	344	-	344
Other assets	1,317	3,331	-	-
TOTAL	25,470	42,782	17,042	44,911
	=====	=====	=====	=====

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

	in EUR thousand			
	NLB Group		NLB d.d.	
	six months ended		six months ended	
	June 2016	June 2015	June 2016	June 2015
Dividends from investments in subsidiaries, associates and joint ventures	-	-	28,686	13,713
Share of net gains less losses of associates and joint ventures accounted for using the equity method	2,456	2,249	-	-
TOTAL	2,456	2,249	28,686	13,713
	=====	=====	=====	=====

4.11. Income tax

	in EUR thousand					
	NLB Group			NLB d.d.		
	six months ended			six months ended		
	June 2016	June 2015	change	June 2016	June 2015	change
Current tax on profit	9,139	6,443	42%	5,996	3,736	60%
Deferred tax (5.8.)	502	(1,704)	-	153	(387)	-
TOTAL	9,641	4,739	103%	6,149	3,349	84%
	=====	=====		=====	=====	

5. Notes to the condensed statement of financial position

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

	in EUR thousand					
	NLB Group			NLB d.d.		
	30.6.2016			30.6.2016		
	31.12.2015	Change		31.12.2015	Change	
Balances and obligatory reserves with central banks	643,119	527,156	22%	253,919	155,160	64%
Cash	226,254	228,156	-1%	123,001	128,682	-4%
Demand deposits at banks	218,357	406,671	-46%	107,456	212,964	-50%
TOTAL	1,087,730	1,161,983	-6%	484,376	496,806	-3%
	=====	=====		=====	=====	

5.2. Financial instruments held for trading

a) Trading assets

in EUR thousand

	NLB Group			NLB d.d.		
	30.6.2016	31.12.2015	Change	30.6.2016	31.12.2015	Change
Derivatives, excluding hedging instruments						
Swap contracts	22,210	26,855	-17%	22,727	27,322	-17%
Forward contracts	935	3,035	-69%	928	3,035	-69%
Options	332	151	120%	332	151	120%
Total derivatives	23,477	30,041	-22%	23,987	30,508	-21%
Securities						
Commercial papers	137,106	151,171	-9%	137,106	151,171	-9%
Bonds	64,822	43,555	49%	64,822	43,555	49%
Treasury bills	37,954	42,636	-11%	37,954	42,636	-11%
Shares	-	10	-100%	-	10	-100%
Total securities	239,882	237,372	1%	239,882	237,372	1%
TOTAL	263,359	267,413	-2%	263,869	267,880	-1%

b) Trading liabilities

in EUR thousand

	NLB Group			NLB d.d.		
	30.6.2016	31.12.2015	Change	30.6.2016	31.12.2015	Change
Derivatives, excluding hedges						
Swap contracts	22,492	26,929	-16%	22,494	26,929	-16%
Forward contracts	828	2,944	-72%	810	2,933	-72%
Options	-	47	-100%	-	47	-100%
TOTAL	23,320	29,920	-22%	23,304	29,909	-22%

5.3. Available-for-sale financial assets

in EUR thousand

	NLB Group			NLB d.d.		
	30.6.2016	31.12.2015	Change	30.6.2016	31.12.2015	Change
Bonds	1,376,678	1,350,942	2%	1,040,679	999,781	4%
Commercial bills	148,023	151,168	-2%	148,023	151,168	-2%
Treasury bills	98,440	81,680	21%	49,904	26,998	85%
Cash certificates	52,824	77,939	-32%	-	-	-
National Resolution Fund	44,596	44,519	0%	44,596	44,519	0%
Shares	26,717	30,943	-14%	21,763	25,893	-16%
TOTAL	1,747,278	1,737,191	1%	1,304,965	1,248,359	5%

5.4. Loans and advances

Analysis by type of loans and advances

in EUR thousand

	NLB Group			NLB d.d.		
	30.6.2016	31.12.2015	Change	30.6.2016	31.12.2015	Change
Loans and advances to customers	6,686,883	6,693,621	0%	4,743,432	4,826,139	-2%
Loans and advances to banks	479,882	431,775	11%	408,416	345,207	18%
Debt securities	402,926	394,579	2%	402,926	394,579	2%
Other financial assets	65,039	69,521	-6%	58,465	48,944	19%
TOTAL	7,634,730	7,589,496	1%	5,613,239	5,614,869	0%

5.4.1. Debt securities

in EUR thousand

	NLB Group and NLB d.d.		
	30.6.2016	31.12.2015	Change
Government	316,434	309,570	2%
Companies	86,492	85,009	2%
TOTAL	402,926	394,579	2%
	=====	=====	

5.4.2. Loans and advances to banks

in EUR thousand

	NLB Group			NLB d.d.		
	30.6.2016	31.12.2015	Change	30.6.2016	31.12.2015	Change
Time deposits	469,854	427,195	10%	375,551	315,016	19%
Loans	2,557	3,825	-33%	25,251	29,391	-14%
Overdrafts	6,099	-	-	6,099	-	-
Purchased receivables	1,712	997	72%	1,712	997	72%
	480,222	432,017	11%	408,613	345,404	18%
Allowance for impairment (note 5.4.5.)	(340)	(242)	40%	(197)	(197)	0%
TOTAL	479,882	431,775	11%	408,416	345,207	18%
	=====	=====		=====	=====	

5.4.3. Loans and advances to customers

in EUR thousand

	NLB Group			NLB d.d.		
	30.6.2016	31.12.2015	Change	30.6.2016	31.12.2015	Change
Loans	7,252,322	7,254,266	0%	5,194,734	5,266,143	-1%
Overdrafts	306,557	320,514	-4%	172,189	183,406	-6%
Finance lease receivables	228,234	253,205	-10%	-	-	-
Credit card business	106,225	111,673	-5%	55,535	59,820	-7%
Called guarantees	15,806	16,773	-6%	10,894	11,463	-5%
Reverse sale and repurchase agreement	25	25	0%	25	25	0%
	7,909,169	7,956,456	-1%	5,433,377	5,520,857	-2%
Allowance for impairment (note 5.4.5.)	(1,222,286)	(1,262,835)	-3%	(689,945)	(694,718)	-1%
TOTAL	6,686,883	6,693,621	0%	4,743,432	4,826,139	-2%
	=====	=====		=====	=====	

5.4.4. Other financial assets

in EUR thousand

	NLB Group			NLB d.d.		
	30.6.2016	31.12.2015	Change	30.6.2016	31.12.2015	Change
Receivables in the course of collection	18,036	15,416	17%	16,628	13,033	28%
Receivables from purchase agreements for equity securities	16,919	16,920	0%	16,919	16,920	0%
Debtors	15,946	20,415	-22%	246	1,213	-80%
Credit card receivables	11,430	11,739	-3%	8,672	8,346	4%
Fees and commissions	6,464	7,548	-14%	4,428	5,384	-18%
Prepayments	4,275	4,289	0%	-	-	-
Accrued income	1,354	326	315%	1,423	191	645%
Dividends	841	44	-	7,526	44	-
Other financial assets	13,240	19,902	-33%	7,566	8,936	-15%
	88,505	96,599	-8%	63,408	54,067	17%
Allowance for impairment (note 5.4.5.)	(23,466)	(27,078)	-13%	(4,943)	(5,123)	-4%
TOTAL	65,039	69,521	-6%	58,465	48,944	19%
	=====	=====		=====	=====	

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

	in EUR thousand					
	NLB Group					
	Banks		Customers		Other financial assets	
	2016	2015	2016	2015	2016	2015
Balance at 1 January	242	24,722	1,262,835	1,638,304	27,078	42,680
Exchange differences on opening balance	1	3,595	(1,113)	26,827	62	94
Impairment (note 4.9.)	62	2,577	23,141	34,138	848	2,509
Write offs	-	-	(68,039)	(85,630)	(4,791)	(6,477)
Repayment of write offs	35	-	5,538	2,600	263	9
Exchange differences	-	(2,582)	(9)	(15,231)	6	61
Other	-	-	(67)	(117)	-	(4)
Balance at 30 June	340	28,312	1,222,286	1,600,891	23,466	38,872
	=====	=====	=====	=====	=====	=====

	in EUR thousand					
	NLB d.d.					
	Banks		Customers		Other financial assets	
	2016	2015	2016	2015	2016	2015
Balance at 1 January	197	682	694,718	998,382	5,123	17,521
Impairment (note 4.9.)	-	200	16,150	43,724	441	690
Write offs	-	-	(22,355)	(189,946)	(865)	(6,208)
Repayment of write offs	-	-	1,494	746	245	9
Exchange differences	-	63	(62)	5,603	(1)	3
Balance at 30 June	197	945	689,945	858,509	4,943	12,015
	=====	=====	=====	=====	=====	=====

5.5. Held-to-maturity financial assets

	in EUR thousand		
	NLB Group and NLB d.d.		
	30.6.2016	31.12.2015	Change
Bonds	541,993	545,561	-1%
Treasury bills	-	19,974	-100%
	541,993	565,535	-4%
Allowance for impairment	(82)	-	-
TOTAL	541,911	565,535	-4%
	=====	=====	

5.6. Investment property

	in EUR thousand					
	NLB Group			NLB d.d.		
	30.6.2016	31.12.2015	Change	30.6.2016	31.12.2015	Change
Buildings	86,382	87,860	-2%	7,553	7,640	-1%
Land	5,647	5,653	0%	958	973	-2%
TOTAL	92,029	93,513	-2%	8,511	8,613	-1%
	=====	=====		=====	=====	

5.7. Other assets

in EUR thousand

	NLB Group			NLB d.d.		
	30.6.2016	31.12.2015	Change	30.6.2016	31.12.2015	Change
Assets, received as collateral	71,858	75,652	-5%	4,691	3,371	39%
Inventories	11,682	10,497	11%	431	390	11%
Deferred expenses	8,066	5,133	57%	5,064	3,392	49%
Prepayments	1,393	1,619	-14%	523	1,241	-58%
Claim for taxes and other dues	842	2,453	-66%	297	1,385	-79%
TOTAL	93,841	95,354	-2%	11,006	9,779	13%
	=====	=====		=====	=====	

5.8. Deferred tax

in EUR thousand

	NLB Group			NLB d.d.		
	30.6.2016	31.12.2015	Change	30.6.2016	31.12.2015	Change
Deferred income tax assets						
Valuation of financial instruments and capital investments	59,804	59,683	0%	59,742	59,534	0%
Impairment provisions	4,177	4,219	-1%	3,668	3,673	0%
Employee benefit provisions	2,292	2,385	-4%	2,156	2,246	-4%
Depreciation and valuation of non-financial assets	1,106	1,130	-2%	166	182	-9%
Tax losses	222,578	229,229	-3%	226,819	232,371	-2%
Reduction of deferred tax assets	(268,621)	(275,098)	-2%	(272,565)	(278,020)	-2%
Total deferred income tax assets	21,336	21,548	-1%	19,986	19,986	0%
Deferred income tax liabilities						
Valuation of financial instruments	11,957	11,249	6%	11,344	10,608	7%
Depreciation and valuation of non-financial assets	1,121	1,056	6%	232	239	-3%
Impairment provisions	286	129	122%	-	-	-
Other	27	27	0%	-	-	-
Total deferred income tax liabilities	13,391	12,461	7%	11,576	10,847	7%
Net deferred income tax assets	8,435	9,400	-10%	8,410	9,139	-8%
Net deferred income tax liabilities	(490)	(313)	57%	-	-	-
	six months ended			six months ended		
	June 2016	June 2015		June 2016	June 2015	
Included in the income statement for the current year	(502)	1,704		(153)	387	
- valuation of financial instruments and capital investments	51	2,417		48	2,417	
- impairment provisions	(198)	(11,815)		(5)	(112)	
- employee benefit provisions	(92)	(107)		(90)	(105)	
- depreciation and valuation of non-financial assets	(89)	(15)		(9)	(72)	
- tax losses	(6,651)	17,648		(5,552)	100	
- dividends	-	(7)		-	(7)	
- adjustment of deferred income tax assets	6,477	(6,417)		5,455	(1,834)	
Included in other comprehensive income for the current year	(636)	2,945		(576)	2,866	
- valuation of available-for-sale financial assets	(664)	3,023		(604)	2,944	
- cash flow hedges	28	(78)		28	(78)	

5.9. Financial liabilities measured at amortised cost

Analysis by type of financial liabilities, measured at amortised cost

	NLB Group			NLB d.d.		
	30.6.2016	31.12.2015	Change	30.6.2016	31.12.2015	Change
	in EUR thousand					
Deposits from banks and central banks	49,647	57,982	-14%	82,800	96,736	-14%
- Deposits on demand	44,480	55,599	-20%	82,131	95,962	-14%
- Other deposits	5,167	2,383	117%	669	774	-14%
Borrowings from banks and central banks	418,437	571,029	-27%	365,109	519,926	-30%
Due to customers	9,065,552	9,020,666	0%	6,416,186	6,293,339	2%
- Deposits on demand	5,855,140	5,544,323	6%	4,407,444	4,092,767	8%
- Other deposits	3,210,412	3,476,343	-8%	2,008,742	2,200,572	-9%
Borrowings from other customers	86,264	100,267	-14%	5,475	16,168	-66%
Debt securities in issue	307,240	304,962	1%	307,240	304,962	1%
Subordinated liabilities	27,341	27,340	0%	-	-	-
Other financial liabilities	91,940	75,307	22%	57,658	47,346	22%
TOTAL	10,046,421	10,157,553	-1%	7,234,468	7,278,477	-1%
	=====	=====		=====	=====	

5.9.1. Debt securities in issue

	NLB Group and NLB d.d.		
	30.6.2016	31.12.2015	% change
	in EUR thousand		
Carrying amount of issued securities			
- traded on active markets	307,240	304,962	1%
Bonds (in %)			
- fixed rated	100.00	100.00	
	100.00	100.00	
	=====	=====	

5.9.2. Subordinated liabilities

	Currency	Due date	Interest rate	NLB Group				
				30.6.2016	31.12.2015	30.6.2016	31.12.2015	Change
				Carrying amount	Nominal value	Carrying amount	Nominal value	
Subordinated loans								
	EUR	30.6.2018	6 months EURIBOR + 6.3% p.a.	12,224	12,000	12,219	12,000	0%
	EUR	30.6.2020	6 months EURIBOR + 7.7% p.a.	5,162	5,000	5,176	5,000	0%
	EUR	26.6.2025	6 months EURIBOR + 7.5% p.a.	9,955	10,000	9,945	10,000	0%
TOTAL				27,341	27,000	27,340	27,000	0%
				=====	=====	=====	=====	

5.9.3. Other financial liabilities

	NLB Group			NLB d.d.		
	30.6.2016	31.12.2015	Change	30.6.2016	31.12.2015	Change
	in EUR thousand					
Items in the course of payment	35,699	13,835	158%	21,371	4,580	367%
Accrued expenses	17,687	12,695	39%	9,017	4,615	95%
Debit or credit card payables	12,512	15,502	-19%	11,777	14,231	-17%
Accrued salaries	10,291	8,274	24%	6,776	6,913	-2%
Suppliers	5,839	14,515	-60%	2,812	11,371	-75%
Fees and commissions due	103	1,341	-92%	63	1,305	-95%
Other financial liabilities	9,809	9,145	7%	5,842	4,331	35%
TOTAL	91,940	75,307	22%	57,658	47,346	22%
	=====	=====		=====	=====	

5.10. Provisions

	in EUR thousand					
	NLB Group			NLB d.d.		
	30.6.2016	31.12.2015	Change	30.6.2016	31.12.2015	Change
Provisions for financial guarantees	46,401	47,737	-3%	43,692	44,583	-2%
Provisions for non-financial guarantees	25,360	31,034	-18%	24,701	29,863	-17%
Employee benefit provisions	21,272	21,265	0%	16,822	16,559	2%
Provision for legal issues	14,983	13,465	11%	3,363	5,075	-34%
Provisions for other credit commitments	2,406	3,228	-25%	2,400	3,197	-25%
Restructuring provisions	2,160	3,477	-38%	2,141	3,429	-38%
Provisions for premiums from National Housing Savings Scheme	54	54	0%	54	54	0%
Other provisions	2,369	2,379	0%	2,367	2,377	0%
TOTAL	115,005	122,639	-6%	95,540	105,137	-9%
	=====	=====		=====	=====	

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

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

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

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

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

5.11. Income tax relating to components of other comprehensive income

	in EUR thousand					
	NLB Group					
	30.6.2016			30.6.2015		
	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Available-for-sale financial assets	3,996	(664)	3,332	(17,556)	3,023	(14,533)
Cash flow hedge	(165)	28	(137)	457	(78)	379
Share of associates and joint ventures	3,365	(623)	2,742	(1,905)	344	(1,561)
Actuarial gains/(losses) on defined benefit pension plans	-	-	-	(78)	-	(78)
TOTAL	7,196	(1,259)	5,937	(19,082)	3,289	(15,793)
	=====	=====	=====	=====	=====	=====

in EUR thousand

	NLB d.d.					
	30.6.2016			30.6.2015		
	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Available-for-sale financial assets	3,554	(604)	2,950	(17,321)	2,944	(14,377)
Cash flow hedge	(165)	28	(137)	457	(78)	379
TOTAL	3,389	(576)	2,813	(16,864)	2,866	(13,998)
	=====	=====	=====	=====	=====	=====

5.12. Other liabilities

in EUR thousand

	NLB Group			NLB d.d.		
	30.6.2016	31.12.2015	Change	30.6.2016	31.12.2015	Change
Taxes payable	3,798	4,982	-24%	2,899	3,817	-24%
Deferred income	3,777	7,579	-50%	910	1,693	-46%
Payments received in advance	1,788	1,978	-10%	16	166	-90%
TOTAL	9,363	14,539	-36%	3,825	5,676	-33%
	=====	=====		=====	=====	

5.13. Book value per share

The book value of a NLB d.d. share as at 30 June 2016 on a consolidated level was EUR 74.9 (31 December 2015: EUR 71.1) and on NLB d.d. it was EUR 65.8 (31 December 2015: EUR 62.1). It is calculated as the ratio of the book value of the equity and the number of shares. NLB Group and NLB d.d. do not have any other equity instruments issued or treasury shares.

5.14. Capital adequacy ratio

in EUR thousand

	NLB Group		NLB d.d.	
	30.6.2016	31.12.2015	30.6.2016	31.12.2015
Paid up capital instruments	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Retained earnings - from previous years	246,653	207,004	81,529	81,529
Profit or loss eligible - from current year	-	39,599	-	-
Accumulated other comprehensive income	(8,795)	(4,090)	2,250	2,815
Other reserves	13,522	13,522	13,522	13,522
Minority interest	-	-	-	-
Prudential filters: Cash flow hedge reserve	1,428	897	1,428	897
Prudential filters: Value adjustments due to the requirements for prudent valuation	(2,076)	(3,134)	(1,634)	(2,649)
(-) Goodwill	(3,529)	(3,529)	-	-
(-) Other intangible assets	(32,285)	(35,745)	(25,818)	(29,627)
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	(3,727)	(2,755)	(3,962)	(2,886)
(-) CET1 capital elements or deductions - other	(2,808)	-	(2,265)	-
COMMON EQUITY TIER 1 CAPITAL (CET1)	1,279,761	1,283,147	1,136,428	1,134,979
Additional Tier 1 capital	-	-	-	-
TIER 1 CAPITAL	1,279,761	1,283,147	1,136,428	1,134,979
Tier 2 capital	-	-	-	-
TOTAL CAPITAL (OWN FUNDS)	1,279,761	1,283,147	1,136,428	1,134,979
RWA for credit risk	6,723,813	6,849,633	4,289,373	4,353,619
RWA for market risks	112,988	137,351	46,363	68,988
RWA for credit valuation adjustment risk	688	9,313	688	9,313
RWA for operational risk	892,753	930,688	561,091	596,127
TOTAL RISK EXPOSURE AMOUNT (RWA)	7,730,242	7,926,985	4,897,515	5,028,047
Common Equity Tier 1 Ratio	16.6%	16.2%	23.2%	22.6%
Tier 1 Ratio	16.6%	16.2%	23.2%	22.6%
Total Capital Ratio	16.6%	16.2%	23.2%	22.6%

5.15. Off-balance sheet liabilities

	in EUR thousand					
	NLB Group			NLB d.d.		
	30.6.2016	31.12.2015	Change	30.6.2016	31.12.2015	Change
Commitments to extend credit	1,218,081	1,101,241	11%	1,031,431	923,755	12%
Performance guarantees	445,667	432,784	3%	370,289	372,889	-1%
Financial guarantees	351,599	357,786	-2%	217,620	213,817	2%
Letters of credit	20,596	19,402	6%	4,226	3,567	18%
Other	7,574	7,289	4%	117	117	0%
	<u>2,043,517</u>	<u>1,918,502</u>	7%	<u>1,623,683</u>	<u>1,514,145</u>	7%
Provisions (note 5.10.)	(74,167)	(81,999)	-10%	(70,793)	(77,643)	-9%
TOTAL	<u>1,969,350</u>	<u>1,836,503</u>	7%	<u>1,552,890</u>	<u>1,436,502</u>	8%

5.16. Fair value hierarchy of financial and non-financial assets and liabilities

Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. NLB Group uses various valuation techniques to determine fair value. IFRS 13 specifies a fair value hierarchy with respect to the inputs and assumptions used to measure financial and non-financial assets and liabilities at fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the assumptions of NLB Group and NLB d.d.. This hierarchy gives the highest priority to observable market data when available, and the lowest priority to unobservable market data. NLB Group considers relevant and observable market prices in its valuations where possible. The fair value hierarchy comprises the following levels:

- Level 1 – Quoted prices (unadjusted) on active markets. This level includes listed equities, debt instruments, derivatives, units of investment funds and other unadjusted market prices of assets and liabilities. When an asset or liability may be exchanged on multiple active markets, the principal market for the asset or liability must be determined. In the absence of a principal market, the most advantageous market for the asset or liability must be determined.
- Level 2 – A valuation technique where inputs are observable, either directly (i.e. prices) or indirectly (i.e. derived from prices). Level 2 includes quoted prices for similar assets or liabilities on active markets and quoted prices for identical or similar assets and liabilities on markets that are not active. The sources of input parameters for financial instruments, such as yield curves, credit spreads, foreign exchange rates, and the volatility of interest rates and foreign exchange rates, are Reuters and Bloomberg.
- Level 3 – A valuation technique where inputs are not based on observable market data. Unobservable inputs are used to the extent that relevant observable inputs are not available. Unobservable inputs must reflect the assumptions that market participants would use when pricing an asset or liability. This level includes non-tradable shares and bonds and derivatives associated with these investments and other assets and liabilities, for which fair value cannot be determined with observable market inputs.

Where possible, fair value is determined as an observable market price on an active market for an identical asset or liability. An active market is a market on which transactions for an asset or liability are executed with sufficient frequency and volume to provide pricing information on an ongoing basis. Assets and liabilities measured at fair value on active markets are determined as the market price of a unit (e.g. a share) at the measurement date, multiplied by the quantity of units owned by NLB Group. The fair value of assets and liabilities whose market is not active is determined using valuation techniques. Valuation techniques bear a different intensity level of estimates and assumptions, depending on the availability of observable market inputs associated with the asset or liability that is the subject of valuation. Unobservable inputs shall reflect the estimates and assumptions that other market participants would use when pricing the asset or liability.

For non-financial assets measured at fair value and not classified on Level 1, fair value is determined based on valuation reports provided by certified valuers. Valuations are prepared in accordance with the International Valuation Standards (IVS).

a) Financial and non-financial assets and liabilities, measured at fair value in the financial statements

in EUR thousand

30.6.2016

	NLB Group				NLB d.d.			
	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	102,775	160,252	332	263,359	102,775	160,762	332	263,869
<i>Debt instruments</i>	102,775	137,107	-	239,882	102,775	137,107	-	239,882
<i>Derivatives</i>	-	23,145	332	23,477	-	23,655	332	23,987
Derivatives - hedge accounting	-	1,072	-	1,072	-	1,072	-	1,072
Financial assets designated at fair value through profit or loss	6,197	-	-	6,197	2,595	-	-	2,595
<i>Debt instruments</i>	756	-	-	756	-	-	-	-
<i>Equity instruments</i>	5,441	-	-	5,441	2,595	-	-	2,595
Financial assets available-for-sale	1,396,207	345,707	5,364	1,747,278	1,101,810	200,846	2,309	1,304,965
<i>Debt instruments</i>	1,376,577	299,388	-	1,675,965	1,082,356	156,250	-	1,238,606
<i>Equity instruments</i>	19,630	46,319	5,364	71,313	19,454	44,596	2,309	66,359
Financial liabilities								
Financial instruments held for trading	-	23,320	-	23,320	-	23,304	-	23,304
<i>Derivatives</i>	-	23,320	-	23,320	-	23,304	-	23,304
Derivatives - hedge accounting	-	36,614	-	36,614	-	36,614	-	36,614
Financial liabilities designated at fair value through profit or loss	-	2,594	-	2,594	-	2,594	-	2,594
Non-financial assets								
Investment properties	-	92,029	-	92,029	-	8,511	-	8,511
Non-current assets classified as held for sale	-	5,203	-	5,203	-	2,330	-	2,330

in EUR thousand

31.12.2015

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

b) Significant transfers of financial instruments between levels of valuation

NLB Group's policy of transfers of financial instruments between levels of valuation is illustrated in the table below.

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

For the six months ended 30 June 2016 and 30 June 2015, NLB Group and NLB d.d. had no significant transfers of financial instruments between levels of valuation.

c) Financial and non-financial assets and liabilities at Level 2 regarding the fair value hierarchy

Financial instruments on Level 2 of the fair value hierarchy at NLB Group and NLB d.d. include:

- debt securities: bonds not quoted on active markets and valued by valuation model;
- equities;
- derivatives: derivatives except forward derivatives and options on equity instruments that are not quoted on active markets;
- the National Resolution Fund and
- structured deposits.

When valuing bonds classified on Level 2, NLB Group primarily uses the income approach based on an estimation of future cash flows discounted to the present value. The input parameters used in the income approach are the risk-free yield curve and the spread over the yield curve (credit, liquidity, country).

Fair values for derivatives are determined using a discounted cash flow model based on the risk-free yield curve. Fair values for options are determined using valuation models for options (Garman and Kohlhagen model, binomial model and Black-Scholes model).

At least three valuation methods are used for the valuation of investment property. The majority of investment property is valued using the income approach, where the present value of future expected returns is assessed. When valuing an investment property, average rents at similar locations and capitalisation ratios, such as the risk-free yield, risk premium, liquidity premium, risk premium to account for the management of the investment and risk premium to account for capital preservation are used. Rents at similar locations are generated from various sources, like data from lessors and lessees, web databases and own databases. NLB Group has observable data for all investment property at its disposal. If observable data for similar locations are not available, NLB Group uses data from wider locations and appropriately adjusts such data.

Non-current assets held for sale represent property, plant and equipment that are measured at fair value less costs to sell, because this is lower than the previous carrying amount of those assets.

d) Financial and non-financial assets and liabilities at Level 3 of the fair value hierarchy

Financial instruments on Level 3 of the fair value hierarchy in NLB Group and NLB d.d. include:

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

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

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

Movements of financial assets and liabilities on Level 3

in EUR thousand

NLB Group	Financial assets held for trading		Available-for-sale financial assets	Total financial assets
	Debt instruments	Derivatives	Equity instruments	
Balance at 1 January 2016	993	114	9,960	11,067
Effects of translation of foreign operations to presentation currency	-	-	(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 at 30 June 2016	-	332	5,364	5,696
	=====	=====	=====	=====

in EUR thousand

NLB Group	Financial assets held for trading		Available-for-sale financial assets Equity instruments	Total financial assets	Financial liabilities held for trading Derivatives
	Debt instruments	Derivatives			
Balance at 1 January 2015	892	120	6,742	7,754	4,171
Effects of translation of foreign operations to presentation currency	-	-	62	62	-
Valuation:					
- through profit or loss	-	(68)	-	(68)	43
- recognised in other comprehensive income	-	-	3	3	-
Exchange differences	83	-	-	83	-
Increases	-	-	4,402	4,402	-
Decreases	-	-	(22)	(22)	-
Transfers into level 3	-	-	107	107	-
Balance at 30 June 2015	975	52	11,294	12,321	4,214

in EUR thousand

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

in EUR thousand

NLB d.d.	Financial assets held for trading		Available-for-sale financial assets Equity instruments	Total financial assets	Financial liabilities held for trading Derivatives
	Debt instruments	Derivatives			
Balance at 1 January 2015	892	120	5,925	6,937	4,171
Valuation:					
- through profit or loss	-	(68)	-	(68)	43
- recognised in other comprehensive income	-	-	1	1	-
Exchange differences	83	-	-	83	-
Decreases	-	-	(22)	(22)	-
Balance at 30 June 2015	975	52	5,904	6,931	4,214

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

in EUR thousand

	NLB Group				NLB d.d.			
	30.6.2016		31.12.2015		30.6.2016		31.12.2015	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Loans and advances								
- debt securities	402,926	399,117	394,579	397,079	402,926	399,117	394,579	397,079
- loans and advances to banks	479,882	480,369	431,775	431,736	408,416	418,202	345,207	354,369
- loans and advances to customers	6,686,883	6,743,326	6,693,621	6,685,798	4,743,432	4,767,849	4,826,139	4,838,561
- other financial assets	65,039	65,039	69,521	69,521	58,465	58,465	48,944	48,944
Held-to-maturity investments	541,911	607,562	565,535	624,977	541,911	607,562	565,535	624,977
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	49,647	49,727	57,982	58,008	82,800	82,801	96,736	96,736
- borrowings from banks and central banks	418,437	394,077	571,029	566,144	365,109	347,425	519,926	513,719
- due to customers	9,065,552	9,079,635	9,020,666	9,036,023	6,416,186	6,419,574	6,293,339	6,299,181
- borrowings from other customers	86,264	86,303	100,267	101,197	5,475	4,894	16,168	15,783
- debt securities in issue	307,240	332,954	304,962	308,989	307,240	332,954	304,962	308,989
- subordinated liabilities	27,341	28,144	27,340	27,585	-	-	-	-
- other financial liabilities	91,940	91,940	75,307	75,307	57,658	57,658	47,346	47,346

Loans and advances to banks

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

Loans and advances to customers

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

Deposits and borrowings

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

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

Held-to-maturity financial assets and issued debt securities

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

Loan commitments

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

Other financial assets and liabilities

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

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

in EUR thousand

30.6.2016	NLB Group				NLB d.d.			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Loans and advances								
- debt securities	-	399,117	-	399,117	-	399,117	-	399,117
- loans and advances to banks	-	480,369	-	480,369	-	418,202	-	418,202
- loans and advances to customers	-	6,743,326	-	6,743,326	-	4,767,849	-	4,767,849
- other financial assets	-	65,039	-	65,039	-	58,465	-	58,465
Held-to-maturity investments	607,562	-	-	607,562	607,562	-	-	607,562
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	49,727	-	49,727	-	82,801	-	82,801
- borrowings from banks and central banks	-	394,077	-	394,077	-	347,425	-	347,425
- due to customers	-	9,079,635	-	9,079,635	-	6,419,574	-	6,419,574
- borrowings from other customers	-	86,303	-	86,303	-	4,894	-	4,894
- debt securities in issue	332,954	-	-	332,954	332,954	-	-	332,954
- subordinated liabilities	-	28,144	-	28,144	-	-	-	-
- other financial liabilities	-	91,940	-	91,940	-	57,658	-	57,658

in EUR thousand

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

6. Events after the end of the reporting period

In the scope of the project that started in October 2015, on 18 July 2016 NLB Group concluded an agreement on the sale of a part of a package of receivables due from Slovenian retail clients with the best bidder, in the total gross claim amount of approximately EUR 104 million. This is the second package sale, as the Bank concluded the agreement on the sale of the receivables due from Slovene companies in total gross claim amount of EUR 396 million in June 2016. With this phase NLB Group concludes the so-called package sale of a major portion of the receivables due portfolio ("Project Pine"), whereby it will greatly contribute to reducing the scope of non-performing loans.

7. Related-party transactions

The volumes of related party transactions and the outstanding balances:

in EUR thousand

NLB Group and NLB d.d.

	Management Board and other Key management personnel		Family members of the Management Board and other key management personnel		Companies in which members of the Management Board, key management personnel or their family members have control, joint control or a significant influence		Supervisory Board	
	30.6.2016	31.12.2015	30.6.2016	31.12.2015	30.6.2016	31.12.2015	30.6.2016	31.12.2015
Loans and deposits issued	2,376	1,953	391	468	448	375	1	2
Loans and deposits received	2,002	2,158	722	729	454	106	132	223
Other financial assets	-	-	-	-	-	-	-	-
Other financial liabilities	-	2	-	-	-	1	-	-
Guarantees issued and commitments to extend credit	231	223	87	83	99	14	6	17
	six months ended June 2016		six months ended June 2016		six months ended June 2016		six months ended June 2016	
		June 2015		June 2015		June 2015		June 2015
Interest income	22	24	5	5	5	6	-	-
Interest expenses	(7)	(9)	(4)	(5)	-	-	-	-
Fee income	7	6	3	3	4	3	-	-
Other income	1	-	-	-	-	-	-	-

	NLB Group		in EUR thousand NLB d.d.	
	Ultimate parent		Ultimate parent	
	30.6.2016	31.12.2015	30.6.2016	31.12.2015
Loans and deposits issued	200,999	227,341	194,931	220,646
Loans and deposits received	70,002	110,001	70,002	110,001
Investments in securities	926,949	891,576	862,543	845,039
Other financial assets	461	168	1	16
Other financial liabilities	4	9	4	9
Guarantees issued and commitments to extend credit	802	824	802	824
	six months ended June 2016		six months ended June 2016	
		June 2015		June 2015
Interest income	17,427	18,550	16,946	18,356
Interest expenses	(2)	(38)	(2)	(38)
Fee income	94	57	94	57
Fee expenses	(19)	(26)	(19)	(26)
Other income	2	3	2	3
Other expenses	-	(1)	-	(1)

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

in EUR thousand

NLB Group

	Amount of significant transactions concluded during the period		Number of significant transactions concluded during the period	
	1.1.- 30.6.2016	1.1.- 31.12.2015	1.1.- 30.6.2016	1.1.- 31.12.2015
Loans	-	200,000	-	1
Borrowings, deposits and business accounts	-	48,669	-	1
Commitments to extend credit	140,000	-	2	-
	Balance of all significant transactions at end of the period		Number of significant transactions at end of the period	
	30.6.2016	31.12.2015	30.6.2016	31.12.2015
Loans	612,302	617,185	5	5
Debt securities classified as loans and advances	402,926	394,579	1	1
Borrowings, deposits and business accounts	135,033	134,798	3	3
Commitments to extend credit	140,000	-	2	-
	1.1.- 30.6.2016	1.1.- 30.6.2015		
Interest income from loans	1,637	3,638		
Effects from net interest income and net valuation from debt securities classified as loans and receivables	11,131	10,808		
Interest income from debt securities	-	431		
Interest expense from borrowings, deposits and business accounts	(151)	(291)		
Interest income from commitments to extend credit	730	125		

in EUR thousand

	NLB Group			
	Associates		Joint ventures	
	30.6.2016	31.12.2015	30.6.2016	31.12.2015
Loans and deposits issued	1,488	1,625	68,900	93,823
Loans and deposits received	5,047	1,179	8,423	6,036
Debt securities in issue	580	569	-	-
Other financial assets	3	32	526	208
Other financial liabilities	241	1,025	101	203
Guarantees issued and commitments to extend credit	41	43	28	29
	six months ended		six months ended	
	June 2016	June 2015	June 2016	June 2015
Interest and dividend income	25	38	582	1,908
Interest expenses	(11)	(11)	(26)	(165)
Fee income	57	50	1,688	1,209
Fee expenses	(4,639)	(4,289)	(971)	(648)
Other income	118	247	150	150
Other expenses	(398)	(452)	(89)	-

in EUR thousand

	NLB d.d.					
	Subsidiaries		Associates		Joint ventures	
	30.6.2016	31.12.2015	30.6.2016	31.12.2015	30.6.2016	31.12.2015
Loans and deposits issued	361,870	385,184	1,488	1,625	68,880	93,799
Loans and deposits received	59,228	59,407	5,047	1,179	7,075	3,438
Debt securities in issue	-	-	580	569	-	-
Derivatives						
Fair value	490	469	-	-	-	-
Contractual amount	6,130	3,836	-	-	-	-
Other financial assets	263	5,054	-	28	526	207
Other financial liabilities	261	357	80	948	22	176
Guarantees issued and commitments to extend credit	35,460	38,660	41	43	27	28
Received loan commitments and financial guarantees	-	750	-	-	-	-
	six months ended		six months ended		six months ended	
	June	June	June	June	June	June
	2016	2015	2016	2015	2016	2015
Interest and dividend income	3,950	5,959	25	38	581	1,907
Interest expenses	(12)	(11)	(11)	(11)	(7)	(107)
Fee income	2,004	2,632	57	50	1,564	1,185
Fee expenses	(28)	(47)	(4,195)	(4,289)	(694)	(648)
Other income	190	217	118	247	130	150
Other expenses	(1,399)	(1,427)	(390)	(452)	(89)	-

Key management compensation

in EUR thousand

NLB Group and NLB d.d.	Management Board		Other key management personnel	
	six months ended		six months ended	
	June	June	June	June
	2016	2015	2016	2015
Short-term benefits	258	292	2,520	2,103
Cost refunds	2	3	57	54
Long-term bonuses	2	1	39	12
Bonuses	-	96	-	515
TOTAL	262	392	2,616	2,684
	=====	=====	=====	=====

Short-term benefits include:

- monetary benefits (gross salaries, supplementary insurance, holiday bonus, other bonus); and
- non-monetary benefits (company cars, health care, apartments, etc.).

The reimbursement of costs comprises food allowances and travel expenses.

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

8. Analysis by segment for NLB Group

a) Segments

The six months ended 30 June 2016

in EUR thousand

NLB Group	Corporate banking in Slovenia	Retail banking in Slovenia	Financial markets and investment banking in Slovenia	Foreign strategic markets	Non-strategic markets and activities	Other activities	Unallocated	Total
Total net income	40,078	70,708	24,302	86,226	16,277	7,414	-	245,005
<i>Net income from external customers</i>	43,583	64,733	23,828	86,744	16,581	7,586	-	243,055
<i>Intersegment net income</i>	(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
<i>Net interest income from external customers</i>	27,615	31,315	21,799	67,181	8,881	(107)	-	156,684
<i>Intersegment net interest income</i>	(3,505)	5,906	474	(1,250)	(1,453)	(172)	-	(0)
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	17,185	18,452	18,216	40,598	4,233	1,617	-	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	17,325	13,594	18,210	34,334	(3,274)	1,575	-	81,764
<i>Owners of the parent</i>	17,325	13,594	18,210	31,702	(3,274)	1,575	-	79,132
<i>Non-controlling interests</i>	-	-	-	2,632	-	-	-	2,632
Income tax	-	-	-	-	-	-	(9,641)	(9,641)
Profit/(loss) for the period								69,491
30.6.2016								
Reportable segment assets	2,165,418	2,005,687	3,433,302	3,336,418	666,515	112,689	-	11,720,028
Investments in associates and joint ventures	-	41,304	-	-	-	-	-	41,304
Reportable segment liabilities	1,200,900	5,090,480	923,500	2,879,446	85,680	56,754	-	10,236,760

The six months ended 30 June 2015

in EUR thousand

NLB Group	Corporate banking in Slovenia	Retail banking in Slovenia	Financial markets and investment banking in Slovenia	Foreign strategic markets	Non-strategic markets and activities	Other activities	Unallocated	Total
Total net income	44,538	74,024	43,861	79,769	1,546	1,966	-	245,703
<i>Net income from external customers</i>	51,096	66,695	37,370	81,466	4,885	2,091	-	243,602
<i>Intersegment net income</i>	(6,558)	7,330	6,491	(1,697)	(3,339)	(125)	-	2,101
Net interest income	29,904	37,104	33,220	59,658	10,790	(645)	-	170,031
<i>Net interest income from external customers</i>	36,462	27,265	29,505	61,808	15,512	(520)	-	170,031
<i>Intersegment net interest income</i>	(6,558)	9,840	3,715	(2,150)	(4,722)	(125)	-	-
Administrative expenses	(19,499)	(47,465)	(5,487)	(40,733)	(12,743)	(4,986)	-	(130,913)
Depreciation and amortisation	(2,520)	(6,340)	(639)	(4,033)	(1,658)	(976)	-	(16,166)
Reportable segment profit/(loss) before impairment and provision charge	22,519	20,219	37,735	35,003	(12,855)	(3,997)	-	98,624
Gains less losses from capital investment in subsidiaries, associates and joint ventures	-	2,249	-	-	-	-	-	2,249
Impairment and provisions charge	(13,305)	(5,026)	32	(12,392)	(7,915)	(2,411)	-	(41,017)
Profit/(loss) before income tax	9,214	17,442	37,766	22,611	(20,770)	(6,408)	-	59,856
<i>Owners of the parent</i>	9,214	17,442	37,766	20,856	(20,770)	(6,408)	-	58,101
<i>Non-controlling interests</i>	-	-	-	1,755	-	-	-	1,755
Income tax	-	-	-	-	-	-	(4,739)	(4,739)
Profit/(loss) for the period								53,362
31.12.2015								
Reportable segment assets	2,160,440	2,015,459	3,350,804	3,389,032	752,137	114,047	-	11,781,919
Investments in associates and joint ventures	-	39,696	-	-	-	-	-	39,696
Reportable segment liabilities	1,193,660	4,906,699	1,139,738	2,942,463	114,111	74,561	-	10,371,232
Additions to non-current assets	4,673	12,127	762	10,129	8,747	4,104	-	40,541

b) Geographical information

in EUR thousand

NLB Group	Revenues		Net income		Non-current assets		Total assets	
	six months ended		six months ended					
	June 2016	June 2015	June 2016	June 2015	30.6.2016	31.12.2015	30.6.2016	31.12.2015
Slovenia	174,609	210,592	156,673	173,550	234,110	240,592	8,309,058	8,289,804
South East Europe	113,536	113,587	85,413	82,870	134,539	138,513	3,405,538	3,469,279
Macedonia	40,853	38,825	30,276	27,236	33,330	33,919	1,069,600	1,117,708
Serbia	10,326	10,459	8,936	8,883	24,486	24,778	283,641	280,274
Montenegro	13,857	15,531	7,345	10,079	32,810	35,580	474,393	495,044
Croatia	257	399	557	1,184	3,630	3,623	31,905	33,032
Bosnia and Herzegovina	32,041	32,613	24,722	22,957	26,864	27,031	1,074,158	1,077,299
Bulgaria	-	-	45	-	-	1	51	333
Kosovo	16,202	15,760	13,532	12,531	13,419	13,581	471,790	465,589
Western Europe	895	695	971	(12,818)	276	296	43,557	58,961
Germany	2	1	178	200	229	240	3,153	3,273
Switzerland	893	694	793	(13,018)	47	56	40,404	55,688
Czech Republic	-	-	(2)	-	873	865	3,179	3,571
TOTAL	289,040	324,874	243,055	243,602	369,798	380,266	11,761,332	11,821,615
	=====	=====	=====	=====	=====	=====	=====	=====

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

9. Subsidiaries

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

	Nature of Business	Country of Incorporation	NLB Group's shareholding %	NLB d.d.'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., Belgrade	Banking	Republic of Serbia	99.997	99.997
NLB Srbija d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	100	100
NLB Nov penziskifond 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
NLB Leasing Sofija E.o.o.d., Sofia	Finance	Republic of Bulgaria	100	-
Optima Leasing d.o.o., Zagreb	Finance	Republic of Croatia	100	-
NLB Leasing Podgorica d.o.o., Podgorica	Finance	Republic of Montenegro	100	100
NLB Leasing d.o.o., Belgrade	Finance	Republic of Serbia	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	100	100
NLB Lizing d.o.o.e.l., Skopje	Finance	Republic of Macedonia	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	100	12.71
PRO-REM d.o.o., Ljubljana	Real estate	Republic of Slovenia	100	100
OL Nekretnine d.o.o., Zagreb	Real estate	Republic of Croatia	100	-
BH-RE d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	100	-
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	100	100
REAM d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
SR-RE d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
PRO-Avenija d.o.o., Ljubljana	Real estate	Republic of Slovenia	100	100
NLB Propria d.o.o., Ljubljana	Real estate	Republic of Slovenia	100	100
FIN-DO d.o.o., Domžale	Real estate	Republic of Slovenia	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	100	100
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	100	100
NLB InterFinanz AG, Zürich	Finance	Switzerland	100	100
NLB InterFinanz Praha s.r.o., Prague	Finance	Czech Republic	100	-
NLB InterFinanz d.o.o., Belgrade	Finance	Republic of Serbia	100	-
LHB AG, Frankfurt	Finance	Republic of Germany	100	100
NLB Factoring a.s. - "v likvidaci", Ostrava	Finance	Czech Republic	100	100

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

	Nature of Business	Country of Incorporation	NLB Group's shareholding %	NLB d.d.'s shareholding %
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., Belgrade	Banking	Republic of Serbia	99.997	99.997
NLB Srbija d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	100	100
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	100	51
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	100	100
Non-core members				
NLB Leasing d.o.o., Ljubljana	Finance	Republic of Slovenia	100	100
NLB Leasing Sofija E.o.o.d., Sofia	Finance	Republic of Bulgaria	100	-
Optima Leasing d.o.o., Zagreb	Finance	Republic of Croatia	100	-
NLB Leasing Podgorica d.o.o., Podgorica	Finance	Republic of Montenegro	100	100
NLB Leasing d.o.o., Belgrade	Finance	Republic of Serbia	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	100	100
NLB Lizing d.o.o.e.l., Skopje	Finance	Republic of Macedonia	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	100	12.71
PRO-REM d.o.o., Ljubljana	Real estate	Republic of Slovenia	100	100
OL Nekretnine d.o.o., Zagreb	Real estate	Republic of Croatia	100	-
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	100	100
REAM d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
SR-RE d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
PRO-Avenija d.o.o., Ljubljana	Real estate	Republic of Slovenia	100	100
NLB Propria d.o.o., Ljubljana	Real estate	Republic of Slovenia	100	100
FIN-DO d.o.o., Domžale	Real estate	Republic of Slovenia	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	100	100
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	100	100
NLB InterFinanz AG, Zürich	Finance	Switzerland	100	100
NLB InterFinanz Praha s.r.o., Prague	Finance	Czech Republic	100	-
NLB InterFinanz d.o.o., Belgrade	Finance	Republic of Serbia	100	-
LHB AG, Frankfurt	Finance	Republic of Germany	100	100
NLB Factoring a.s. - "v likvidaci", Ostrava	Finance	Czech Republic	100	100

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