



# NLB Group Presentation

H1'16 Results



# Disclaimer

**THIS PRESENTATION AND ITS CONTENTS ARE CONFIDENTIAL AND ARE NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION, IN WHOLE OR IN PART, DIRECTLY OR INDIRECTLY, IN OR INTO OR FROM THE UNITED STATES OF AMERICA, CANADA, AUSTRALIA OR JAPAN OR ANY JURISDICTION WHERE SUCH DISTRIBUTION IS UNLAWFUL.**

This presentation includes forward-looking statements within the meaning of the safe-harbour provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements typically use terms such as "believes", "projects", "anticipates", "expects", "intends", "plans", "may", "will", "would", "could" or "should" or similar terminology. Statements in this presentation that are not historical facts are forward-looking statements, including statements relating to NLB's intentions, beliefs or current expectations and projections about NLB's future results of operations, financial condition, liquidity, performance, prospects, anticipated growth, provisions, impairments, strategies and opportunities, as well as potential developments in the legal and regulatory environment to which NLB is subject and developments in the markets in which NLB operates, including changes in interest rates, inflation, foreign exchange rates, demographics, and any assumptions underlying any such statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. These forward-looking statements are based on NLB's beliefs, assumptions and current expectations regarding future events and trends that affect NLB's future performance, taking into account all information currently available to NLB, and are not guarantees of future performance. In particular, this presentation includes forward-looking statements relating but not limited to NLB's potential exposures to various types of operational, credit and market risk, such as counterparty risk, interest rate risk, foreign exchange rate risk and commodity and equity price risk. Such statements are subject to risks and uncertainties. These forward-looking statements are not historical facts and represent only NLB's beliefs regarding future events, many of which by their nature are subject to a number of risks and uncertainties, many of which are beyond NLB's control, that could cause NLB's actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward-looking statements. NLB expressly disclaims any obligation or undertaking to release any updates or revisions to these forward-looking statements to reflect any change in their respective expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based after the date of this presentation or to update or to keep current any other information contained in this presentation. Accordingly, undue reliance should not be placed on the forward-looking statements, which speak only as of the date of this presentation. Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance.

The presentation has not been independently verified and no representation or warranty, express or implied, is made or given by or on behalf of NLB or any of their respective parent or subsidiary undertakings or associated companies, or any of such person's respective directors, officers, employees, agents, affiliates or advisers, as to, and no reliance should be placed for any purpose whatsoever on the truth, fullness, accuracy, completeness or fairness of the information or opinions contained in this presentation or any other information relating to NLB, its subsidiary undertakings or, associated companies or affiliates, whether written, oral or in a visual or electronic form, and howsoever transmitted or made available and no responsibility or liability whatsoever is assumed by any such persons for any such information or opinions or for any errors or omissions or for any loss howsoever arising from any use of this presentation or its contents or otherwise arising in connection therewith. The information in this presentation is in draft form and has not been verified. All information presented or contained in this presentation is subject to verification, correction, completion and change without notice. This presentation does not purport to contain all information that may be required to evaluate NLB. In giving this presentation, none of NLB or any of their respective parent or subsidiary undertakings or associated companies, or any of such person's respective directors, officers, employees, agents, affiliates or advisers, or any other party undertakes or is under any obligation to amend, correct or update this presentation or to provide the recipient with access to any additional information that may arise in connection with it. None of the foregoing persons accepts any responsibility whatsoever for the contents of this presentation, and no representation or warranty, express or implied, is made by any such person in relation to the contents of this presentation. To the fullest extent permissible by law, such persons disclaim all and any responsibility or liability, whether arising in tort, contract or otherwise, which they might otherwise have in respect of this presentation. Recipients should not construe the contents of this presentation as legal, tax, regulatory, financial or accounting advice and are urged to consult with their own advisers in relation to such matters.

Certain information in this document is based on public data obtained from sources believed by NLB to be reliable and in good faith, but no representations, guarantees or warranties are made by NLB with regard to accuracy, completeness or suitability of such data. NLB has not performed any independent review or due diligence of publicly available information regarding an unaffiliated reference asset or index. The opinions and estimates contained herein reflect the current judgment of the author(s) on the date of this document and are subject to change without notice. NLB does not have an obligation to update, modify or amend this document or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

This presentation has not been approved by any regulatory authority. This presentation does not, and is not intended to, constitute or form part of, and should not be construed as, any offer, invitation, solicitation or recommendation to purchase, sell, subscribe for or otherwise acquire, any securities of NLB in any jurisdiction and neither the issue of the information nor anything contained herein shall form the basis of or be relied upon in connection with, or act as any inducement to enter into, any investment activity. This document should not be considered as a recommendation that any recipient of this document should purchase or sell any of the NLB financial instruments or groups of financial instruments or assets. This document does not include all necessary information, which should be considered by the recipient of this document when making a decision on purchasing any of the NLB financial instruments or assets. Each recipient of this document contemplating purchasing any of the NLB financial instruments or assets should make its own independent investigation of the financial condition and affairs, and its own appraisal of the NLB creditworthiness. We suggest that any corporate body or natural person interested in investing into NLB's financial instruments or assets should consult well-qualified professional financial experts and thus obtain additional information.

This document is for the use of the addressees only and may not be reproduced, redistributed or passed on to any other person or published, in whole or in part, for any purpose, without the prior, written consent of NLB. The manner of distributing this document may be restricted by law or regulation in certain countries, including (but not limited to) the United States. Persons into whose possession this document may come are required to inform themselves about and to observe such restrictions. By accepting this document, a recipient hereof agrees to be bound by the foregoing limitations.

NLB d.d. is regulated by The Bank of Slovenia i.e. "Banka Slovenije, Slovenska 35, 1505 Ljubljana, Slovenia" and by The Securities Market Agency i.e. "Agencija za trg vrednostnih papirjev, Poljanski nasip 6, 1000 Ljubljana, Slovenia.

# Overview of NLB Group

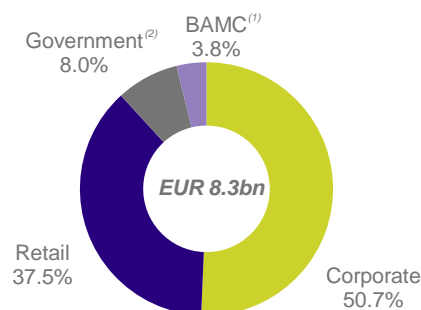
## Key highlights

- ✓ **The largest banking and financial institution in Slovenia**
  - ✓ 100% owned by the Republic of Slovenia
  - ✓ Leading bank for retail and corporate clients in Slovenia, with ~710k active clients and ~24% market share by total assets
- ✓ **Active in 6 attractive markets in South-Eastern Europe**
  - ✓ 4 Top-3 banks and 1 Top-5 bank (by total assets)
- ✓ **Underwent substantial transformation since 2013, achieving turnaround in operational profitability and asset quality**
  - ✓ ~12% reduction in operating costs (H1'13-H1'16)
  - ✓ NPL ratio reduced from its peak 32.5% in Sep-2013 to 17.9% in Jun-16
  - ✓ 10 consecutive quarters of stable and positive performance
- ✓ **Extensive distribution network of 364 branches**
  - ✓ 113 branches in Slovenia (Jun-16)
- ✓ **Attractive dividend payout ratio**
  - ✓ 100% of 2015 NLB d.d. net profit paid out in August 2016

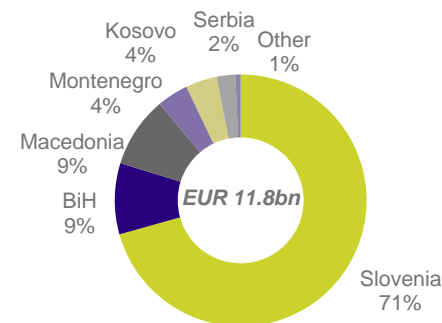
## Key figures

Balance sheet (EURm)	Dec-14	Dec-15	Jun-16
Total assets	11,909	11,822	11,761
Loans to customers (gross)	9,053	8,351	8,312
Loans to customers (net)	7,415	7,088	7,090
Customer deposits	8,949	9,026	9,068
Attributable equity	1,343	1,423	1,497
P&L (EURm)	FY'14	FY'15	H1'16
Net interest income	330	340	157
Pre provision income	208	186	100
Net income	62	92	69
Key ratios (%)	Dec-14 / FY'14	Dec-15 / FY'15	Jun-16 / H1'16
CET1 ratio	17.6%	16.2%	16.6%
NPL ratio	25.1%	19.3%	17.9%
NPE ratio <sup>(3)</sup>	18.8%	14.3%	13.2%
NPL coverage ratio	68.7%	72.2%	76.0%
RoE	4.8%	6.6%	9.4%

**Gross loans by customer (Jun-16)**



**Total assets by country (Jun-16)**



Source: Company information

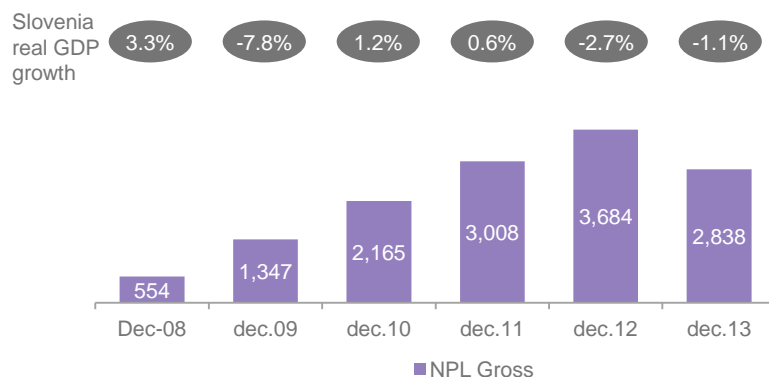
Note: (1) Bank Asset Management Company; Bad Bank of the Republic of Slovenia

(2) Government departments, municipalities and agencies; (3) Based on EBA definition

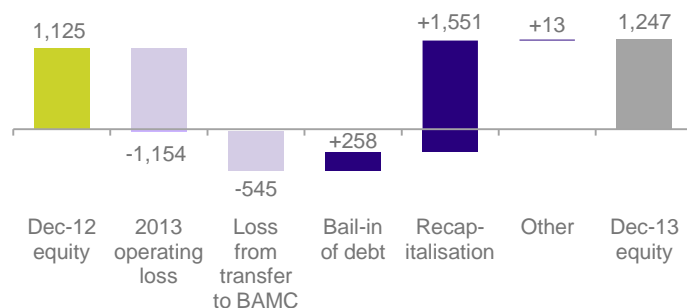
# Background to 2013 recapitalisation

- Severe economic contraction in Slovenia during 2009 – 2013 drove NLB's NPLs to unprecedented levels
- An independent Asset Quality Review (AQR) and stress tests undertaken in 2013 by international consultants under the auspices of the Bank of Slovenia identified EUR1.7bn<sup>(1)</sup> capital shortfall
- To address that, a number of measures were taken for the recapitalisation of the bank

NLB Group's NPL stock vs real GDP growth (EURm)



Equity evolution (Dec-12 to Dec-13, EURm)



## Recapitalisation measures

- 1 Outstanding EUR184m share capital of NLB was reduced to nil
- 2 Bail-in by way of termination of EUR250m outstanding subordinated debt instruments<sup>(2)</sup>
- 3 Transfer of EUR1,155m net assets to BAMC<sup>(3)</sup> resulting in a net loss of EUR545m
- 4 EUR1.55bn capital increase, covered entirely by the Republic of Slovenia

2013 recapitalisation

Journey so far



Source: Company information, Slovenian Statistical Office

Note: (1) EUR1,464m under baseline scenario and EUR1,668m under adverse scenario; (2) EUR258m including accrued interest; (3) Gross book value of assets: EUR2,169m; Transfer price: EUR610m;

# Journey so far

Transformation into a sustainably profitable client-oriented group, focused on core markets

## Key initiatives implemented

- 1 Focus on core businesses and markets and divestment of several non-core subsidiaries and participations
- 2 Balance sheet reduction
- 3 % annual cost reduction achieved
- 4 Improved risk management policy and corporate governance
- 5 Focus on improved business selection and pricing with clear minimum client RoE targets
- 6 Emphasis on NPL recovery and improving asset quality

			Overview	Going forward
Core	Core Slovenia	Retail banking	<ul style="list-style-type: none"> <li>• Largest retail banking group by loans, deposits and number of branches</li> <li>• #1 in private banking and asset management business</li> </ul>	✓ Ongoing initiatives to transform operations
		Corporate banking	<ul style="list-style-type: none"> <li>• Market leader in corporate banking with the largest client base in the country</li> <li>• Strong trade finance operations and other fee-based businesses</li> </ul>	✓ Capitalise on attractive growth prospects of fee-generating businesses
		Financial markets <sup>(1)</sup>	<ul style="list-style-type: none"> <li>• Largest brokerage network providing the best access to securities for clients</li> <li>• #1 lead organiser for syndicated loans in Slovenia</li> </ul>	✓ Implementation of differentiated risk-adjusted pricing
	Core members	Foreign strategic markets	<ul style="list-style-type: none"> <li>• Leading franchise in the SEE with 6 independent, well capitalised and self-funded subsidiaries</li> <li>• Only international banking group with exclusive focus on the SEE region</li> </ul>	✓ Increasing contribution to Group profits
Non-core	Non-core Slovenia (part of NLB d.d.)	Corporate lending Equity Investments Real estate <sup>(2)</sup>	<ul style="list-style-type: none"> <li>• Assets booked under NLB d.d. or non-core subsidiaries funded via NLB d.d.</li> <li>• Investments in listed and private Slovenian companies</li> </ul>	✓ Targeted exit by 2020 from selected ancillary businesses and lending to certain sectors
	Non-core members	Leasing, factoring and other <sup>(3)</sup>	<ul style="list-style-type: none"> <li>• Various run-off businesses including leasing and factoring in the sale or liquidation processes</li> <li>• Real estate SPVs consolidating investments in SEE</li> </ul>	

2013 recapitalisation

Journey so far



Source: Company information

Note: (1) Segment includes the income generated by the liquidity reserves, surplus from funds transfer pricing to other business segments in Slovenia and fees generated from investment banking and custody services;

(2) GREAM; (3) NLB Leasing Ljubljana, NLB Interfinanz, Other Leasing, REAM and other Non-core members

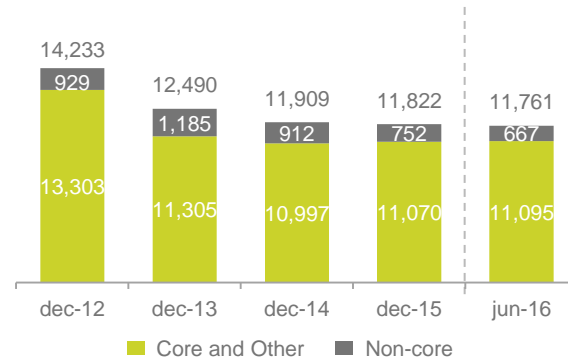
# Journey so far (continued)

Transformation into a sustainably profitable client-oriented group, focused on core markets

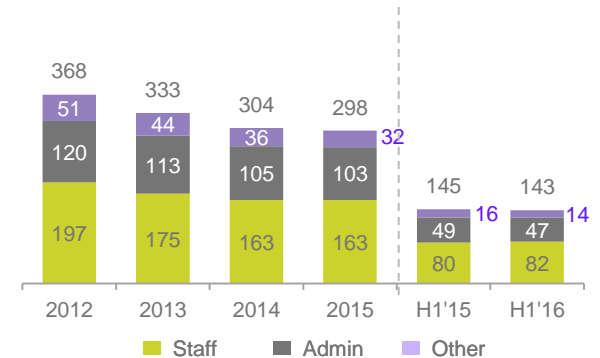
## Key initiatives implemented

- 1 Focus on core businesses and markets and divestment of several non-core subsidiaries and participations
- 2 Balance sheet reduction
- 3 % annual cost reduction achieved
- 4 Improved risk management policy and corporate governance
- 5 Focus on improved business selection and pricing with clear minimum client RoE targets
- 6 Emphasis on NPL recovery and improving asset quality

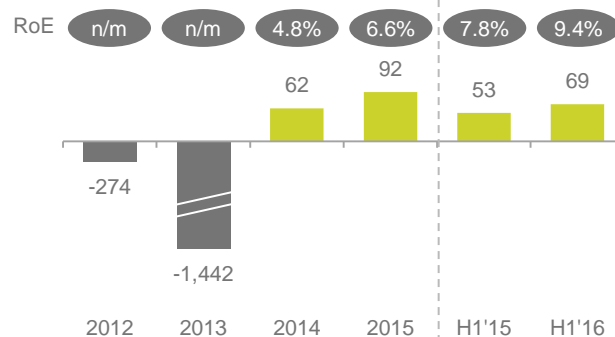
## Smaller and stronger balance sheet (EURm)



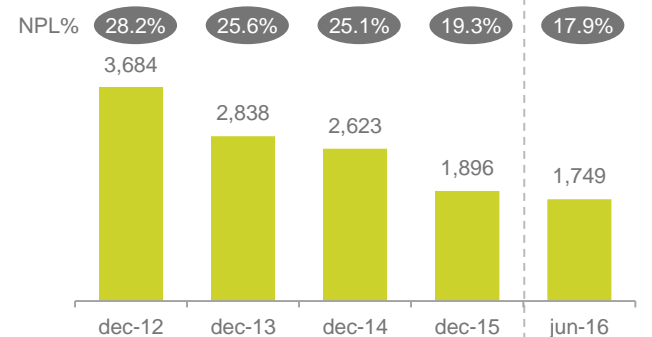
## 19% cost base reduction (EURm)



## Return to profitability (EURm)



## 50% reduction of NPLs (NPL stock, EURm)



2013 recapitalisation

Journey so far

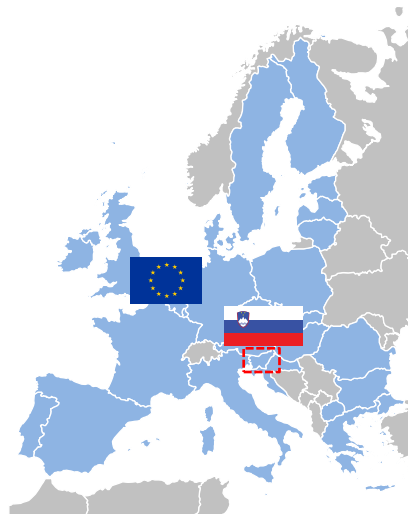




## Slovenia macro and banking backdrop

# Slovenia: Fully integrated into European institutions

- ✓ Member of the EU and the Eurozone
- ✓ Export-driven economy with value-added export goods
- ✓ Well educated labour force
- ✓ Solid Parliamentary support for coalition Government (in place until Sep-18)



**EUR 38.5bn**

nominal GDP

**2.3%**

real GDP growth

**EUR 19k**

GDP/capita vs EUR 11k CEE average<sup>(1)</sup>

**8.4%**

unemployment rate<sup>(2)</sup>

**83.2%**

Govt debt/GDP

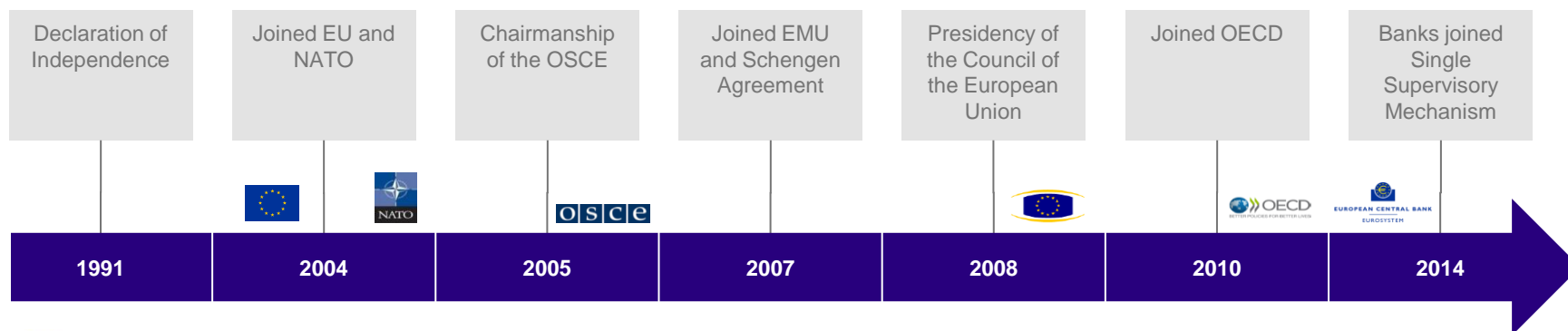
**0.8% of GDP**

primary surplus

**A/A-/Baa3**

Sovereign rating (S&P/Fitch/Moody's)

## Recent milestones



Source: Republic of Slovenia, IMF WEO as of Apr-16, Bloomberg as of 20-Jun-16, Statistical Office of the Republic of Slovenia

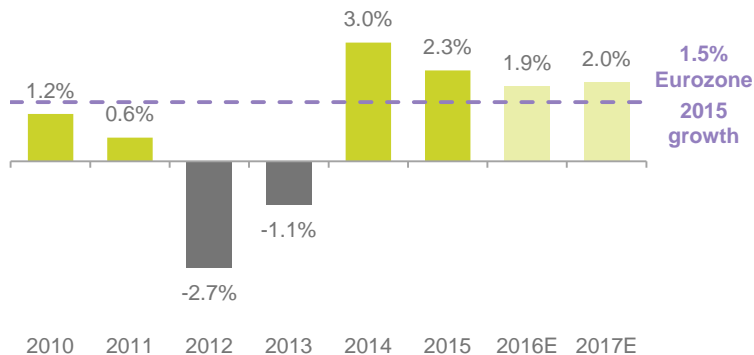
Note: All macroeconomic data refer to FYE 31-Dec-15

(1) CEE countries include Poland, Romania, Czech Republic, Slovakia, Hungary; (2) Survey unemployment rate



# Slovenian economy **growing at 2.3%** compared to 1.5% Eurozone growth, driven by exports and private consumption

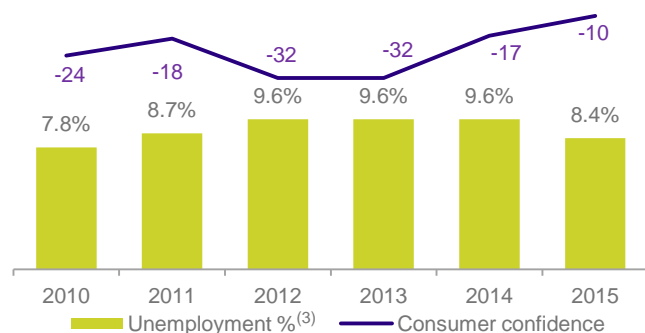
## Real GDP growth



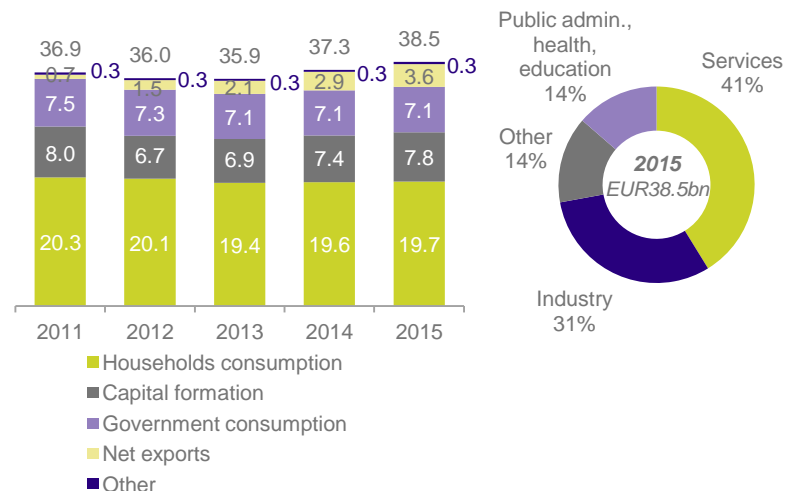
## Macro update

- Slovenian economy grew by 2.3% in 2015 – stronger than Eurozone average of 1.5%
- Drivers included 4.4% exports growth and continued increase in private consumption (1% in 2015)
- Economic recovery drove unemployment rate down by 1.2% since 2013
- Consumer confidence increased by 35 points since its 2012<sup>(2)</sup> lows, driving household consumption growth
- Relatively low household indebtedness providing sufficient room for lending growth

## Recovery driving lower unemployment and higher consumer confidence<sup>(1)</sup>

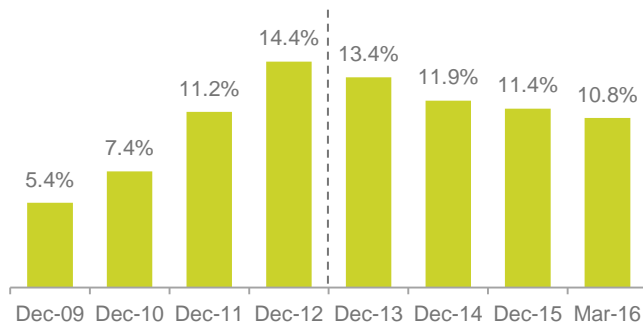


## GDP by source and activities (EURbn)

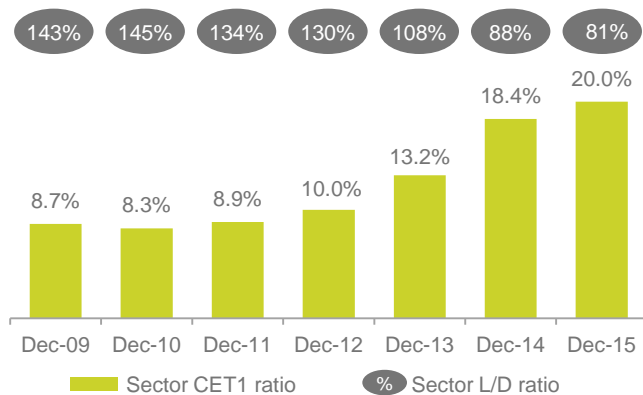


# Slovenian banking sector turnaround with vastly improved funding, asset quality and capital position

Sector NPE ratio evolution<sup>(1)</sup>



Sector CET1 and L/D ratio evolution



## Overview of 2013 extraordinary measures

- Significant contraction of economic activity since 2009 paired with high indebtedness of corporate sector drove NPEs to unprecedented levels
- 2013 Asset Quality Review (AQR) identified EUR3.3bn<sup>(2)</sup> capital shortfall at systemic banks
- Extraordinary measures included:
  - write-off of existing shareholders and holders of subordinated instruments
  - capital increase by RoS - 100% state ownership of banks (NLB, NKBM, Banka Celje and Abanka)
  - transfer of EUR 3.3bn non-performing claims<sup>(3)</sup> to State-owned BAMC<sup>(4)</sup> leading to substantial losses for local banks

## Strengthened banking system

- ✓ Profitability of Slovenian banking sector returned to positive levels in 2015
- ✓ NPE ratio (according to the harmonised definition of EBA) decreased to 10.8%, as a consequence of active NPE management by local banks
- ✓ L/D ratio decreased by ~60% since 2010 to 81% as a result of stricter loan policies, low demand for loans and “cash-rich” retail and corporate sectors
- ✓ Sale of NKBM completed while Abanka and Banka Celje completed merger



## Key highlights

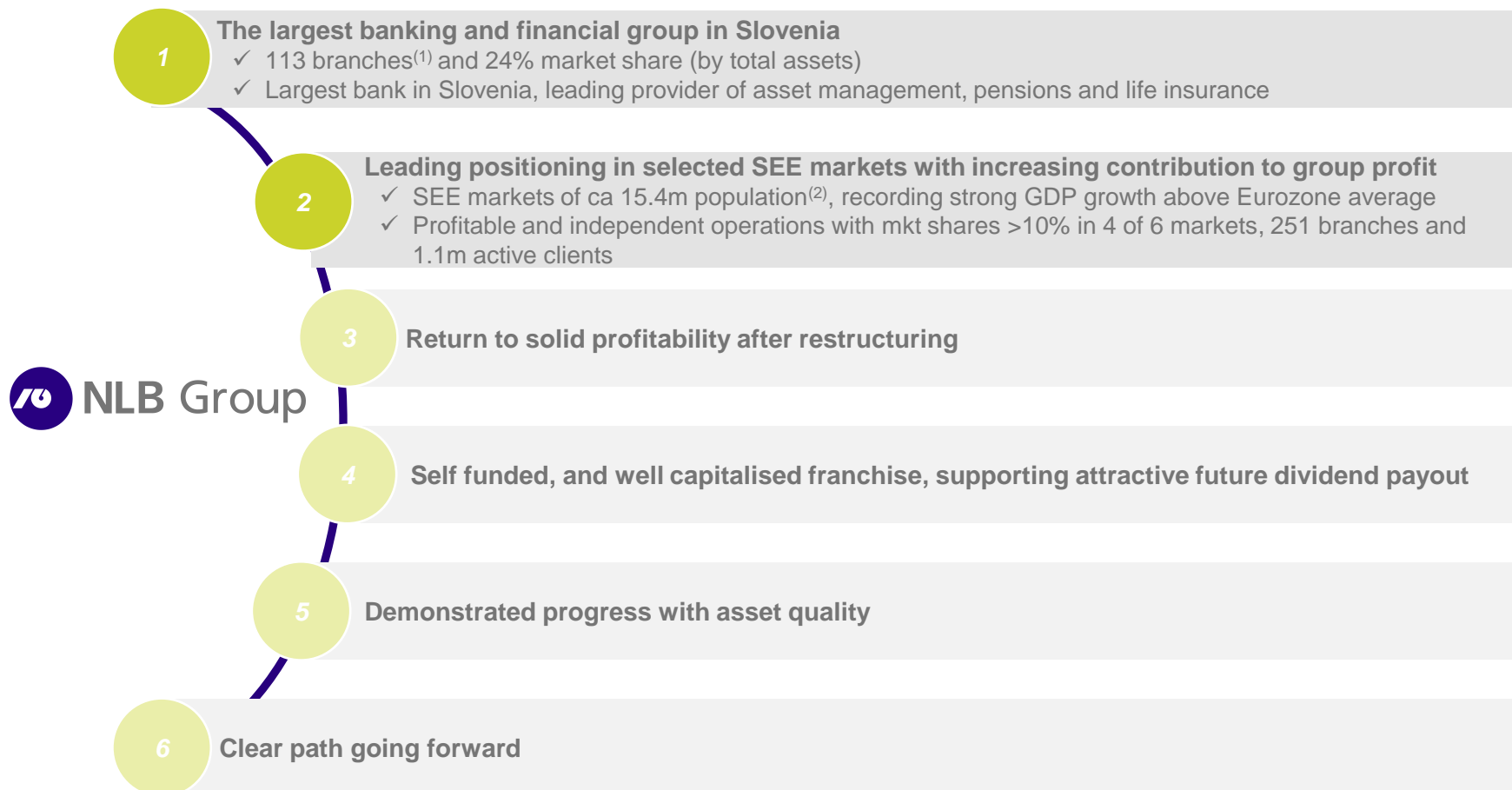
# Key highlights of NLB Group

Largest bank in Slovenia and a strong player in selected SEE markets



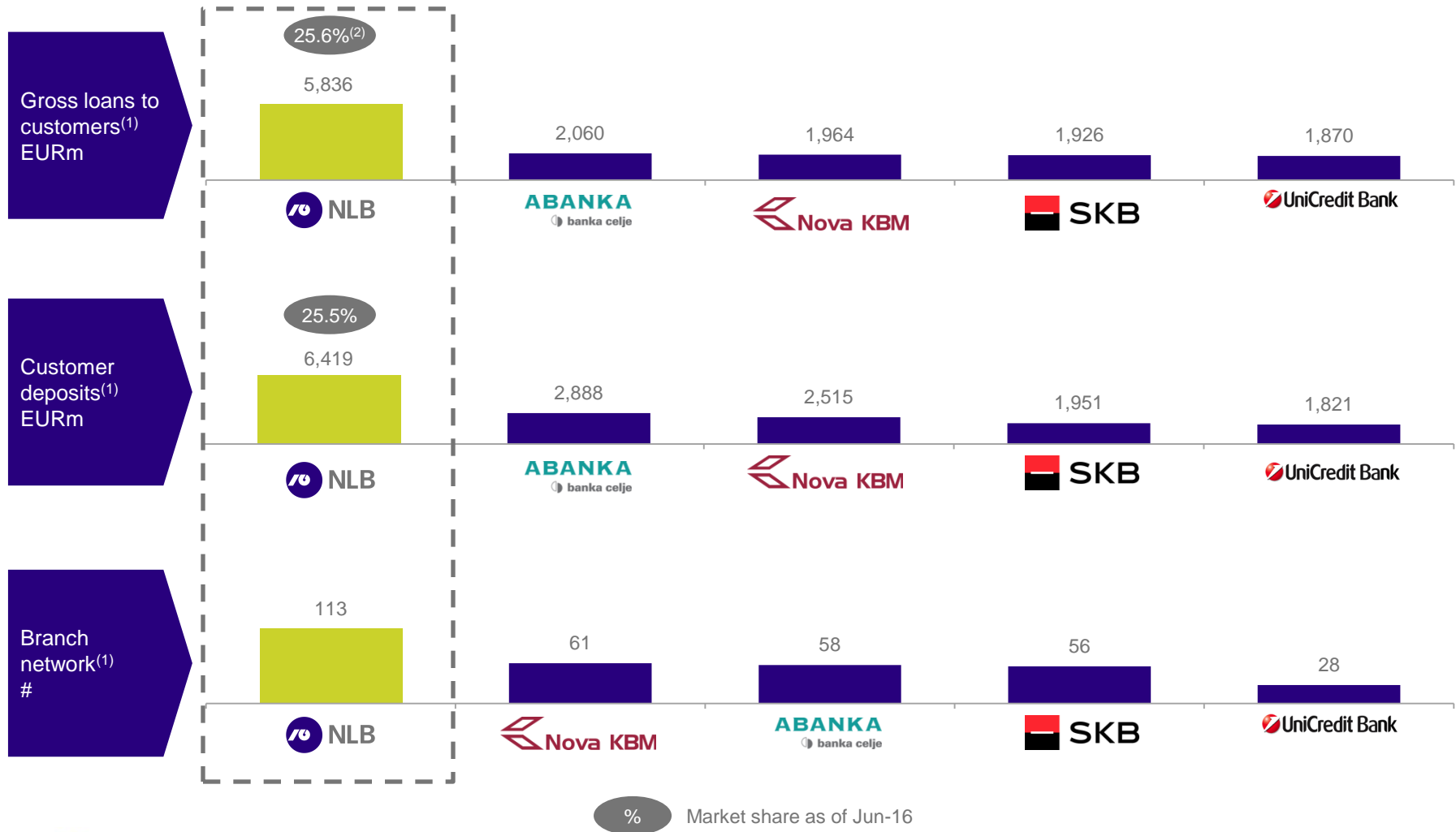
# Key highlights of NLB Group

Largest bank in Slovenia and a strong player in selected SEE markets



# 1 Dominant player in the Slovenian banking sector

Market leader across products in Slovenia



Source: Company information

Note: (1) Gross loans to customers: NLB and Abanka: Jun-16; SKB, Nova KBM and UniCredit: Dec-15 (latest available); Customer deposits: NLB and Abanka: Jun-16; SKB, Nova KBM and UniCredit: Dec-15 (latest available); Branches: NLB and Abanka: Jun-16; SKB, Nova KBM and UniCredit: Dec-15 (latest available); (2) Calculated based on net loans



## 2 NLB's countries of presence outside Slovenia represent attractive markets, with significant growth potential

- ✓ NLB's SEE footprint outside of Slovenia covers 5 countries with EUR65.6bn GDP and 15.4m population
- ✓ Attractive growth markets, with 2.8% real GDP growth, only EUR4k GDP/capita and 21% household indebtedness as % of GDP








	Macedonia 	Bosnia <sup>(1)</sup> 	Montenegro 	Kosovo 	Serbia 	Total / Average <sup>(4)</sup>	Slovenia 
Population (Dec-15, m)	2.1	3.8	0.6	1.8	7.1	15.4	2.1
GDP <sup>(3)</sup> (2015, EURbn)	9.0	14.4	3.6	5.7	32.9	65.6	38.5
GDP/Capita <sup>(3)</sup> (2015, EURk)	4.3	3.8	5.8	3.1	4.6	4.3	18.7
Real GDP growth (2015)	3.7%	2.8%	3.2%	3.5%	0.7%	2.8%	2.3%
Inflation (2015)	-0.3%	-1.0%	1.4%	0.5%	1.5%	0.2%	-0.5%
Government debt/GDP (2015)	39%	46%	66%	19%	77%	49%	83%
Household debt /GDP (2015)	23%	27%	27%	13%	19%	22%	28% <sup>(5)</sup>
Currency	MKD	EUR <sup>(2)</sup>	EUR	EUR	RSD	n/a	EUR
Credit rating (Moody's, S&P)	n/a / BB-	B3 / B	B1 / B+	n/a / n/a	B1 / BB-	n/a	Baa3 / A

## 2 Top position in target SEE countries

Unified brand across 6 markets since 2015

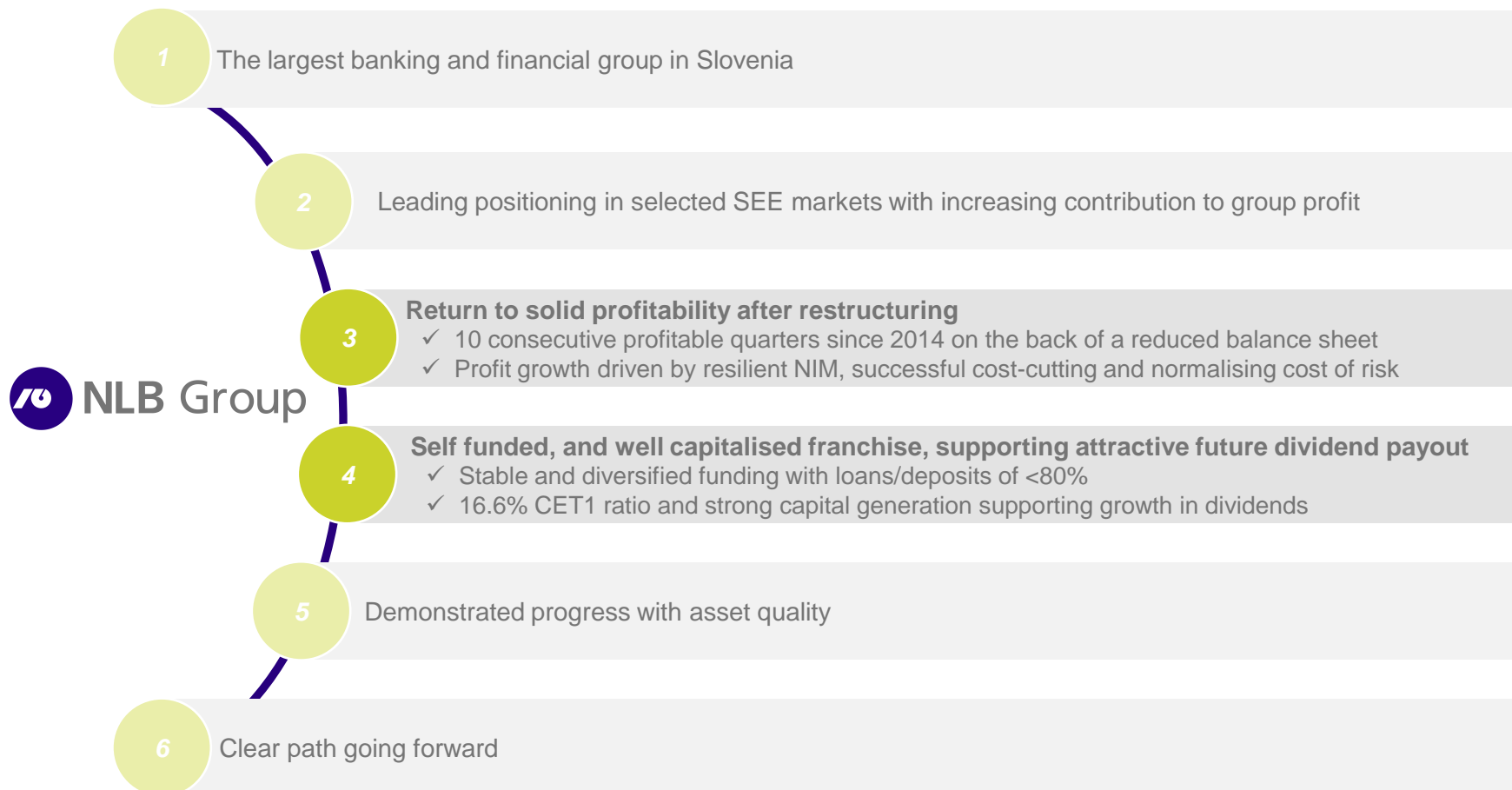
- ✓ Leading franchise in the region based on total assets and number of branches<sup>(1)</sup>, with network of 251 branches and 1.1m active clients<sup>(2)</sup> in SEE
- ✓ The only international banking group with exclusive focus on the region
- ✓ Independent, well capitalised and self-funded subsidiaries



	<div>Macedonia</div> <div></div> <div>NLB Banka Skopje</div>	<div>Bosnia</div> <div></div> <div>NLB Banka Banja Luka</div>	<div>NLB Banka Sarajevo</div>	<div>Montenegro</div> <div></div> <div>NLB Banka Podgorica</div>	<div>Kosovo</div> <div></div> <div>NLB Banka Prishtina</div>	<div>Serbia</div> <div></div> <div>NLB Banka Beograd</div>
NLB ownership (%)	87%	100%	97%	99%	81%	100%
No. of branches (#)	51	64	38	18	46	34
Market share %	16.6%	18.4% <sup>(3)</sup>	5.5% <sup>(4)</sup>	14.0%	14.5%	1.0%
Net interest margin %	4.3%	2.7%	3.3%	3.3%	5.3%	6.2%
Cost/ income %	42.2%	50.7%	61.0%	64.6%	40.9%	89.9%
Loans/ Deposits %	76.7%	63.9%	77.0%	66.8%	72.3%	51.5%
RoE	11.8%	14.7%	8.1%	9.6%	14.9%	2.7%
Total assets (EURm)	1,120	612	476	485	465	236

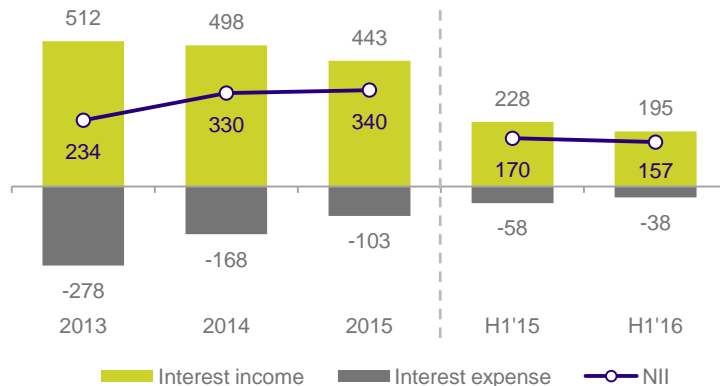
# Key highlights of NLB Group

Largest bank in Slovenia and a strong player in selected SEE markets

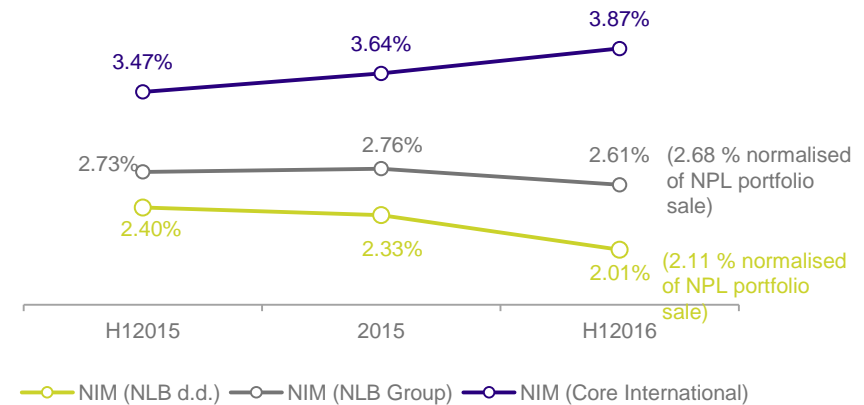


### 3 Strong revenue performance driven by stable NIM and resilient fee income

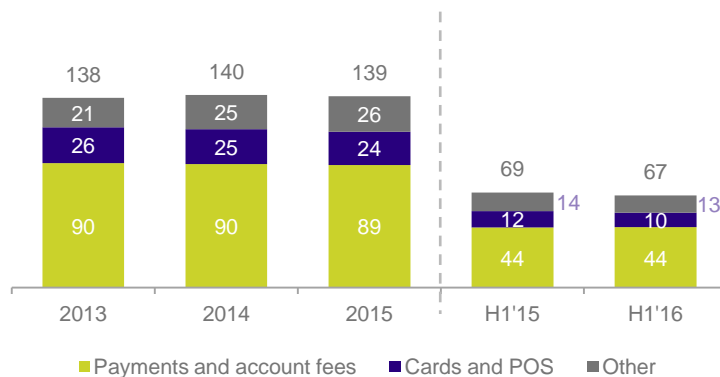
Net interest income returning to sustainable levels (Group, EURm)



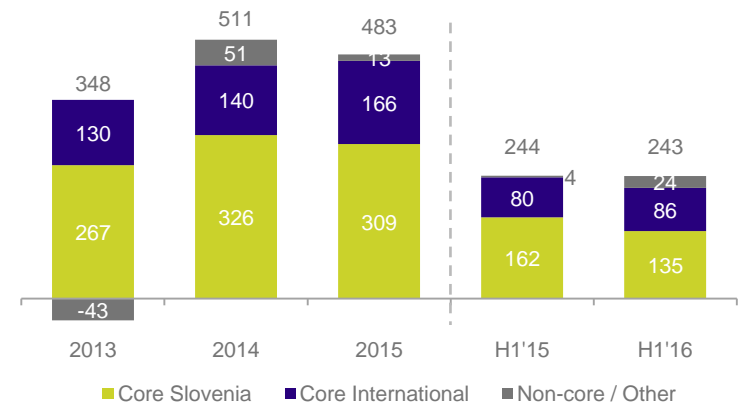
NIM remains stable despite monetary easing in Eurozone (Group, %)



Resilient fee income (Group, EURm)



International supporting revenue growth in the Core operations (Group, EURm)<sup>(1)</sup>



Source: Company information

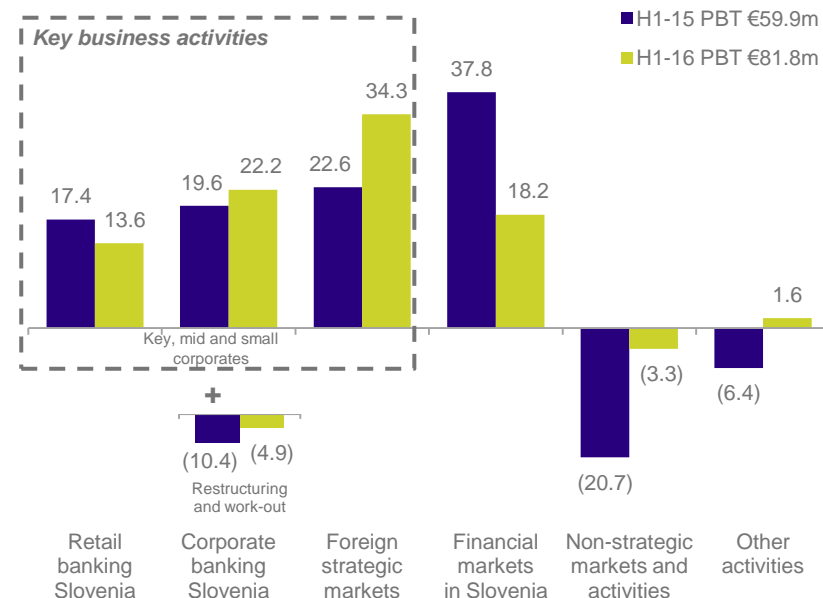
Note: (1) The sum of revenues /costs of segments is greater than consolidated under NLB Group; the difference is resulting from the activities between segments as those appear as revenue under one segment and as costs under other segment, and therefore are not netted on the segment level; Geographical analysis includes the division between geographical segments according to the country where it is located of each of the NLB Group

### 3 Profitability improvement in all key business segments, with reduction of non-core losses

Profitable, client-oriented group, focused on core markets

Key metrics (FYE Dec-15, EURm)			PBT	Assets	% of assets
Core	Core Slovenia	Retail banking	39	2,055	93%
		Corporate banking	52	2,160	
		Financial markets <sup>(1)</sup>	61	3,351	
	Core members	Foreign strategic markets	45	3,389	
Non-core	Non-core Slovenia (part of NLB d.d.)	Corporate lending Equity Investments Real estate <sup>(2)</sup>	(70)	344	
	Non-core members	Leasing, factoring and other <sup>(3)</sup>		408	
Other adjustments			(19) <sup>(4)</sup>	114	~1%
iGroup total			107	11,822	

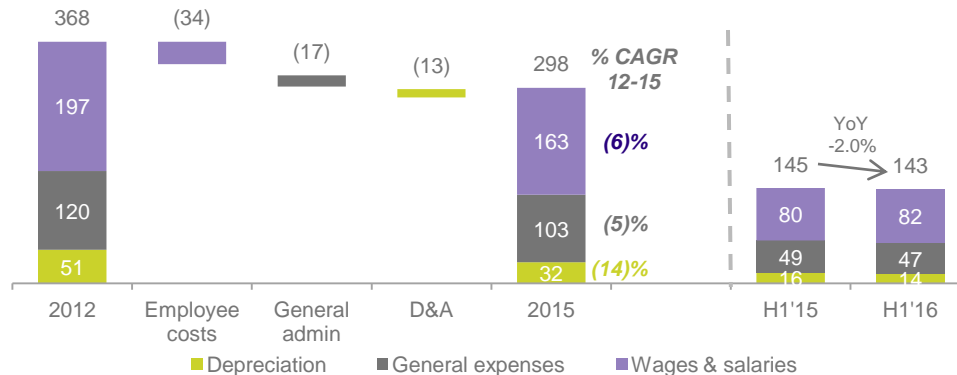
Core segments consistently profitable, key activities increasingly profitable (EURm)



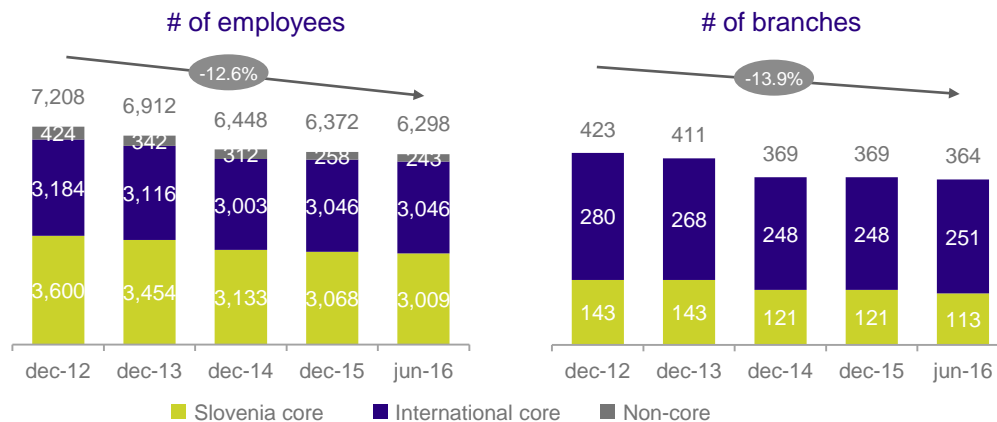
- Profit before tax of key business activities increased by €10.5m or +18% y-o-y vs H1-15, attributable to increase in net interest income and loan volume growth. Including the restructuring and workout unit, profit before tax increased by €16.0m or +33% y-o-y
- Foreign strategic markets continued positive trend showing an €11.7m increase y-o-y vs H1-15
- Non-strategic markets and other activities drag on profitability considerably lower y-o-y

### 3 Cost reduction driven by network optimisation, HQ personnel and non-personnel reductions and non-core

Impressive cost reduction across the board (EURm)



Effective rationalisation of headcount and network (#)

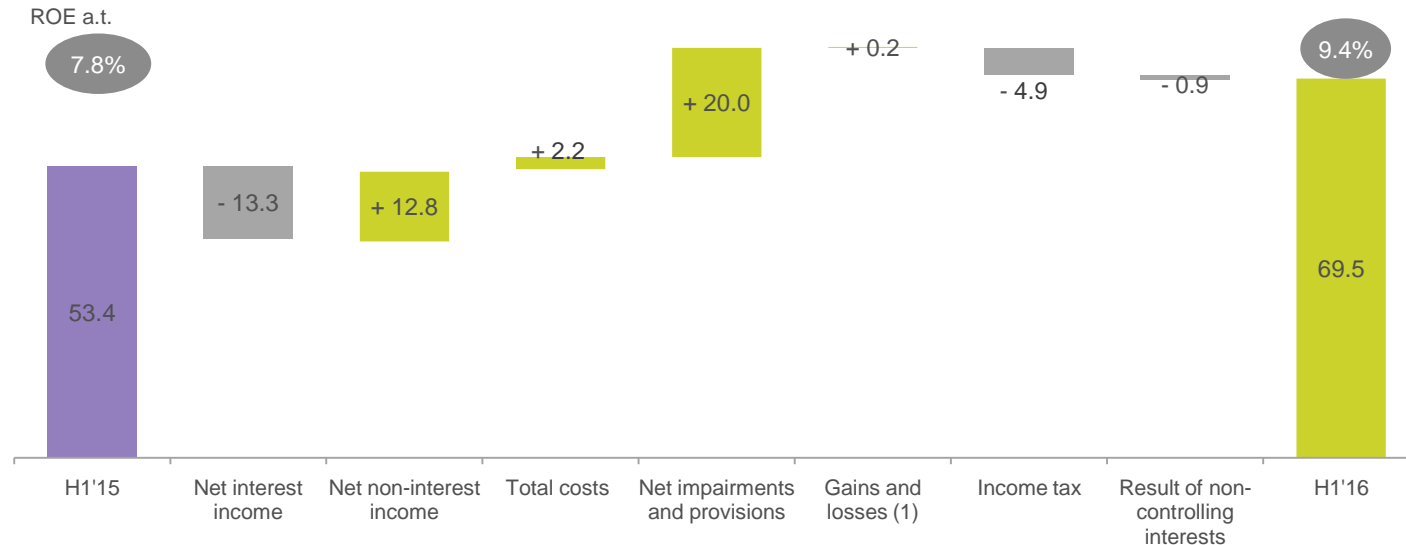


- Strong management commitment to strict cost management and optimisation measures
- Headcount dropped by 12.6% over 2012 – H1'16 driven primarily by Slovenia Core and Non-Core
- Closure of non-profitable branches already took place across NLB Group, with high retention rate by transferring clients' business to nearest branches

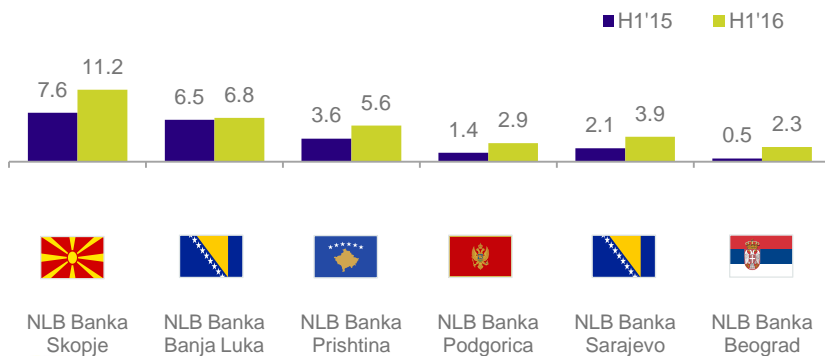


### 3 Successful business transformation results in sustainable profitability

Profit after tax of NLB Group – evolution YoY (EURm)



All core banking subsidiaries profitable (EURm)



#### Positive performance continued in H1'16

- Continued trend of stable and profitable Group operations
- In H1'16, NLB Group generated **EUR 69.5m** of profit after tax (**30% increase YoY**)
- **All core bank subsidiaries** profitable in H1'16 with significant increase YoY

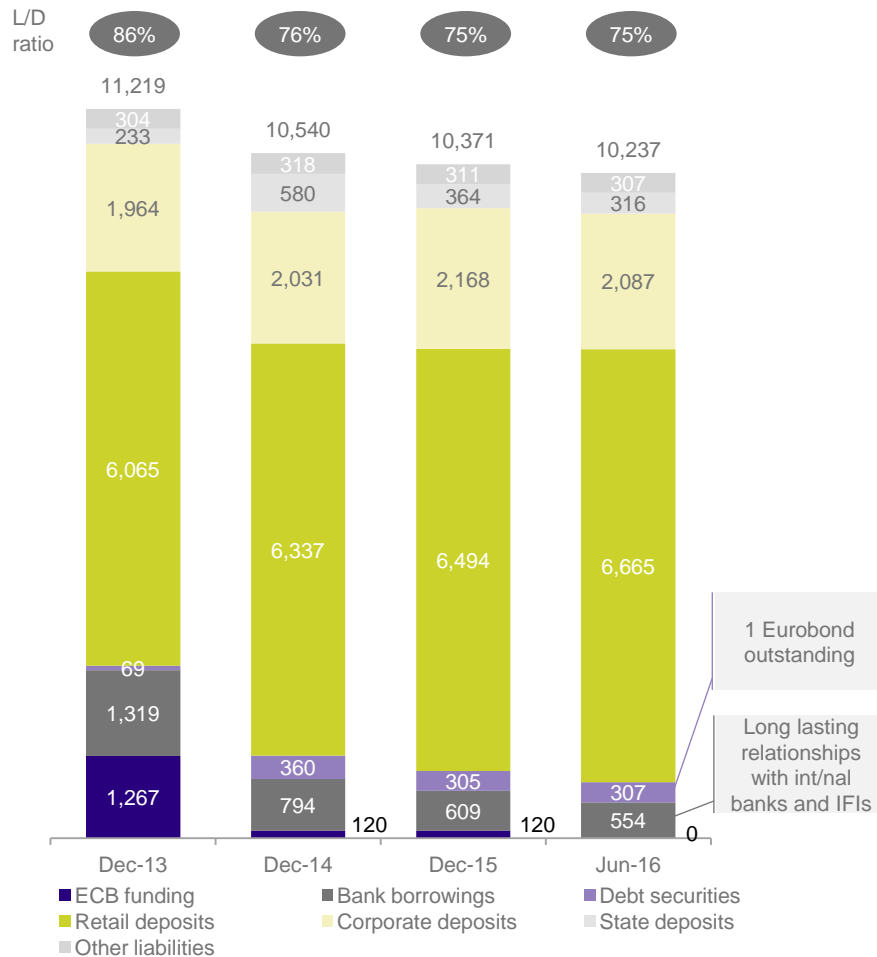


Source: Company information

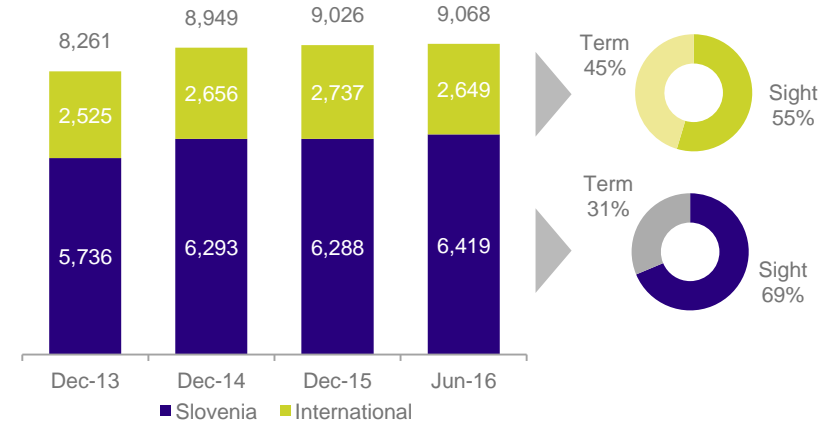
Note: (1) Gains less losses from capital investments in associates and joint ventures

## 4 Funding structure driven by **deposits** and complemented by established **wholesale markets access**

Deposits accounting for 89% of funding (EURm)



Strong retail franchise provides stable and price insensitive deposits base (EURm)



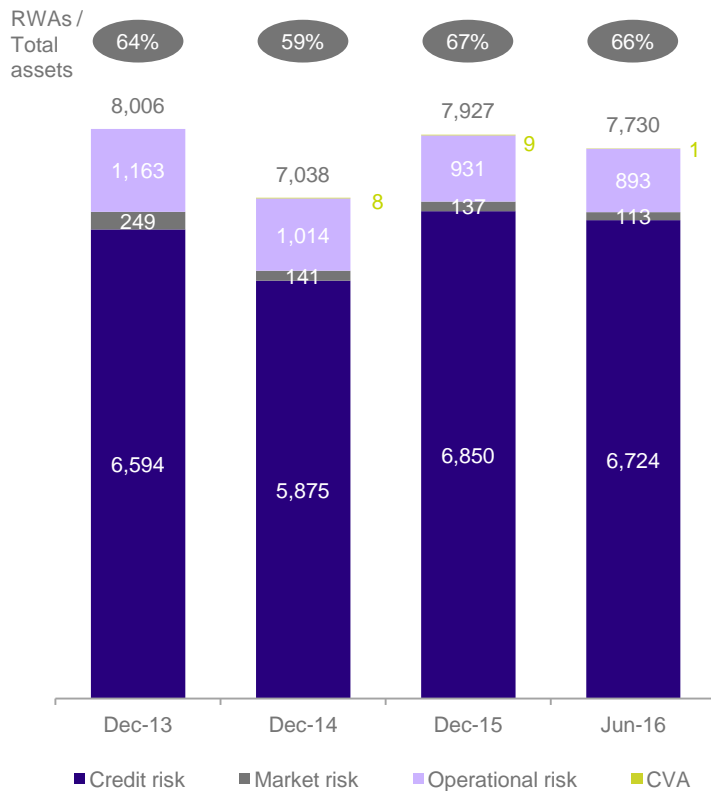
- **Total liabilities** fell by EUR 134.4m mainly due to repayment of the TLTRO repayment in the amount of EUR 120.2m
- **Deposits from customers** increased accounting for 77% of the total funding of NLB Group.

## 4 Well capitalised franchise

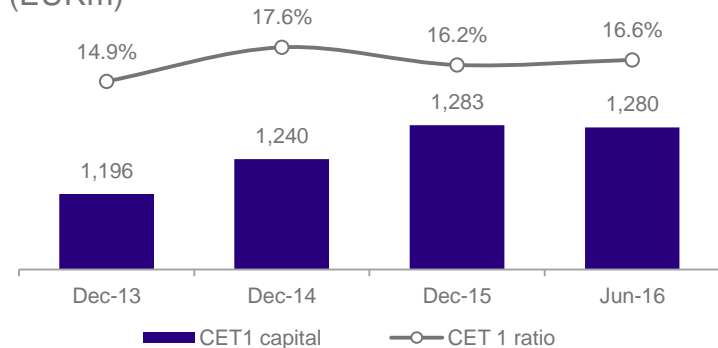
Solid capital position with large and stable deposit base

- ✓ Highest quality capital (CET1 mostly) at Group and Bank level
- ✓ Immaterial dependency on on-balance sheet DTAs

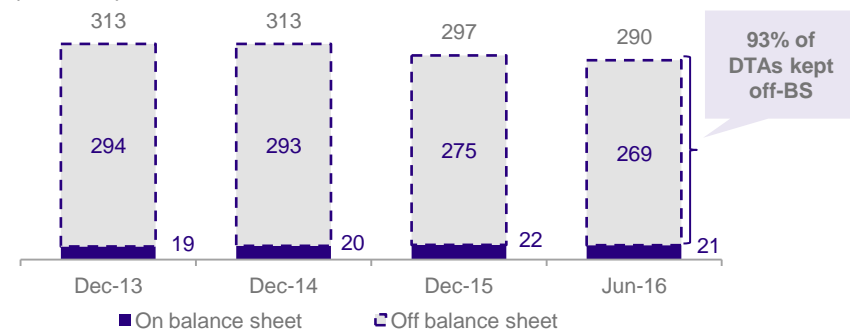
RWA expansion in 2015 driven by one-off increase in SEE sovereign risk weighting (EURm)



CET1 ratio comfortably above regulatory requirements<sup>(1)</sup> (EURm)

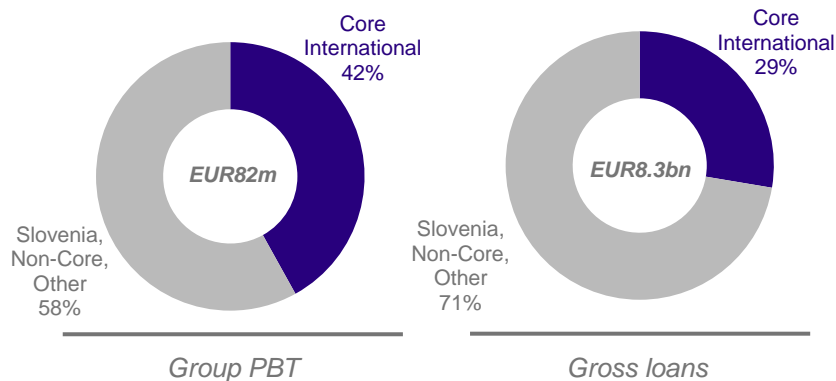


Upside from off-balance sheet DTAs<sup>(2)</sup> (EURm)

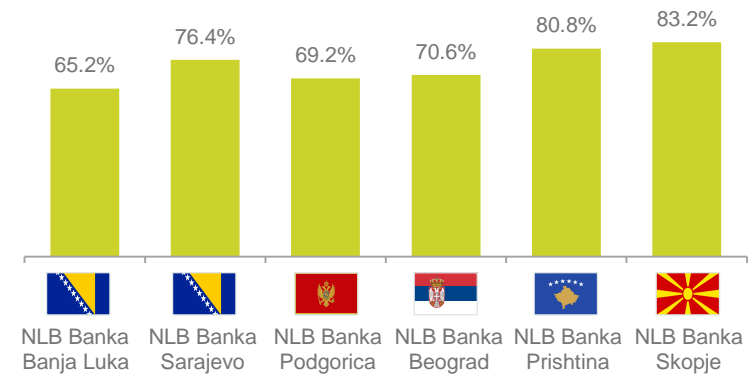


## 4 Core international banking subsidiaries represent a self-funded source of profits, with solid capital adequacy

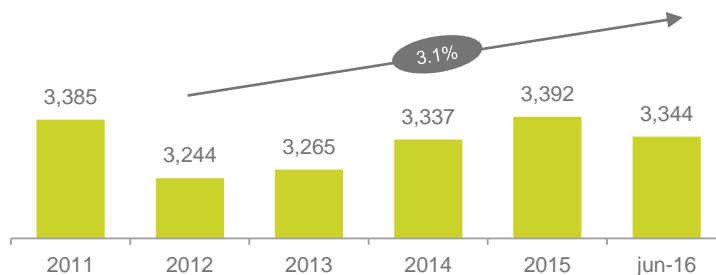
International contributes >40% of Group profit (Jun-16)



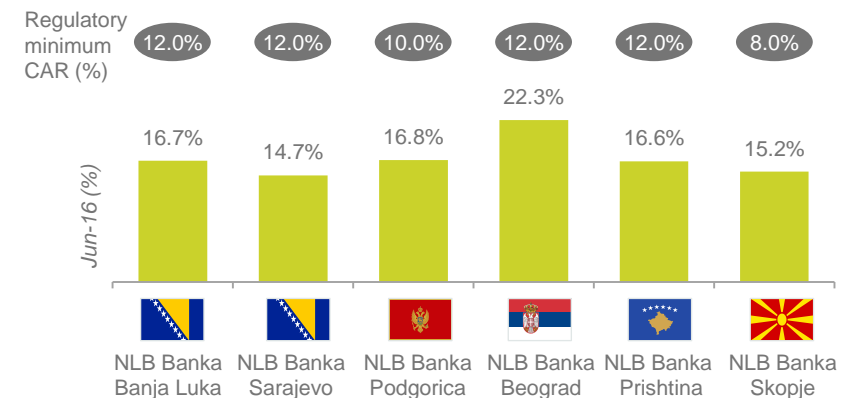
Subsidiaries self-funded by design (L/D ratio<sup>(2)</sup>, Jun-16)



Attractive growth trajectory (Total assets<sup>(1)</sup>, EURm)



Capital adequacy comfortably above local requirements

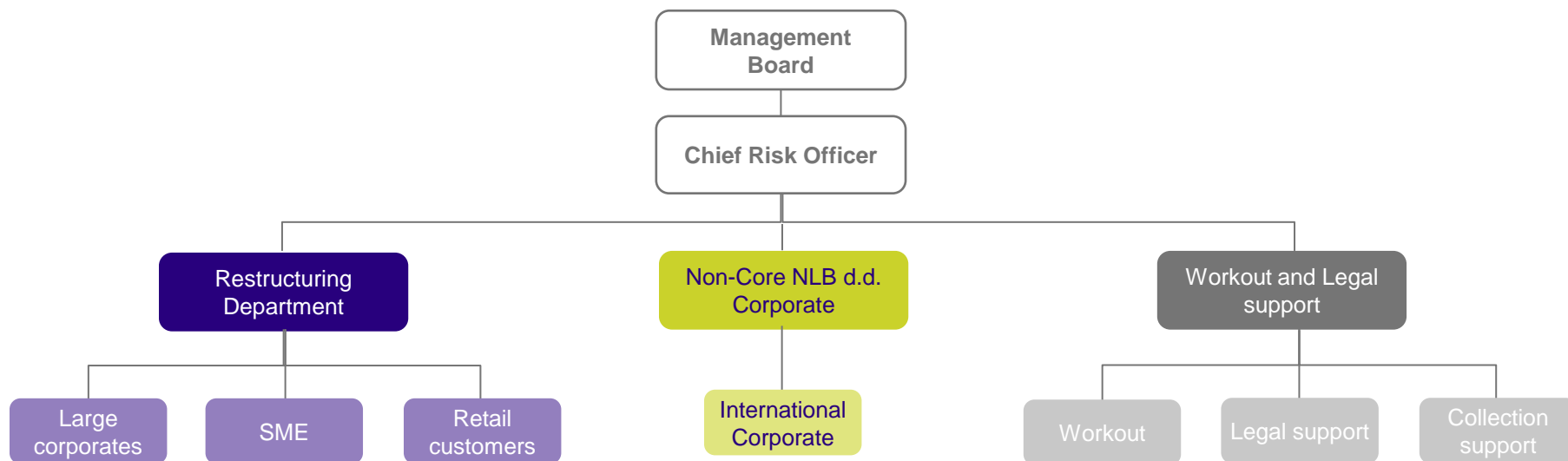


# Key highlights of NLB Group

Largest bank in Slovenia and a strong player in selected SEE markets



## 5 Dedicated **internal NPL units** in NLB d.d. fully operational

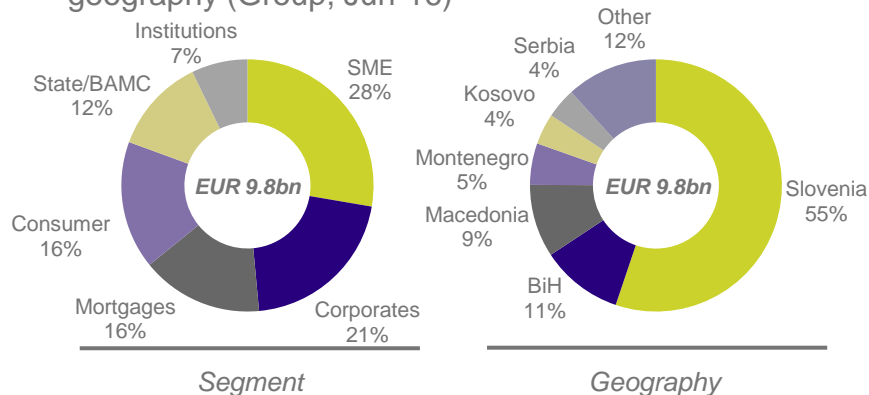




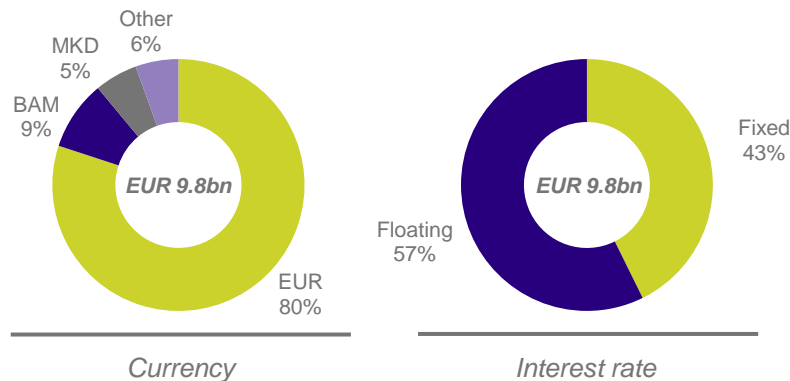
## 5 Diversified loan portfolio

Dominated by Slovenian assets, focused on core markets and cautious risk taking

Gross loans and advances by segment and geography (Group, Jun-16)

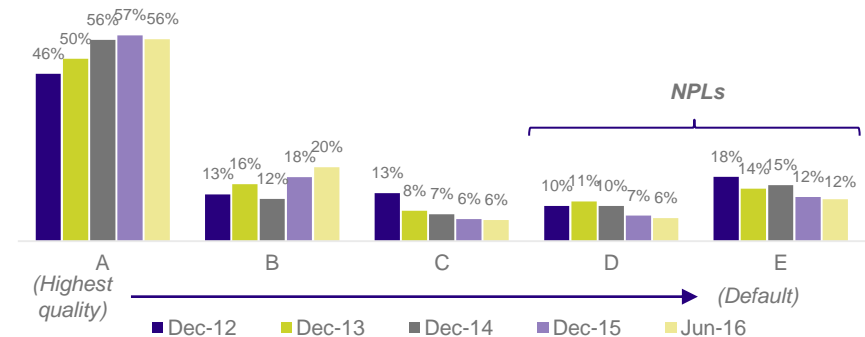


Gross loans and advances by currency and rate type (Group, Jun-16)



- **No large concentration** in any specific industry or client segment
- **NLB's lending strategy** focuses on its core markets of retail, SME and selected corporate business activities
- **Credit business** restricted for business sectors which are currently viewed as risk-bearing in an over-average extent (construction, transport and financial holdings)
- Great emphasis is also placed on **further improvement of credit portfolio**
  - Intensive and proactive handling of problematic customers
  - Changes in the credit process
  - Early warning system for detecting increased credit risk

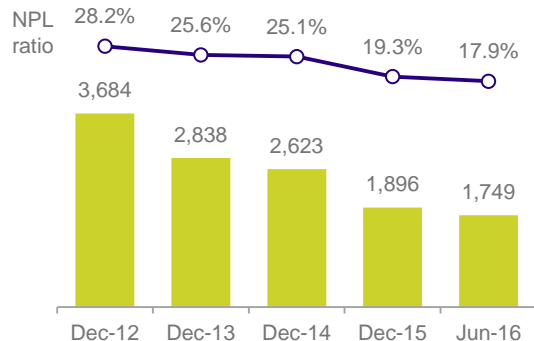
Improving structure of credit portfolio (gross loans) by client credit ratings (Group)



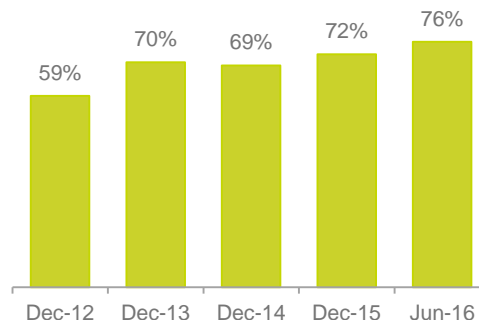
## 5 NLB has driven a turnaround in asset quality

Further improvements driven by active NPL management and economic recovery

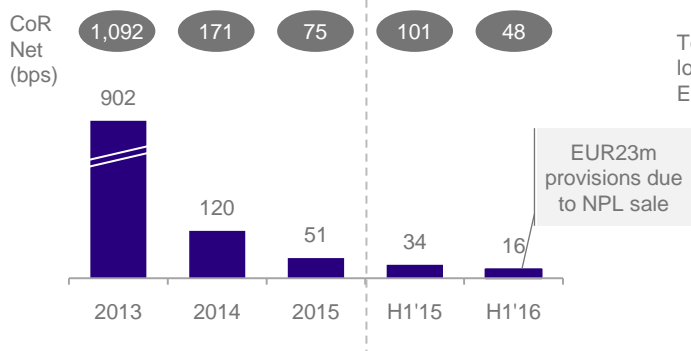
Active workout drove NPL ratio down despite falling loan volumes (Group, EURm)



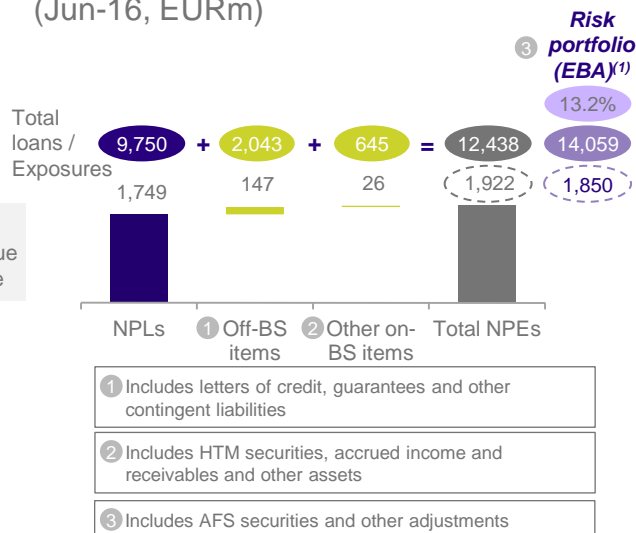
Increasing NPL provision coverage (Group, %)



Low NPL formation drove normalisation of loan provisions (EURm)<sup>(1)</sup>



Group NPL to NPE bridge (Jun-16, EURm)



Reduction of NPLs remains a key focus

- Gross NPLs at Group level reduced by EUR147m in H1'16
- Positive momentum expected through active portfolio management and macro recovery

NPLs are adequately covered

- Coverage ratio reached 76% in Jun-16 due to repayments, write-offs and cashed collateral

Active approach to NPL management

- Strong emphasis on restructuring (over 55% of NPLs in restructuring process)
- Other NPL management tools include: debt collection, seizure of collateral, sale of claims, active marketing of pledged



Source: Company information

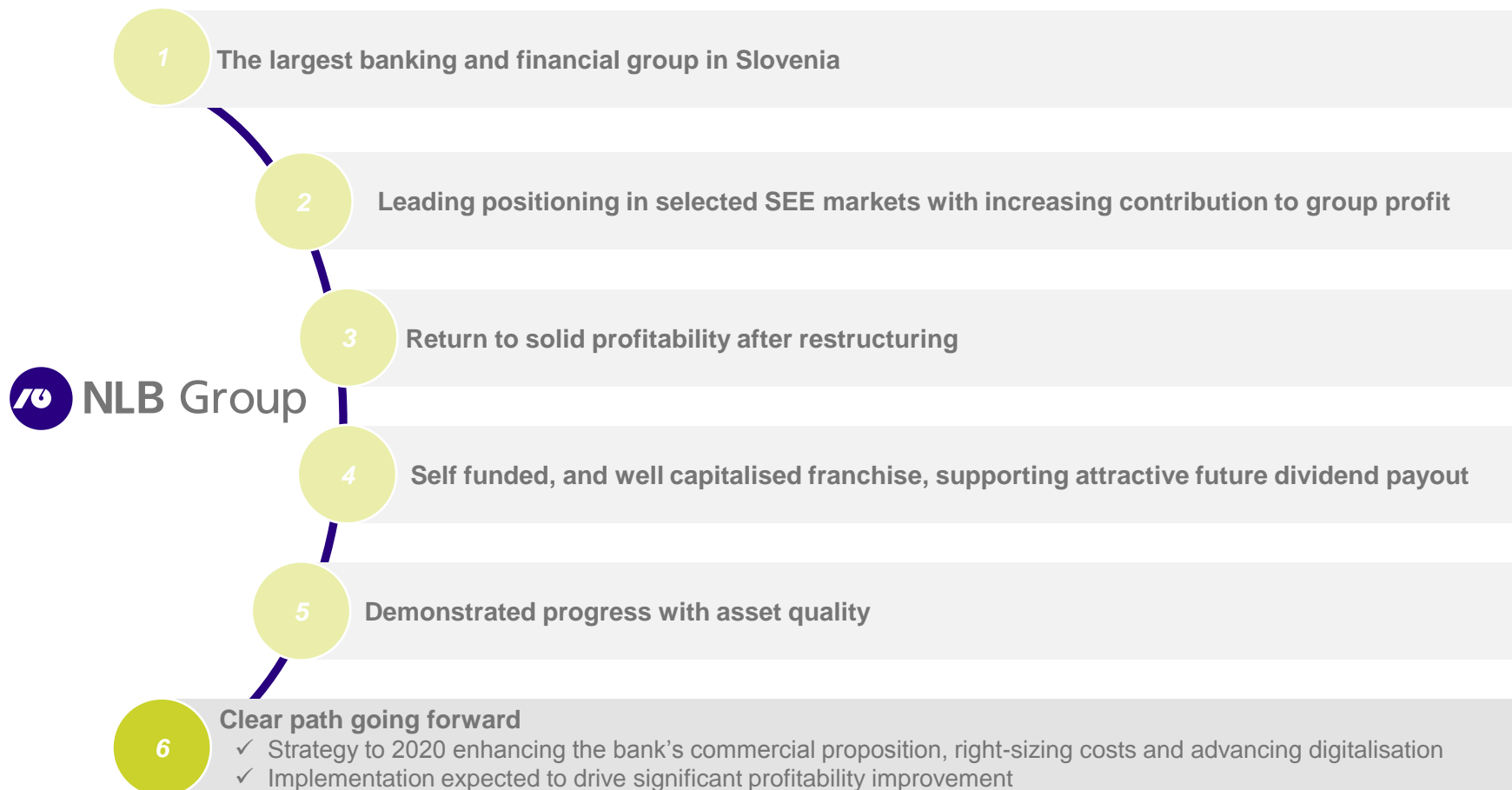
Note: NPL was defined until December 2014 as loan exposure to D and E clients/claims and delays over 90 days from loans to A, B and C classified clients. Since customers with loans (in arrears over) with 90 days past due should be classified in non-performing grade (D or E), NPL definition changed and from 31.12.2014 include only D and E exposures. Information on the NPL of NLBG is presented in accordance with the CRR IV consolidation, where exposure to companies of the Group Prvi faktor is taken into account under the principle of proportionate consolidation (i.e. 50%); (1) Represents credit impairments and provisions

## 5 Disposal of ca EUR500m of non-performing exposures

	Slovenia Corporate	Slovenia Retail
Perimeter	<ul style="list-style-type: none"> <li>Corporate NPL loans of gross book value of EUR396m</li> </ul>	<ul style="list-style-type: none"> <li>Total consumer NPL loans of gross book value of EUR104m</li> </ul>
Status	<ul style="list-style-type: none"> <li>Announced on 30 June 2016</li> <li>Closing expected in Q3'16</li> </ul>	<ul style="list-style-type: none"> <li>Announced on 19 July 2016</li> <li>Closing expected in Q3'16</li> </ul>
Buyer	<ul style="list-style-type: none"> <li>International investor</li> </ul>	<ul style="list-style-type: none"> <li>International investor</li> </ul>
NPL reduction	<ul style="list-style-type: none"> <li>Gross NPLs <u>to be reduced in Q3'16</u> by EUR233m (equal to 2% reduction to NPL ratio)</li> </ul>	
NPL coverage	<ul style="list-style-type: none"> <li>Minor increase in NPL coverage <u>expected in Q3'16</u> from loans transfer</li> </ul>	
Additional P&L impact	<ul style="list-style-type: none"> <li>P&amp;L impact of EUR27m<sup>(1)</sup> <u>already reflected</u> in Q2'16 results</li> </ul>	

# Key highlights of NLB Group

Largest bank in Slovenia and a strong player in selected SEE markets



## 6 We have a clear strategy to address current challenges

### Key trends and challenges

Sector and regulation	Macro
<ul style="list-style-type: none"><li>Regulatory interventions</li><li>Further complexity through new regulations (TLAC, Basel IV, IFRS9)</li><li>Market consolidation</li></ul>	<ul style="list-style-type: none"><li>Low interest rate environment</li><li>Heightening political and geopolitical risks</li><li>Subdued credit demand</li></ul>
Social and consumer	Products and technology
<ul style="list-style-type: none"><li>More demanding and knowledgeable clients</li><li>Preference for digital channels</li></ul>	<ul style="list-style-type: none"><li>Product competition from new, lower-cost entrants</li><li>Enhanced customer insights through “Big-Data”</li><li>Impact of social media</li></ul>

### Key priorities

#### Focus on customer experience

- ✓ Omni-channel product distribution
- ✓ Partnership programmes
- ✓ End-to-end customer solutions



#### Optimised product offering

- ✓ Pricing optimisation
- ✓ Simplified product offering
- ✓ Further focus on fee-based products



#### Simplicity champion

- ✓ Operational optimisation
- ✓ Right sizing workforce
- ✓ IT transformation



#### Enhanced distribution

- ✓ Migration to digital channels
- ✓ Sales process optimisation
- ✓ Improved customer insight



#### Improved risk management

- ✓ Optimised risk processes
- ✓ Improved risk modelling
- ✓ Streamlined risk governance



## 6 Medium-Term Objectives

Delivering growth, sustainable returns and attractive payout to shareholders

### Drivers

Improving macro environment	<ul style="list-style-type: none"> <li>✓ Ongoing economic recovery in Slovenia and international markets</li> <li>✓ Improved consumer confidence</li> <li>✓ Rebound from low interest rate environment leading to recovery of sector profitability</li> </ul>
Attractive industry sector outlook	<ul style="list-style-type: none"> <li>✓ Growing retail business</li> <li>✓ Rebound in corporate lending following sector wide balance sheet clean up</li> <li>✓ Opportunities in fee business</li> </ul>
Revenue initiatives	<ul style="list-style-type: none"> <li>✓ Redefined pricing and sales approach</li> <li>✓ Innovative product offering</li> <li>✓ Focus on selective lending growth</li> </ul>
Focus on costs	<ul style="list-style-type: none"> <li>✓ Improved risk management</li> <li>✓ Cost base reduction and increase in operating efficiency</li> </ul>

### Targets

	2015	Medium term
NIM	3%	>2.7%
Loans to deposits ratio	75%	<95%
CET1 ratio	16.2%	~16%
Cost-income ratio	62%	~50%
Cost of risk	74bps	~100bps
Return on equity (RoE)	7%	>10%
Dividend payout <sup>(2)</sup>	48%	>70%
NPE ratio <sup>(1)</sup>	14%	<6%





# Key highlights of NLB Group

Largest bank in Slovenia and a strong player in selected SEE markets



Note: (1) As of Jun-16; (2) Excluding Slovenia



## Additional materials

# Successfully managing EC restructuring plan commitments

✓ Restructuring period to end on 31 December 2017, subject to successful completion of restructuring commitments

	<b>Commitment</b>	<b>Status</b>	<b>Comment</b>
Restructuring	▪ Reduction of balance sheet	Ongoing	~EUR 0.7bn reduction since 2013
	▪ Reduction of operating expenses	✓	Completed
	▪ Divestment of several subsidiaries and participations	Ongoing	~EUR 0.2bn reduction since 2014
	▪ Reduction of credit business in several sectors	✓	Completed
	▪ Restrictions on business with foreign clients, risk management and credit policies	✓	Completed
Behavioural	▪ NLB must pay dividends at the lower of : ▪ 50% (until 2017) or 100% (in 2018) of the excess capital above the minimum capital requirement <sup>(1)</sup> plus a capital buffer of 100bps; or ▪ Net income for the relevant year	✓	In compliance
	▪ Acquisition ban	✓	In compliance
	▪ Republic of Slovenia to reduce stake in NLB to 25%+ 1 share until YE'17	Ongoing	

# Key financial data and performance

## NLB Group (1/2)

EURm	FY'13	FY'14	FY'15	H1'15	H1'16
Net interest income	234	330	340	170	157
Net fee and commission income	138	140	139	69	67
Income from financial operations	(15)	38	4	(1)	16
Other Income	(8)	3	1	6	3
<b>Operating Income</b>	<b>348</b>	<b>511</b>	<b>483</b>	<b>244</b>	<b>243</b>
Staff costs	(175)	(163)	(163)	(80)	(82)
General expenses	(113)	(105)	(103)	(49)	(47)
Depreciation and amortization expenses	(44)	(36)	(32)	(16)	(14)
<b>Operating expenses</b>	<b>(333)</b>	<b>(304)</b>	<b>(298)</b>	<b>(145)</b>	<b>(143)</b>
<b>Pre Provision Income</b>	<b>16</b>	<b>208</b>	<b>185</b>	<b>99</b>	<b>100</b>
Extraordinary measures	(288)	0	0	0	0
Impairment losses on credit risk	(902)	(120)	(51)	(34)	(16)
Other impairments	(169)	(22)	(32)	(7)	(5)
Gains/Losses on associates and JVs	(27)	3	4	2	3
<b>Profit / (Loss) before income tax</b>	<b>(1,369)</b>	<b>69</b>	<b>107</b>	<b>60</b>	<b>82</b>
Income Tax	(74)	(4)	(11)	(5)	(10)
<b>Profit/ (Loss) after income tax</b>	<b>(1,442)</b>	<b>65</b>	<b>95</b>	<b>55</b>	<b>72</b>
Profit / (Loss) attributable to shareholders	(1,442)	62	92	53	69

# Key financial data and performance

## NLB Group (2/2)

EURm	Dec-13	Dec-14	Dec-15	Jun-16
<b>ASSETS</b>				
Cash and balances with Central Banks	1,251	1,128	1,162	1,088
Financial instruments	2,755	2,646	2,743	2,718
Loans and advances to banks	225	271	432	480
Loans and advances to customers (net)	7,744	7,415	7,088	7,090
Investments in associates and JV	28	38	40	41
Intangible assets	55	43	39	36
PP&E	239	215	208	201
Other assets	194	154	110	108
<b>Total Assets</b>	<b>12,490</b>	<b>11,909</b>	<b>11,822</b>	<b>11,761</b>
<b>LIABILITIES &amp; EQUITY</b>				
Deposits from banks	37	62	58	50
Deposits from customers	8,261	8,949	9,026	9,068
Borrowings	1,282	731	551	505
ECB funding	1,267	120	120	0
Securities and other liabilities	372	678	616	614
<b>Total Liabilities</b>	<b>11,219</b>	<b>10,540</b>	<b>10,371</b>	<b>10,237</b>
Shareholders' funds	1,247	1,343	1,423	1,497
Non Controlling Interests	24	26	28	27
<b>Total Equity</b>	<b>1,271</b>	<b>1,369</b>	<b>1,450</b>	<b>1,525</b>
<b>Total Liabilities &amp; Equity</b>	<b>12,490</b>	<b>11,909</b>	<b>11,822</b>	<b>11,761</b>

# Key financial data and performance

NLB d.d. (1/2)

EURm	FY'13	FY'14	FY'15	H1'15	H1'16
Net interest income	157	227	208	108	87
Net fee and commission income	101	101	98	49	47
Income from financial operations	7	34	9	7	13
Other Income	(6)	3	(2)	2	1
<b>Operating Income</b>	<b>260</b>	<b>364</b>	<b>313</b>	<b>165</b>	<b>149</b>
Staff costs	(111)	(102)	(102)	(51)	(52)
General expenses	(75)	(67)	(64)	(31)	(29)
Depreciation and amortization expenses	(27)	(24)	(21)	(11)	(10)
<b>Operating expenses</b>	<b>(212)</b>	<b>(193)</b>	<b>(187)</b>	<b>(92)</b>	<b>(90)</b>
<b>Pre Provision Income</b>	<b>47</b>	<b>171</b>	<b>126</b>	<b>72</b>	<b>59</b>
Extraordinary measures	(288)	0	0	0	0
Impairment losses on credit risk	(705)	(84)	(28)	(39)	(10)
Other impairments	(522)	(9)	(60)	(4)	(1)
Gains/Losses on associates and JVs	0	5	14	14	29
<b>Profit / (Loss) before income tax</b>	<b>(1,467)</b>	<b>83</b>	<b>52</b>	<b>43</b>	<b>77</b>
Income Tax	(74)	(1)	(8)	(3)	(6)
<b>Profit/ (Loss) after income tax</b>	<b>(1,540)</b>	<b>82</b>	<b>44</b>	<b>40</b>	<b>71</b>
Profit / (Loss) attributable to shareholders	(1,540)	82	44	40	71

# Key financial data and performance

NLB d.d. (2/2)

EURm	Dec-13	Dec-14	Dec-15	Jun-16
<b>ASSETS</b>				
Cash and balances with Central Banks	591	434	497	484
Financial instruments	2,177	2,091	2,146	2,182
Loans and advances to banks	161	159	345	408
Loans and advances to customers (net)	6,129	5,700	5,221	5,146
Investments in associates and JV	277	353	353	354
Intangible assets	45	34	30	26
PP&E	108	97	95	91
Other assets	20	17	21	22
<b>Total Assets</b>	<b>9,507</b>	<b>8,886</b>	<b>8,707</b>	<b>8,714</b>
<b>LIABILITIES &amp; EQUITY</b>				
Deposits from banks	74	91	97	83
Deposits from customers	5,747	6,300	6,298	6,419
Borrowings	1,031	557	416	371
ECB funding	1,267	120	120	0
Securities and other liabilities	294	613	534	526
<b>Total Liabilities</b>	<b>8,414</b>	<b>7,681</b>	<b>7,465</b>	<b>7,398</b>
Shareholders' funds	1,093	1,205	1,242	1,316
Non Controlling Interests	0	0	0	0
<b>Total Equity</b>	<b>1,093</b>	<b>1,205</b>	<b>1,242</b>	<b>1,316</b>
<b>Total Liabilities &amp; Equity</b>	<b>9,507</b>	<b>8,886</b>	<b>8,707</b>	<b>8,714</b>