NLB Group

Annual Report 2017

Ready for Change

NLB Group

Ready for Change

Annual Report 2017

Contents

NLB Group strategic members overview

NLB Group

350
Number of branches

1,822,569
Number of active clients

225
Result after tax (in EUR million)

12,238
Total assets (in EUR million)

Slovenia

NLB, Ljubljana

108
Number of branches

8,713
Total assets (in EUR million)

692,525
Number of active clients

23.0%
Market share by total assets

189.1
Result after tax (in EUR million)

NLB Skladi, Ljubljana

1,202
Assets under management (in EUR million)

29.9%
Market share[1] (mutual funds)

3.7
Result after tax (in EUR million)

NLB Vita, Ljubljana

446
Assets of covered funds without own resources (in EUR million)

13.5%
Market share[2]

6.9
Result after tax (in EUR million)

Bosnia and Herzegovina

NLB Banka, Banja Luka

58
Number of branches

670
Total assets (in EUR million)

214,558
Number of active clients

18.9%
Market share[3] by total assets

23.7
Result after tax (in EUR million)

NLB Banka, Sarajevo

39
Number of branches

531
Total assets (in EUR million)

137,210
Number of active clients

5.3%
Market share[4] by total assets

8.3
Result after tax (in EUR million)

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

1. Market share of assets under management in mutual funds.
2. Market share in traditional life insurance.
3. Market share in the Republic of Srpska as at 30 September 2017
4. Market share in the Federation of Bosnia and Herzegovina as at 30 September 2017
5. Marker share as at 30 September 2017

Serbia

NLB Banka, Beograd

31
Number of branches

371
Total assets (in EUR million)

133,351
Number of active clients

1.2%
Market share[5] by total assets

3.7
Result after tax (in EUR million)

Montenegro

NLB Banka, Podgorica

18
Number of branches

457
Total assets (in EUR million)

59,888
Number of active clients

11.0%
Market share by total assets

5.4
Result after tax (in EUR million)

Macedonia

NLB Banka, Skopje

52
Number of branches

1,236
Total assets (in EUR million)

384,685
Number of active clients

16.4%
Market share by total assets

40.0
Result after tax (in EUR million)

Kosovo

NLB Banka, Prishtina

44
Number of branches

584
Total assets (in EUR million)

200,497
Number of active clients

15.7%
Market share by total assets

14.2
Result after tax (in EUR million)

Table 1a: Key financial caption for NLB Group and NLB

	2017		2016		2015	
	NLB Group	NLB	NLB Group	NLB	NLB Group	NLB
Income statement indicators (in EUR million)						
Net interest income	309	159	317	175	340	208
Net non-interest income	179	113	158	109	143	105
Regular net non-interest income	166	103	145	96	150	102
Total costs	-285	-176	-290	-181	-298	-187
Result before impairments and provisions	204	96	186	103	186	126
Provisions and impairments	30	31	-61	-64	-83	-88
Net gains/losses from subsidiaries, associates and JV	4	58	5	29	4	14
Result before tax	237	185	131	68	107	52
Minority interest	8	-	6	-	3	-
Result after tax	225	189	110	64	92	44
Financial position statement indicators (in EUR million)						
Total assets	12,238	8,713	12,039	8,778	11,822	8,707
Loans and advances to non-banking sector (gross)	7,641	4,987	7,901	5,434	8,351	5,915
Impairments of loans to non-banking sector	-647	-317	-903	-505	-1,263	-695
Loans and advances to non-banking sector (net)	6,995	4,670	6,997	4,929	7,088	5,221
Financial assets (securities & derivatives)	2,963	2,460	2,778	2,295	2,578	2,087
Deposits from non-banking sector	9,879	6,812	9,439	6,617	9,026	6,298
Equity	1,654	1,381	1,495	1,265	1,423	1,242
Minority interest	35	-	30	-	28	-
Total off-balance sheet items	3,880	3,390	2,934	2,502	3,181	2,779
Key financial indicators						
a) Capital adequacy						
Total capital ratio *****	15.9%	21.8%	17.0%	23.4%	16.2%	22.6%
Tier 1 ratio *****	15.9%	21.8%	17.0%	23.4%	16.2%	22.6%
CET 1 ratio *****	15.9%	21.8%	17.0%	23.4%	16.2%	22.6%
Total risk weighted assets (in EUR million)	8,547	5,234	7,862	4,882	7,927	5,028
Risk weighted assets/Total assets	69.8%	60.1%	65.3%	55.6%	67.1%	57.7%
b) Asset quality						
NPL coverage ratio (Coverage of gross non-performing loans with impairments for all loans)	77.5%	67.8%	76.1%	71.7%	72.2%	67.9%
NPL coverage ratio (Coverage of gross non-performing loans with impairments for non-performing loans)	62.2%	56.0%	64.6%	60.8%	62.8%	59.1%
Non-performing loans volume (in EUR million)	844	478	1,299	753	1,896	1,101
Non-performing loans (NPL)/total loans	9.2%	8.1%	13.8%	11.9%	19.3%	16.5%
Net non-performing loans (NPL)/total net loans	3.8%	3.8%	5.4%	5.1%	8.3%	7.6%
Non-performing exposure (NPE) - EBA Definition	6.7%	5.8%	10.0%	8.5%	14.3%	12.1%
Credit impairments and provisions/Risk weighted assets	-0.5%	-0.8%	0.3%	0.3%	0.6%	0.6%
c) Profitability						
Interest margin*	2.6%	1.8%	2.7%	2.0%	2.9%	2.4%
Financial intermediation margin	4.1%	3.8%	4.0%	3.6%	4.1%	3.8%
Return on equity before tax (ROE b.t.)	14.8%	14.1%	8.6%	5.3%	7.6%	4.2%

	2017		2016		2015	
	NLB Group	NLB	NLB Group	NLB	NLB Group	NLB
Return on assets before tax (ROA b.t.)	2.0%	2.1%	1.1%	0.8%	0.9%	0.6%
Return on equity after tax (ROE a.t.)	14.4%	14.4%	7.4%	5.0%	6.6%	3.6%
Return on assets after tax (ROA a.t.)	1.9%	2.2%	0.9%	0.7%	0.8%	0.5%
d) Business costs						
Operating costs/average total assets	2.4%	2.0%	2.4%	2.1%	2.5%	2.2%
Costs/net income (CIR)	58.3%	53.3%	60.9%	57.9%	61.6%	57.2%
Costs w/o restructuring costs/regular net income (CIR normalized)	58.9%	53.6%	61.8%	59.2%	60.0%	56.8%
Total costs/Risk weighted assets	3.3%	3.4%	3.7%	3.7%	3.8%	3.7%
Total costs/Total assets	2.3%	2.0%	2.4%	2.1%	2.5%	2.2%
e) Liquidity						
Liquidity assets/short-term financial liabilities to non-banking sector	54.5%	61.6%	55.7%	63.3%	57.3%	61.0%
Liquidity assets/average total assets	41.4%	46.6%	40.7%	45.6%	39.3%	41.4%
f) Other						
Market share in terms of total assets	-	23.0%	-	23.7%	-	23.3%
Loans to non-banking sector/deposits from non-banking sector (LTD)**	70.8%	68.6%	74.2%	74.5%	75.1%	78.0%
Revenues/Risk weighted assets (RWA) ***	5.6%	6.1%	5.9%	6.1%	6.2%	6.4%
Key indicators per share						
Shareholders	-	1	-	1	-	1
Shares	-	20,000,000	-	20,000,000	-	20,000,000
Book value (in EUR)	82.7	69.1	74.8	63.2	71.1	62.1
International credit ratings						
S&P	BB		BB-		BB-	
Fitch	BB		BB-		B+	
Moody's ****	Ba1		Ba3		B2	
Capital Intelligence	BBB-		BB+		BB+	
Employees						
Number of employees	6,029	2,789	6,175	2,885	6,372	3,028

*** Calculated on the basis of average total assets**
**** Without BAMC bond**
***** Recurring income only**
****** Unsolicited rating**
******* Envisaging dividend payment in 100% of net profit after tax of the Bank (EUR 189.1 million).**

Table 1b: Information on the liquidity coverage ratio (LCR)

in EUR thousand

	Q1 2017		Q2 2017		Q3 2017		Q4 2017	
	NLB Group	NLB	NLB Group	NLB	NLB Group	NLB	NLB Group	NLB
Liquidity Coverage Ratio (LCR)	361%	383%	337%	355%	311%	324%	301%	314%
High Quality Liquid Assets (HQLA)	2,344,910	2,192,072	2,380,347	2,231,134	2,318,111	2,171,685	2,322,374	2,169,728
Net Liquidity Outflows	654,877	579,569	726,639	649,022	758,166	680,701	782,524	700,414

Definitions and glossary of selected terms

ALM	Asset and Liability Management
BAMC	Bank Asset Management Company
BoS	Bank of Slovenia
BRRD	Bank Recovery and Resolution Directive
CAR	Capital Adequacy Ratio
CEO	Chief Executive Officer
CET 1	Common Equity Tier 1
CFO	Chief Financial Officer
CIR	Cost-to-Income Ratio
CMO	Chief Marketing Officer
COO	Chief Operating Officer
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSR	Corporate Social Responsibility
CVA	Credit Value Adjustments
DCA	Dedicated Cash Account
DGS	Deposit Guarantee Scheme
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EMIR	European Market Infrastructure Regulation
EU	European Union
FX	Foreign Exchange
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
HICP	Harmonized Index of Consumer Prices
HR	Human Resources
IAS 39	International Accounting Standard 39
ICAAP	Internal Capital Adequacy Assessment Process
IEC	Innovative Entrepreneurship Centre
IFRS9	International Financial Reporting Standard 9
ILAAP	Internal Liquidity Adequacy Assessment Process

IMF	International Monetary Fund
KDD	Central Securities Clearing Corporation
KPI	Key Performance Indicator
LCR	Liquidity Coverage Ratio
LTD	Loan-to-Deposit Ratio
M&A	Mergers and Acquisitions
MBDP	Macedonian Bank for Development Promotion
MiFID II	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation Rules
MREL	Minimum Requirement of Own Funds and Eligible Liabilities
NIM	Net Interest Margin
NLB or the Bank	NLB d.d.
NLB Skladi	NLB Assets Management
NPE	Non-Performing Exposures
NPL	Non-Performing Loans
OCR	Overall Capital Requirement
PD	Probability of Default
POS	Point of Sale
PSD2	Payments Services Directive
QR	Quick Response
REAM	Real Estate Asset Management
ROE	Return on Equity
RORAC	Return on Risk-Adjusted Capital
RoS	Republic of Slovenia
RWA	Risk Weighted Assets
SEE	South-Eastern Europe
SFRY	Socialist Federal Republic of Yugoslavia
SME	Small and Medium-sized Enterprises
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SSH	Slovenian Sovereign Holding
SSM	Single Supervisory Mechanism
STP	Straight Through Processing
T2S	TARGET2-Securities
The Group	NLB Group
ZBan-2	Slovenian Banking Act
ZDIJZ-1	Public Information Access Act
ZGD-1	The Companies Act
ZPotK-2	Consumer Credit Act
ZPPDFT-1	Prevention of Money Laundering and Terrorist Financing Act
ZSDH-1	Slovenian Sovereign Holding Act
ZTFI	Financial Instruments Market Act

Business Report

Chapter 1

Statement by the Management Board of NLB

2017 was a breakthrough year for NLB Group. The continued trend of stable and profitable operations resulted in the Group's highest ever net profit of EUR 225.1 million, further significantly improved asset quality, increased cost efficiency, and regained a trend-setting role in introducing contemporary client solutions on our target markets. All core members reported growing profits and contributed substantially to the Group's result, which proves the importance and underlines our strategic commitment to businesses and citizens on SEE markets. By following our strategy to create innovative solutions and products based on customers' needs, we believe we have set a strong foundation for a profitable and value-creating future.

The Group evolved into a sustainably profitable, client-oriented, universal financial services provider that is focused on Slovenia and the SEE region with the objective to becoming a modern, competitive, efficient, and effective bank. At the core of our strategy is our customer commitment to be available anytime and anywhere with the right solutions. This corresponds to the Group's ambition to provide a differentiating and high-level user experience for our increasingly digital and self-directed customers. We achieved some important milestones in 2017 to fulfil this commitment, which is confirmed by the growing number of customers using digital solutions and the high level of customer satisfaction.

A net profit of EUR 225.1 million was the highest in the Group's history. All core banking members in and outside Slovenia showed soundly positive and improving operations in 2017. Subsidiary banks posted EUR 87.2 million in net profit (2016: EUR 57.6 million), contributing 39% to the Group's results (52% in 2016). The Group followed its strategy to further strengthen its regional specialist position and to maintain high recognition and trust in the SEE markets. For the first time, the non-core segment operations were also profitable, contributing a very solid EUR 31.3 million to the Group's result.

The Group's performance is the result of our continuous focus on customer relationships, innovation, market research, and proactive seeking of new business opportunities. Understanding the key trends in banking and the broader environment enables us to prepare for future challenges, develop relevant solutions, and provide timely and value-adding advice to our clients across the region.

We reduced the volume of impairments and the share of NPL, and further improved the structure of the portfolio. We accomplished this with a set of short- and mid-term strategic initiatives, and by continuing the enhancement of risk management practices and processes.

Slovenia and SEE countries continue to benefit from the positive trends in the broad macroeconomic environment. Nevertheless, the banking system in and beyond the Euro area is still facing low interest rates and generally excess-liquidity. In addition, regulatory and reporting requirements, compliance with commitments to the EC, and preparation for the privatisation represented another set of challenges. Notwithstanding these challenges, the Group successfully overcame all these developments, and the rating agencies acknowledged this by upgrading the Bank's rating (Fitch and Standard and Poor's upgraded the Bank's rating to BB, Moody's to Ba1), while the outlook remains stable or positive.

Dedicated employees ensure that we will be able to manage the challenges created by the required technological development and digitalisation. For the second year in a row, an independent Dutch institute (Top Employers Institute) awarded us with the 'Top Employer' certificate for innovations and improvements in the field of human resources processes.

We are proud of the Group's achievements in 2017. With a clear vision, dedication to strategic goals, and a strong focus on our customers, we are well-positioned for future challenges. We will continue positioning the Bank as the innovative, modern, and agile provider of universal financial services, delivering on our strategic promise to launch innovative solutions based on customer's needs, and enhance our organisation and behaviour to foster and promote a strong performance culture. As the focused regional specialist, we will further strengthen our systemic role in the SEE region with high growth potential and maintain the leading position in Slovenia.

In 2017 we made substantial progress and took important steps to ensure future success, and we firmly believe that we are ready for the changes ahead.

By the end of 2017 the Bank delivered all commitments and measures foreseen within the comprehensive and demanding restructuring plan within the State Aid process. Consequently, we are well-prepared for the expected privatisation, and as a regional systemic institution, we remain fully committed to delivering value to our key stakeholders and society.

László Pelle
Member of the
Management Board

Archibald Kremser
Member of the
Management Board

A. Burkhardt

Andreas Burkhardt
Member of the
Management Board

Blaž Brodnjak
President
& CEO

Archibald Kremser
Member of the Management Board

Andreas Burkhardt
Member of the Management Board


László Pelle
Member of the Management Board
Blaž Brodnjak
President & CEO

Chapter 2

Report of the Supervisory Board of NLB

If bank fundamentals are of high quality, and the bank enjoys the benefits of a solid economic tailwind, its professional steering, oversight, and detailed monitoring should yield positive results.

From a macro-economic perspective, 2017 will be remembered as a good one. The credit crunch has eased and all but disappeared, while renewed optimism ignited domestic consumption that contributed to GDP growth. Unemployment is no longer a structural problem, and the country has started to enjoy the positive effects of surpluses at both the current account and trade level. The retail loan book is growing again and massive deleveraging of the non-financial sector has stalled. Furthermore, all of the Group's core regional non-Euro markets experienced rather robust growth dynamics. These are just some of the tailwinds that supported the delivery of the Group's record performance in 2017.

That said, interest rates have remained at historically low levels, competition has been cutthroat, and the environment and developments related to the Bank's future ownership have been unstable.

Keeping this in mind, I'm particularly proud of what the Group has delivered to all of its key constituencies (clients, shareholders, employees, and society) in 2017. The Group has been able to generate positive results and favourable trends in the areas of asset leverage, balance sheet management, cross-selling, cost control, and the cost of risk.

For the financial year 2017, the Bank posted a net profit of EUR 189.1 million, while the net profit of the Group amounted to EUR 225.1 million. The after-tax ROE reported by the Bank and the Group for the end of 2017 stood at 14.4%. The operations of the Bank and the Group were underpinned by their strong liquidity and capital positions, with their CAR reaching 21.8% and 15.9%[1], respectively.

Coupled with the Group's increased focus on digital innovation, the lower-risk retail loan segment boosted an almost 10% absolute net growth, with the Group servicing 1.8 million active retail customers region-wide, alongside thousands of active corporate clients. Apart from the deliverables related to better business performance, management also continued to streamline the operations of the Group across all of its business lines, in order to make them more cost-efficient.

NLB's Supervisory Board is convinced that the Group will achieve all of its strategic goals over the next five-year period, and will remain committed to value generation in all of its core business segments.

In other words, the Group is on the right path and there will be no deviation from it.

2017 brought changes, but nothing distorted the positive direction in which the Bank is moving.

In 2017, the composition of the Supervisory Board changed. At the beginning of the year 2017, the Bank had a full nine-member Supervisory Board, as stipulated by the Articles of Association, composed of: Chairman Primož Karpe, Deputy Chair Sergeja Slapničar and members: Uroš Ivanc, Andreas Klingen, László Urbán, David E. Simon, David Kastelic, Matjaž Titan, and Alexander Bayr. Due to three resignations and the expiration of one four-year term of office, three new members of the Supervisory Board were appointed at the General Meeting of Shareholders held on 8 September 2017. Since then the Supervisory Board has been performing operations with eight members, and its composition is as follows: Chairman Primož Karpe, Deputy Chair Andreas Klingen and members: Alexander Bayr, David Eric Simon, László Urbán, Vida Šeme Hočevar, Simona Kozjek, and Peter Groznik.

NLB's Supervisory Board monitors and supervises the management and operations of the Group. In doing so, it resolves to utilise uncompromised principles of professionalism and expertise, and maintain its strong dedication to integrity, ethics, and honesty. Throughout the year, the Supervisory Board has maintained a well-balanced professional relationship with the Management Board and enjoyed timely,

1. Envisaging dividend payment in 100% of net profit after tax of the Bank (EUR 189.1 million).

Primož Karpe
Chairman of the Supervisory Board

comprehensive, and data-supported inputs from the latter, enabling the Supervisory Board to adopt all its decisions in line with the professional interests of the Bank, whilst adhering at all times to banking regulations and its statutory powers.

Procedurally, the Supervisory Board performed its work in accordance with its competences and the Rules of Procedure of the Supervisory Board of NLB. It carried out its function of assuring efficient supervision over the management of the Bank and the Group, and its duty of careful and scrupulous performance, on the basis of its competences as laid down by the applicable law and other regulations, as well as by internal acts of the Bank. The Corporate Governance Code for Public Limited Companies and the Corporate Governance Code for Companies with State Capital Investment was also observed by the Supervisory Board in performing its duties.

While members of the Supervisory Board have proper and complementary knowledge, experience, and skills to perform their duties, they all have different professional, national, and educational backgrounds. The Supervisory Board represents a balanced, complementary team of experts focused on the effectiveness of performing its core functions. All the members of the Supervisory Board have the necessary personal integrity and professional ethics to hold their positions, which was confirmed by the positive fit-and-proper assessment completed prior to their appointment in 2017. This provides the assurance that they can carry out their supervisory roles in a responsible manner and make decisions that benefit the Bank. The delivery of critical and assertive opinions has been and will remain at the core of our decision-making principles through the expected engaged participation of all the members at all times.

In accordance with the commitments given by the RoS to the EC in December 2013 (and as amended in May 2017) the Supervisory Board invited the representative of the KPMG, poslovno svetovanje d.o.o., Ljubljana, who is acting as a Monitoring Trustee to all of its meetings.

Year 2017 was busy from a corporate governance perspective, with the Supervisory Board holding five regular and 10 correspondence sessions. The Supervisory Board also received expert assistance from its four operational committees, namely the Audit, Risk, Nomination, and Remuneration Committees, the composition and tasks of which are presented in the Corporate Governance section of this Annual Report.

Throughout the year, Supervisory Board members took precautionary measures to avoid any conflicts of interest that might have influenced their decisions. The Supervisory Board actively managed the conflicts of interest of its members and gave consent to its members to assume positions on Supervisory Boards of non-related companies.

Pursuant to the second paragraph of Article 282 of the ZGD-1, the Supervisory Board has compiled this written Annual Report with the aim of accurately and authentically presenting the activities of the Supervisory Board during the year.

Based on the Articles 272 and 281.a of the ZGD-1 and the report above, the Supervisory Board asserts and establishes that it regularly and thoroughly monitored the operations of the Bank and the Group in 2017 within its competences, thus adequately supervising the management and operations of the Bank and the Group, and overseeing NLB's Internal Audit.

Review and approval of the NLB Group 2017 Annual Report

The Management Board of the Bank submitted the NLB Group 2017 Annual Report to the Supervisory Board, including the Business Report with the audited financial statements of the Bank, the audited consolidated financial statements of the Group, and the auditor's opinion. According to the auditor, the financial statements with notes give a true and fair view of the financial position of the Bank and the Group as at 31 December 2017, and of their financial performance and their cash flows for that year in accordance with the International Financial Reporting Standards adopted by the EU. It was also established that the information contained in the business section of the Annual Report is consistent with the audited financial statements of the Bank and the Group.

In accordance with Article 34 of the Articles of Association of NLB, the Supervisory Board verified the submitted Annual Report, and shall give a report for the General Meeting of Shareholders. The Supervisory Board had no objections about the report of the audit company Ernst & Young, Ljubljana. Following a careful examination of the NLB Group 2017 Annual Report, the Supervisory Board had no objections, and unanimously approved it.

Yours truly,
The Supervisory Board of NLB

Primož Karpe
Chairman of the
Supervisory Board

Chapter 3

Key highlights of NLB Group

The Group is the largest banking and financial group in Slovenia with an exclusive strategic focus on selected markets in SEE. It covers markets with a population of approximately 17.4 million people. The Group is comprised of NLB as the main entity in Slovenia, six subsidiary banks in SEE, several companies for ancillary services (asset management, insurance, real estate management, etc.), and a limited number of non-core subsidiaries in a controlled wind-down. NLB is 100% owned by the RoS.

The largest banking and financial group in Slovenia

The largest bank in Slovenia, with 108 branches, over 692,000 active clients, and a 23.0% market share by total assets.

A very strong retail deposit-taking franchise with a market share of 30.7%.

Market leader across banking products and a leading provider of asset management and life insurance products.

Rating improvement in 2017 by all fourrating agencies: an upgrade from BB- to BB by Fitch (outlook: stable) and Standard and Poor's (outlook: positive); upgrade by Capital Intelligence from BB+ to BBB-, (outlook: stable); and upgrade by two notches by Moody's, from Ba3 to Ba1 (outlook: positive).

2. Envisaging dividend payment in 100% of net profit after tax of the Bank (EUR 189.1 million).

3. Envisaging dividend payment in 100% of net profit after tax of the Bank (EUR 189.1 million).

4. NPL ratio reduced from 13.8% in 2016 to 9.2% in 2017.

Leading position in selected SEE markets with significant growth potential

SEE markets, recording solid GDP growth above the Euro area average.

Independent, profitable, well-capitalised, and largely self-funded subsidiaries.

Subsidiaries in five countries in SEE (Macedonia, Kosovo, two subsidiaries in Bosnia and Herzegovina, Montenegro, and Serbia), with a market share in four countries exceeding 10%.

A strong focus on retail banking, with 242 branches and 1.1 million active clients of SEE banking members (excluding NLB).

A strong dividend payout from its core subsidiaries to the parent bank.

Proven track record of stable and profitable Group operations

Increased profitability for a fourth consecutive year, the highest in the Group's history.

2017 ROE of 14.4% at a CET ratio of 15.9%[2].

Revenue evolution driven by stable net interest margin and increasing fee income.

Continuous cost reduction.

Negative cost of risk due to positive economic circumstances and positive result from NPL collection.

Strong increase in the contribution of international operations to revenue and profit growth.

A self-funded, and well-capitalised franchise

Strong liquidity position, and a stable and diversified funding structure with a LTD of 70.8%.

A robust CET 1 ratio of 15.9%[3] supporting further stable dividend pay-outs.

100% of 2016 net profit of the Bank was paid out as a dividend to the RoS in 2017.

Constant improvement of asset quality

Substantially improved structure of the credit portfolio with new NPL formation ratio at consistently low levels (2017: 0.6% of gross loan portfolio, which equals EUR 58 million).

NPE ratio as defined by EBA significantly reduced from 10.0% in 2016 to 6.7% in 2017[4], with strong NPL coverage ratio standing at 62.2%.

Comprehensive organic and inorganic NPE reduction strategy.

Continuous disposal of non-core Group members and non-core loan portfolios.

Ready for change

To formulate a robust, long-term strategic response to digitalisation, the Bank has been progressing towards the adoption of a five-year business and IT strategy.

The strategy is aimed at creating an innovative bank with simple customer-oriented, data-driven solutions using digital and mobile technologies.

With implementation of the new banking services and functionalities based on digitalisation of products, processes, and customer experience, NLB is undergoing significant business changes that will modify its operations, as well as its culture.

At the Group level, NLB is deepening its exclusive strategic focus on countries in SEE.

The Group is firmly committed to achieving its mid-term financial targets, which include: ROE > 10%, CIR at approximately 50%, NPE ratio < 5%, and a 70% dividend pay-out ratio of the Group profit.

Chapter 4

Macroeconomic Environment

The positive economic trends from the second half of 2016 continued throughout 2017, as the global economy gained momentum.

The global economy continued to gain momentum in 2017, with upward revisions of growth forecasts being a continuing theme throughout the year, as global economic growth accelerated to 3.7%, representing the highest economic growth in more than five years. The turnaround of economic conditions has been nothing short of remarkable, as the global economy transitioned into a broad and synchronised recovery that is far more balanced than in prior years. Market worries over slowing global trade, weak investment, deflation risk, slow job creation, and stagnant wage growth, have diminished significantly, however, inflation has remained stubbornly stagnant. As economic growth gathers pace and output gaps continue to tighten, the anticipation of resurgent inflationary pressures continues. The economy of the United States warranted another key interest rate increase by the FED, while another three increases are expected in 2018. As strength within the economy continues, and questions continue to arise regarding the length and sustainability of the current economic cycle. Asian economies benefitted from strong consumption and investment growth, combined with the resurgence of global trade. In China, the government has been taking steps to curb debt levels in the private sector, improving the country's long-term prospects. The Asia Pacific region appears to be set for healthy growth in coming years, as capital inflows surprise on the upside. The rally of industrial metal and oil prices throughout the second half of the year, with the London Metal Exchange Index growing over 25% from June lows, is another positive leading indicator for inflationary dynamics and economic activity in the mid-term. At the turn of the year, the economic background could hardly have been better, as in the previous year, the primary risks to the rosy outlook are of a political nature.

The economy of the Euro area expanded at a pace of 2.3% in the year and finds itself in what financial markets have dubbed a 'golden cycle', with strong economic and credit growth, limited inflationary pressures, and a low interest environment. In general, the region appears to be at a healthy stage of the new economic cycle, with much of regions political issues diminishing through the year as the global populist tide abated. Manufacturing figures and consumer sentiment continued to surpass expectations as they rose to levels not seen in decades. Supported by accommodative monetary policy, retail credit growth more than doubled, while corporate credit growth was over five times higher when compared to levels from the start of 2016. From a 0.2% consumer price growth in 2016, Euro area headline inflation accelerated to 1.5% in 2017, while core inflation, which continued to oscillate around one percent, remained worryingly stagnant. Monetary policy is expected to remain accommodative in

Slovenia's economic growth accelerated to 5.0% in 2017. External trade dynamics once again surpassed expectations, and together with the recovery of gross capital formation, supported the economic acceleration.

the mid-term, with a very gradual exit expected in coming years. In addition to the appreciation of the Euro, the heterogeneity of the region's economic recovery remains an important factor limiting inflationary pressures in the region. As inflation in core countries slowly begins to surpass targeted levels and inflation in periphery countries continues to lag, pressure will continue to build on the ECB, though no rate movements are currently anticipated in 2018. The current market consensus is that the Euro area is at an early stage of its economic cycle, the considerable momentum gained by the region is seen as robust and likely to weather regional risk events in coming years.

The overall global economic outlook has strengthened considerably in comparison to the previous year, the IMF anticipates economic growth of 3.9% in 2018 and 2019, although given the current economic momentum further upward revisions throughout 2018 would not be surprising. At the current stage of its cycle, the European economy is set for several years of economic growth, while the United States finds itself in a notably later stage of its cycle, whose inevitable downturn poses a risk to the strong global economic outlook. Weak forecasts of economic growth and uncertainty regarding the exit from the EU, cloud the United Kingdom's outlook and represent a potential risk to Europe's economy, in addition to the now somewhat decreased political risks from the region. While 2017 was a transitional year for the world economically, 2018 has the potential to be a transformative year for the rate environment, as slack in the global economy continues to diminish and the recovery continues to broaden, inflationary pressures could surprise on the upside. The gradual reversal of the European bond bull market could prove to be eventful in the short-term, but likely only gradual on a longer timeline as the ECB will fight to keep rates and regional sovereign borrowing costs stable as the nascent economic momentum continues and it winds down its bond purchasing programme.

Slovenia

Supported by a broad recovery in the external environment, Slovenia's economic growth accelerated to 5.0% on an annual level in 2017. External trade dynamics once again surpassed expectations, with exports and imports experiencing annual growth of 10.6% and 10.1% respectively, resulting in the seventh consecutive year of a current account surplus. The recovery of gross capital formation was another notable contributing factor behind the years' accelerated economic expansion. Annual growth of the metric expanded to 8.4%, supported by the growth in construction investments, as well as investments into machinery and equipment. Capacity utilisation will continue to be an important driver of investment growth, with industrial production recording an annual growth of 5.7% in the year. Despite the improvement in investment dynamics, overall levels remain notably below pre-crisis levels and are indicative of further growth potential. Consumption growth dynamics continued to support the ongoing economic recovery, with retail sales reaching multi-year highs. Consumer sentiment was recorded at its highest level since the inception of the index in 1996, further underscoring the economic progress achieved since the crisis, and foreshadowing further capacity for growth of consumer spending in the mid-term. Further tightening of the labour market is expected to continue to further benefit the domestic economy, the LFS unemployment rate fell by 1.4 percentage points to 6.6%, while another 0.6 percentage point decrease is forecast by the end of 2018. As has been the case in some Eastern European countries, the continued tightening of the labour market in Slovenia resulted in an acceleration of wage growth, annual growth of the metric averaged 2.7%, compared to 1.8% growth in the previous year. The recovery of the real estate sector continued throughout the year. Real estate price growth accelerated in the second half of 2016 and reached 10.0% in 2017, from 3.3% in the previous year, while the number of completed transactions grew by 1.3%. Reflecting the increased real estate activity and increased investments, the construction sector experienced annual real growth of 17.8%. This recovering sector of the economy has thus returned to approximately 68.6 percent of pre-crisis levels, and is set for further growth. Following negative price growth in the prior two years, HICP inflation grew at an average annual pace of 1.4% in the year, the acceleration was driven primarily by rising food and petroleum product prices. The country's budgetary deficit, as a percentage of GDP, benefitted from increased tax collection and social contributions, decreasing to 0.0% from -1.9% in the prior year. Public debt as a percentage of GDP fell to 73.6% at the end of the year a 5.0 percentage point decrease. With the improved situation in key economic trading partners, and what appears to be the beginning of a new investment cycle, the economic outlook for Slovenia's economy is very positive at present.

Table 2: Movement of key macroeconomic indicators in Slovenia and the Economic and Monetary Union

	2017	2016	2015	2014	2013
Slovenia					
GDP (real growth in %)	5.0	3.1	2.3	3.0	-1.1
Average annual inflation rate - HICP (in %)	1.6	-0.2	-0.8	0.4	1.9
Surveyed unemployment rate - LFS (in %)	6.6	8.0	9.0	9.7	10.1
Current account of balance of payments (% of GDP)	6.5[1]	5.2	4.4	5.8	4.4
Public debt (% of GDP)	73.6	78.5	82.6	80.3	70.4
Budgetary deficit/surplus (% of GDP)	0.0	-1.9	-2.9	-5.3	-14.7
Euro-area					
GDP (real growth in %)	2.3	1.8	2.1	1.3	-0.3
Average annual inflation rate - HICP (in %)	1.5	0.2	0.0	0.4	1.3
Surveyed unemployment rate - LFS (in %)	9.1	10.0	10.9	11.6	12.0
Current account of balance of payments (% of GDP)	1.1[3]	3.4	3.2	2.4	2.2
Public debt (% of GDP)[2]	88.1[2]	88.9	89.9	91.8	89.4
Budgetary deficit/surplus (% of GDP)[3]	-0.3[2]	-1.5	-2.1	-2.6	-3.0

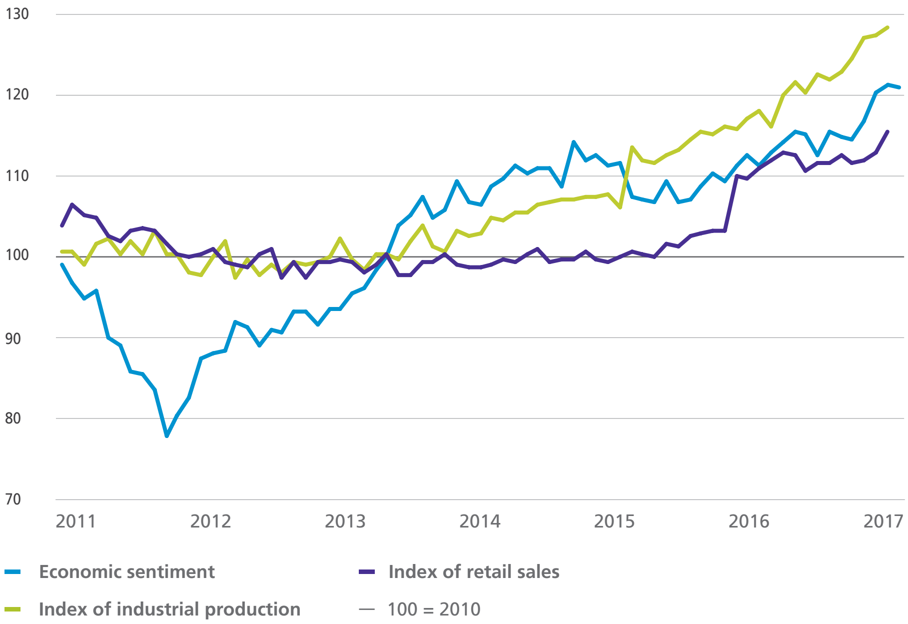
1. Own calculation from ECB, Eurostat and Surs data
2. Data as at Q3 2017
3. Data as at Q4 2017
Sources: Eurostat, SURS, ECB

3.7%
global economic growth in 2017

2.3%
economic growth in the Euro-area

5.0%
economic growth in Slovenia

Figure 1: Growth of economic metrics

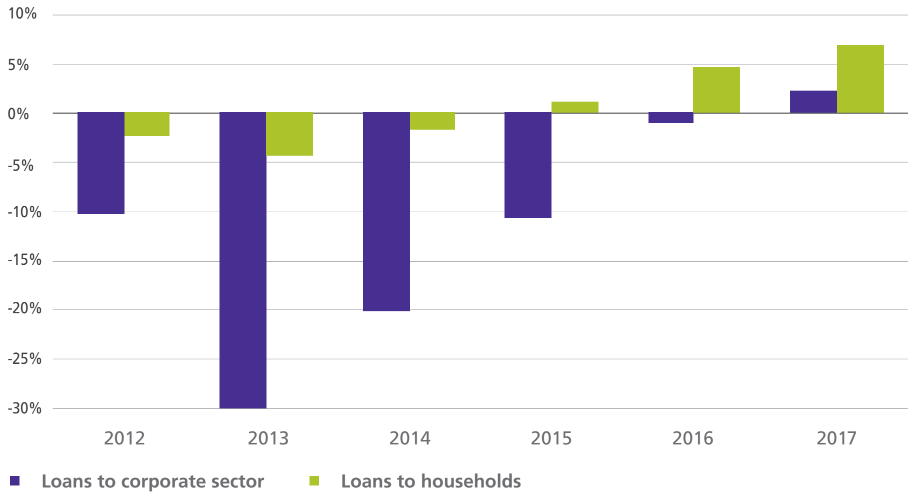


Source: Slovenian Statistical Office

The Banking System in Slovenia

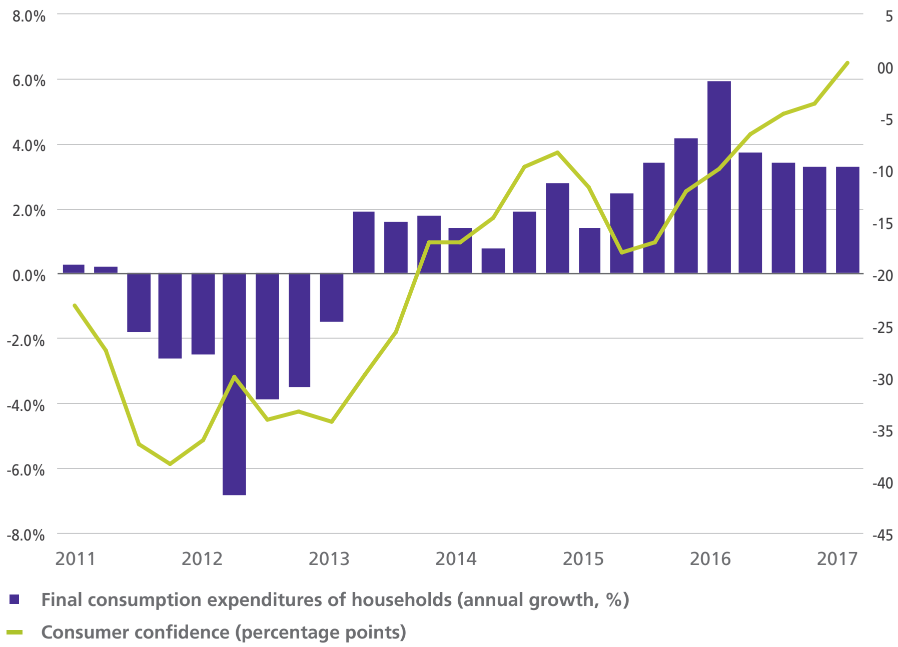
The year marked a milestone in the recovery of Slovenia's banking system, with the corporate loan portfolio returning to annual growth for the first time since 2008. Aggregate profit increased by 27.1%, when compared with the previous year, amounting to EUR 422.6 million and corresponding to a return on equity of 9.5%. The challenges of the low rate environment continued to impact the banking system's bottom line, however, loan interest rates showed signs of stabilisation, with housing and certain corporate loan rates experiencing growth through the year. Net interest income recorded a more modest decrease, when compared to previous years, of 7.5%. Loan growth dynamics continued strengthening, with the corporate loan portfolio expanding by 2.2% on an annual level, by the end of the year it had expanded by 7.9% from the post-crisis lows of September 2016. Annual growth of the retail loan portfolio measured 6.8%, it was supported by positive trends in the real estate sector and growing consumption. Despite the aforementioned encouraging trends of the loan portfolio, loan growth was once again surpassed by the growth of deposits, which remains supported by high savings rates and the external trade surplus. The banking system's loan-to-deposit ratio continued to show signs of stabilisation, ending the year at a ratio of 78.2%, a decrease of 0.4 percentage points, thus continuing the tapering of the contraction from the prior year. Positive trends with the quality of the credit portfolio continued through the year, NPL ratio decreased to 3.7%, a decrease of 1.8 percentage points.

Figure 2: Annual loan growth in the Slovenian banking system



Source: Bank of Slovenia

Figure 3: Households consumption and consumer confidence



Source: Slovenian Statistical Office

The outlook for Slovenia's banking system remains positive, the broad recovery of the global economy is expected to remain supportive of the positive economic trends within Slovenia's economy, which will by proxy benefit Slovenia's banking system. Capacity utilisation and improving activity within the construction sector are expected to be supportive for the corporate loan portfolio, while record consumer sentiment levels, real wage growth, and the recovery of the real-estate market will support further growth of the retail loan portfolio. Despite expectations of strong loan growth in the mid-term, the loan-to-deposit ratio will most likely remain stagnant, as deposits remain supported by the current account surplus and high degree of saving. The stabilisation of the regional and domestic interest rate environment, together with the regional economic stabilisation shows the upside potential for the system's interest income in the mid-term. However, high levels of competitive pressure and excess liquidity will remain a key opposing force and will likely limit any major upward movement of interest rate income for some time.

SEE Markets

SEE continues to benefit from the positive trends in the broad macroeconomic environment, in particular the resurgent European economy. Growth of consumption and improving external positions were a theme across Group's area of operations, as unemployment levels fell and demand from external environment grew. Following considerable deflationary pressures in the previous year, with three country's recording negative price growth, inflation experienced a resurgence in the region in 2017. With the European macroeconomic cycle expected to continue in the mid-term, the outlook for the economies of the SEE and further economic growth has improved notably. In addition to the positive regional macroeconomic picture, the ambitious Strategy for the Western Balkans recently released by the EC, has renewed regional European integration hopes and bodes well for the long-term stability and economic prospects of the region.

Serbia's economic growth tempered in 2017, reaching 1.9% annually, while measuring 2.8% in the previous year. The slowdown of economic growth, which resulted from weather-related factors, is expected to be temporary. Growth is expected to return above 3.0% in the mid-term, underpinned by further external trade and manufacturing performance. The aforementioned factors together with significant and continued improvement of the country's fiscal metrics resulted in credit rating upgrades from Standard and Poor's, Moody's and Fitch in the year. The improved macroeconomic conditions continued to attract foreign investment, resulting in considerable appreciation pressure on the country's currency, prompting two key rate cuts by the central bank in the second half of the year. The country's banking system experienced a strong increase in profitability, growing by 63.1% at the end of the third quarter, when compared with the previous year, with a return on equity of 11.0%. Despite the positive economic trends, corporate credit growth remained stagnant, impacted by NPL write-offs, while retail loans continued to experience strong 7.8% annual growth. The quality of the aggregate credit portfolio experienced a remarkable improvement, with the percentage of NPL ratio decreasing by 4.8 percentage points to 12.2%, at the end of the third quarter.

Supported by growing investments and strong export performance, **Kosovo's** economy expanded by 3.8% in first three quarters of the year, one of the region's highest growth rates. Further growth, expected to be above 4.0% in the mid-term, will be supported by a continuation of strong consumption and private investment trends, as remittances and credit growth continue to support the local economy, and while exports continue to make an increasing contribution to economic growth. Political risk is the primary current downside risk for the country, in the year a no-confidence vote resulted in a change of government, while tensions surrounding the border demarcation with Montenegro continue. However, the overall macroeconomic outlook for the country remains bright. Strong performance of the banking system from previous years continued in 2017, with the system generating a return on equity of 21.3%. High levels of credit growth continued in the year, with corporate and retail loans ending the year 10.7% and 12.7% higher, respectively.

Following a cycle of investment-fueled growth, rising private consumption rose to the forefront, supported by positive trends in the labour market together with easing credit conditions, and propelled economic growth in **Montenegro** in the first three quarters to 4.3%. Strong tourism performance, arrivals expanded by 18.1% in comparison to the previous year, and growing exports of mineral ores, together with decreased investment-related imports, resulted in an improvement

Highlights:

- Serbia's banking system experienced a strong rise in profitability, growing by 63.1% in the first three quarters of the year when compared to the previous year, and with a return on equity of 11.0%.
- Kosovo's economy expanded by 3.8% in the first three quarters of the year, one of the region's highest growth rates.
- Montenegro's economic growth increased to 4.3% in the first three quarters of the year. Following a cycle of investment-fueled growth, rising private consumption supported by positive trends in the labour market together with easing credit conditions, became a primary growth driver.
- Sentiment within the Macedonian economy and investor confidence was positively impacted by resolution of political tensions; the country's economy remained unchanged in the year.
- Bosnia and Herzegovina's economy expanded at a pace of 3.0% in the first three quarters of 2017, economic growth was fueled by robust consumption dynamics.

Table 3: Trends in the key macroeconomic indicators for selected countries in SEE

	GDP (real growth in %)			Average inflation (in %)			Unemployment rate (in %)			Current account of the balance of payments (as % of GDP)			Budget deficit / surplus (as % of GDP)		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
BiH	3.0[1]	3.1	3.1	1.3	-1.1	-1.0	20.5	25.4	27.7	-4.5[2,3]	-5.1	-5.7	n.a.	1.2	0.7
Montenegro	4.3[1]	2.9	3.4	2.4	-0.3	1.5	14.8[1]	17.7	17.6	n.a.	-19.0	-13.3	-2.4[1]	-3.4	-8.1
Macedonia	0.0	2.9	3.9	1.4	-0.2	-0.3	22.4	23.7	26.1	-1.3[3]	-2.8	-1.9	-0.9	-2.6	-3.5
Serbia	1.9	2.8	0.8	3.1	1.1	1.4	13.5	15.3	17.7	-5.7	-3.1	-4.7	0.8	-0.2	-2.8
Kosovo	3.8[1]	4.1	4.1	1.5	0.3	-0.5	30.4[1]	27.5	32.9	-3,1[1,3]	-8.3[3]	-8.6[3]	0.1[1,3]	-1.1[3]	-1.6[3]

Source: Statistical office, Central banks
1. Data for the first three quarter of 2017.
2. Data for the first half of 2017.
3. Own calculation.

SEE continues to benefit from the positive trends in the broad macroeconomic environment, in particular the resurgent European economy.

of net exports and the current account deficit. The external trade position is expected to improve further, alleviating a notable concern of the economy. However, the continued performance of the tourism sector remains key to the country's continued recovery, while a potential slowdown of the metric poses a key risk. The profitability of the country's banking system improved notably in the first three quarters, reaching a return on equity of 8.2% with annual growth of 27.1%. Corporate credit growth continues to be hampered by legacy issues from the crisis and deleveraging of NPL, it recorded growth of 2.4%. Poor corporate credit growth performance was offset by substantial 10.4% growth of retail loans. Levels of NPL continued their steady decline, falling to 7.1% by the end of the third quarter, a 3.2 percentage point decrease.

Economic growth in **Macedonia** was hampered by a continuation of political issues from previous years, as the economy contracted in the first half of 2017 due to a significant contraction of investment activity. The formation of the new government in June represented a turning point for the country's economy, with the resolution of political tension positively impacting sentiment within the economy and investor confidence, and leading to an acceleration of growth in the second half of the year, as a result the country's economy remained unchanged in the year. Supported by strong performance in the labour market and wage growth, household consumption remained robust throughout the year. As investment activity intensifies in the mid-term, economic growth is expected to reach above three percent. The banking system's profitability contracted by 7.5% in the first three quarters of the year, generating a return on equity of 12.6%. The corporate credit portfolio was impacted by ongoing tensions and contracted throughout most of the first half of the year, but returned to growth following the resolution of tensions and ended the year 2.8% higher. Retail credit growth remained robust while moderating only slightly in the first half, and the retail credit portfolio expanded by 9.2% in the year. NPL ratio contracted by 1.5 percentage points to 3.4% in the first three quarters.

Bosnia and Herzegovina's economy expanded at a pace of 3.0% in the first three quarters of the year, and economic growth was fueled by robust consumption dynamics. Further remittance income is expected to support domestic consumption in the mid-term. A slowdown of reforms impacted the pay-out of IMF funding in the year, delaying key infrastructure projects. An agreement was reached by the end of the year and should result in a disbursement of funding in 2018, which will benefit economic growth for the year. The country's complex political system, and a slowing of reform progress remain key risks to further economic development. Profitability of the country's banking system experienced a substantial 58.3% increase when compared to the previous year, generating a return on equity of 11.7%. Both corporate and retail credit growth expanded sharply and ended the year 8.0% and 6.7% higher, respectively, while the quality of the credit portfolio improved with NPL decreasing to 10.0%, a fall of 1.8 percentage points in the year.

Chapter 5

Overview of NLB Group's Financial Performance 2017

The Group achieved a net profit of EUR 225.1 million, up 105% from 2016 (or EUR 115.1 million), and this being the highest result in the Group's history. The strong result reflects business growth at resilient margins and the exceptionally negative cost of risk.

- All subsidiary banks of the Group reported growing profits in 2017 and contributed 39% to the Group's result, an important part of the cumulative net profit. Loans in Key business activities were growing 1% YoY, especially in the retail segment (7% YoY).
- Continued cost improvements led to a further reduced CIR ratio of 58.3%.
- Reduced volume of provisions and impairments had an important positive contribution to net profit.
- Non-core markets and activities recorded profits as well, thanks to successful collection and divestments.
- NPL levels were reduced by 35%, thus, the NPL ratio decreased to 9.2% (from 13.8% in 2016); the NPE ratio is already at 6.7% (from 10.0% in 2016). A very low new NPL formation ratio from new business (2017: 0.6% of gross loan portfolio, which equals EUR 58 million).
- Liquidity and capital ratios [5] are solid and represent a basis for further growth; ROE stands at 14.4%, whereas the after tax RORAC (on a normalised capital requirement of 14.75% of RWA) is at 19.0%.

Profitable core markets and activities of the Group[6], with substantial contribution from strategic foreign markets, and improved operations by the non-core part of the Group

In 2017, the Key business activities achieved a profit before tax of EUR 169.7 million, up 48% from the year before. Strategic foreign markets contributed the largest share to positive profit before tax in the amount of EUR 102.0 million, the profit also increased in the segment of the population (52%) and in the healthy segment of corporate banking (+ 33%). A significant improvement of the 2017 results was achieved in the non-core part of the Group, based on successful collection and non-recurring income[7].

Core markets and activities: A significant improvement in all Key business [8] activities of the Group

In 2017, the Key business activities showed a strong positive evolution, with profit before tax increasing from EUR 114.4 million to EUR 169.7 million.

Both the Retail and Corporate segments in Slovenia showed solid performance, especially the retail segment showing healthy growth, and a positive outlook for the future. The highest growth in profitability was achieved in Strategic foreign markets with record results in

5. Envisaging dividend payment in 100% of net profit after tax of the Bank (EUR 189.1 million)."

6. Core markets and activities include Corporate banking in Slovenia, Retail banking in Slovenia, Financial markets in Slovenia, and Strategic foreign markets.

7. Non-recurring income from the sale of non-strategic equity participation (EUR + 9.5 million), a court settlement with Zavarovalnica Triglav (EUR + 1.2 million), and the sale of a Czech non-core subsidiary "NLB Factoring" in liquidation (EUR + 1.6 million).

8. Key business activities includes key/mid small corporates in Slovenia, Retail banking in Slovenia and Strategic foreign markets.

Figure 4: Profit a.t. of NLB Group/ROE

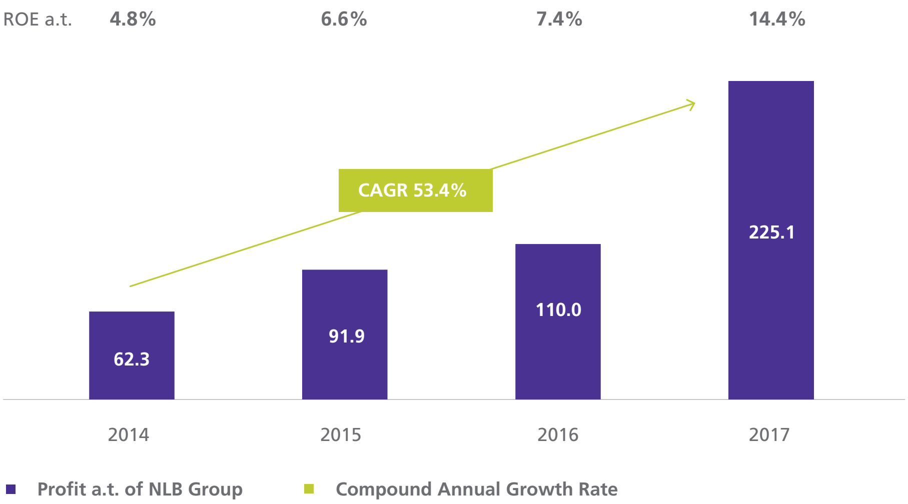
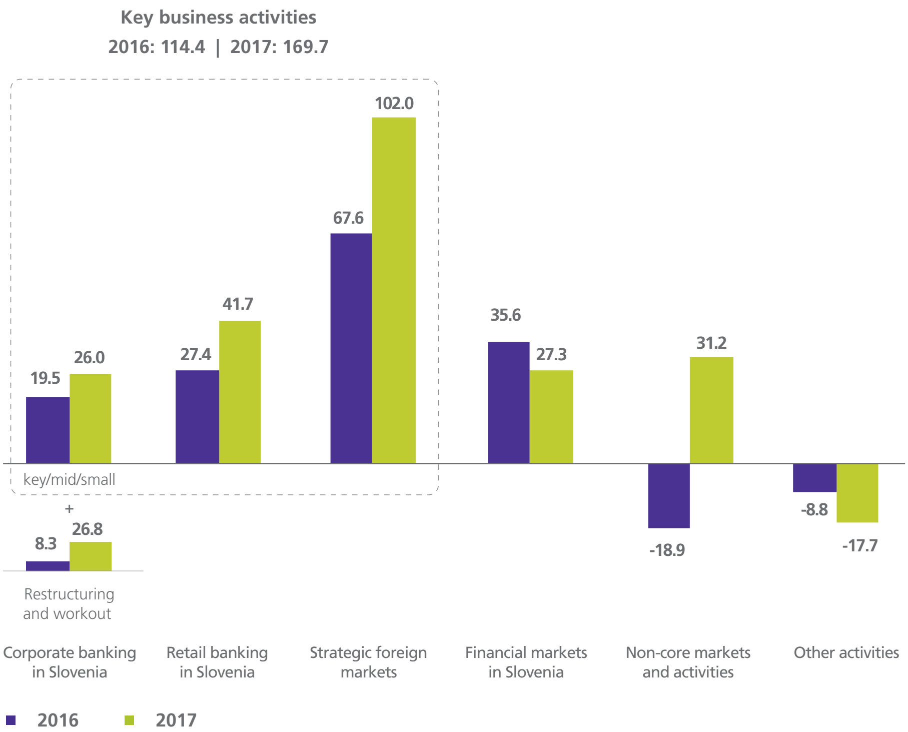


Figure 5: Profit before tax of NLB Group by segments (in EUR million)



Macedonia, and the strong performance of the entities in Kosovo and in Bosnia and Herzegovina. A significant improvement was recorded on the Serbian market, and favourable results were also achieved on the Montenegro market. The solid growth of retail lending with still-attractive margins was recorded in all markets.

The Financial markets segment result reflects lower yields of re-invested securities. With the Bank maintaining a conservative investment profile in mostly investment grade Sovereigns and Financial Institutions, yields on reinvestments have considerably declined in recent years, including 2017.

Non-core markets and activities: The positive result of operations and continuing divestments

The Non-core segment achieved a significant improvement compared to 2016, based on the successful collection of NPL, a one-off gain from divesting an equity exposure and successful divestment of non-core subsidiaries. Also, real estate management contributed positively to non-interest income.

Other activities

Other activities include categories in the Bank whose operating results cannot be allocated to individual segments, restructuring costs, and expenses from the vacant business premises. In 2017, the segment was burdened by HR provisions in the amount of EUR 8.4 million in the Bank related to strategy implementation, other restructuring costs in the amount of EUR 1.8 million, and by the expenses related to litigations in the amount of EUR 2.2 million.

Income statement

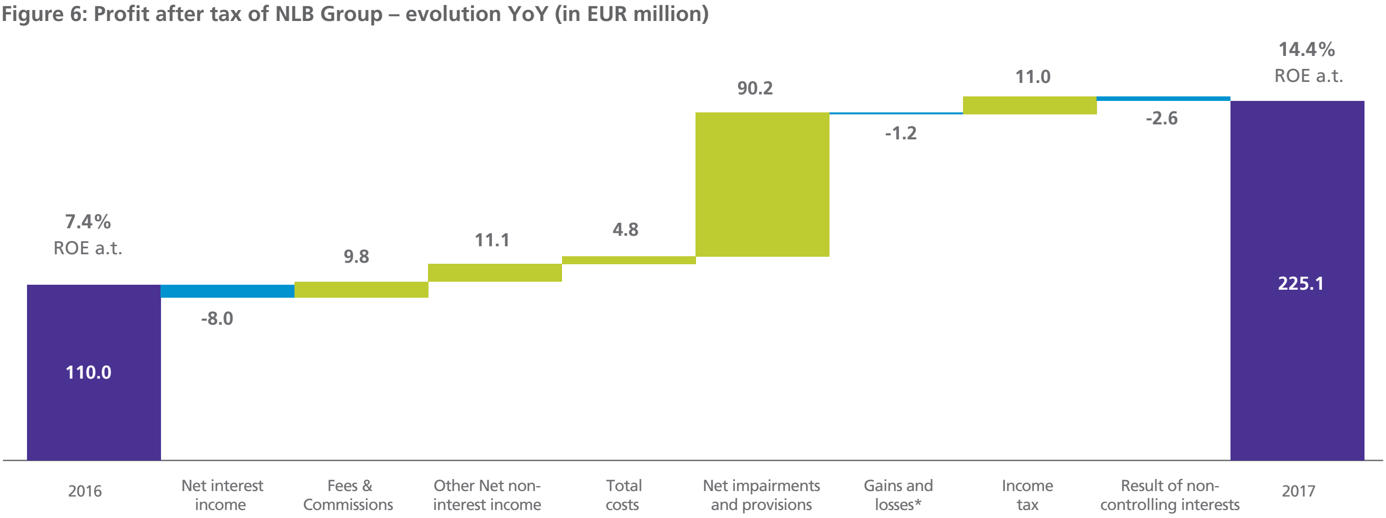
Table 4: Income statement of NLB Group and NLB

in EUR million

	NLB Group			NLB		
	2017	2016	Change YoY	2017	2016	Change YoY
Net interest income	309.3	317.3	-3%	158.8	174.9	-9%
Net fee and commission income	155.4	145.7	7%	98.5	95.3	3%
Dividend income	0.2	1.2	-86%	0.1	1.1	-96%
Net income from financial transactions	26.7	19.9	35%	17.0	13.3	28%
Net other income	-3.0	-8.3	-64%	-2.4	-0.9	171%
Net non-interest income	179.3	158.4	13%	113.1	108.8	4%
Total net operating income	**488.6**	**475.7**	**3%**	**271.9**	**283.7**	**-4%**
Employee costs	-164.5	-165.4	-1%	-103.7	-103.2	0%
Other general and administrative expenses	-92.4	-95.8	-4%	-54.2	-58.9	-8%
Depreciation and amortisation	-27.8	-28.3	-2%	-18.0	-18.9	-5%
Total costs	**-284.7**	**-289.5**	**-2%**	**-175.9**	**-181.0**	**-3%**
Result before impairments and provisions	**203.9**	**186.2**	**9%**	**96.0**	**102.7**	**-7%**
Impairments of AFS and HTM financial assets	0.0	-0.3	-95%	0.0	-0.3	-95%
Credit impairments and provisions	43.5	-26.1	-266%	41.5	-15.2	-372%
Investments in ass.&JV - using the equity method	0.0	-12.3	-100%	-0.7	-37.6	-98%
Other impairments and provisions	-13.9	-22.0	-37%	-10.1	-10.8	-6%
Impairments and provisions	**29.5**	**-60.6**	**-149%**	**30.7**	**-64.0**	**-148%**
Gains less losses from capital investments in subsidiaries, associates, and joint ventures[1]	3.9	5.0	-23%	58.2	28.9	101%
Profit before income tax	**237.3**	**130.6**	**82%**	**184.9**	**67.7**	**173%**
Income tax	-4.0	-15.0	-73%	4.2	-3.9	-207%
Result of non-controlling interests	-8.2	-5.6	47%	0.0	0.0	-
Profit for the period	**225.1**	**110.0**	**105%**	**189.1**	**63.8**	**196%**

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

Figure 6: Profit after tax of NLB Group – evolution YoY (in EUR million)



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

Strong result reflects business growth at resilient interest margins and negative cost of risk

The net profit for 2017 amounted to EUR 225.1 million, which is 105% or EUR 115.1 million higher than in 2016.

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

- Solid recovery in loan demand in Slovenian retail, and high business growth in Strategic foreign markets, resulting in 1% loan book growth YoY for all Key business activities.
- Net interest income of the Bank was partially compensated by the growth in Strategic foreign markets.
- Significant growth in fee and commission income, and a positive result from non-recurring items[9].
- A continuous cost-reduction process resulted in additional savings, specifically in general and administrative expenses (-4% YoY). In 2017 the Bank paid EUR 3.0 million in performance rewards to its employees.
- Strongly reduced volume of provisions and impairments with an important contribution to net profit.

All the banks in the Group increased profit after tax compared to 2016 despite a low and partially negative interest rate environment, a high level of excess liquidity, and strong competition for good investment projects.

The result of the Bank increased by 196% YoY to EUR 189.1 million, and includes dividends from core subsidiaries, associates, and joint ventures in the amount of EUR 58.1 million. In April 2017, the Bank paid a dividend of EUR 63.8 million to the owner.

Figure 7: Profit after tax of NLB Group banks (on a standalone basis) – evolution YoY (in EUR million)

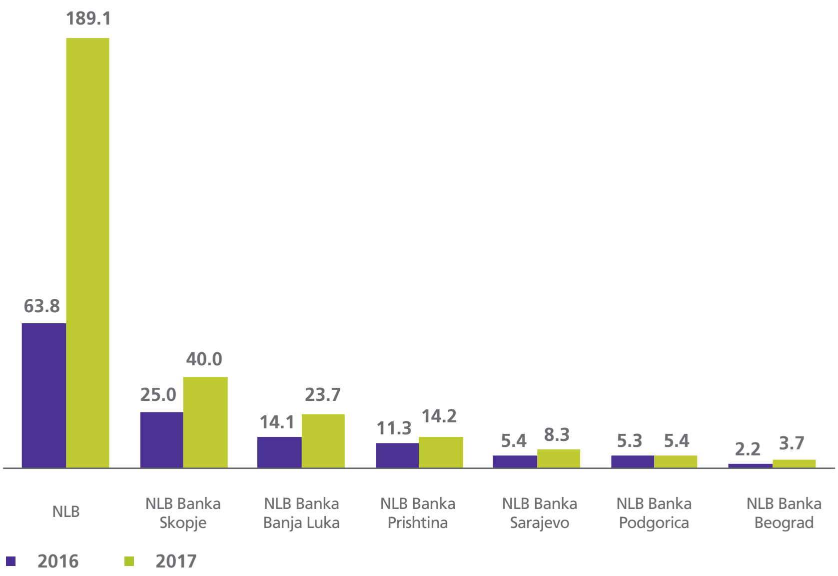
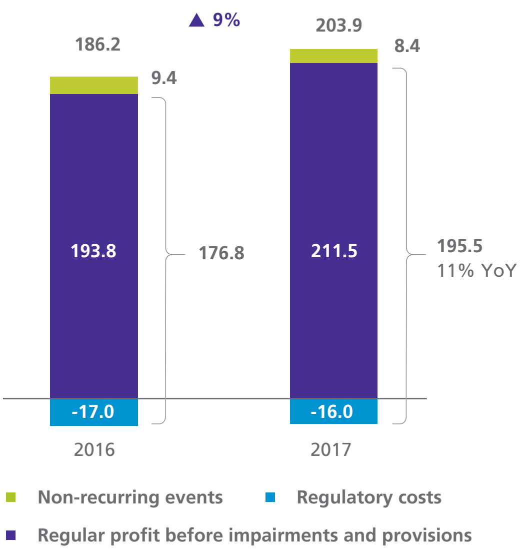
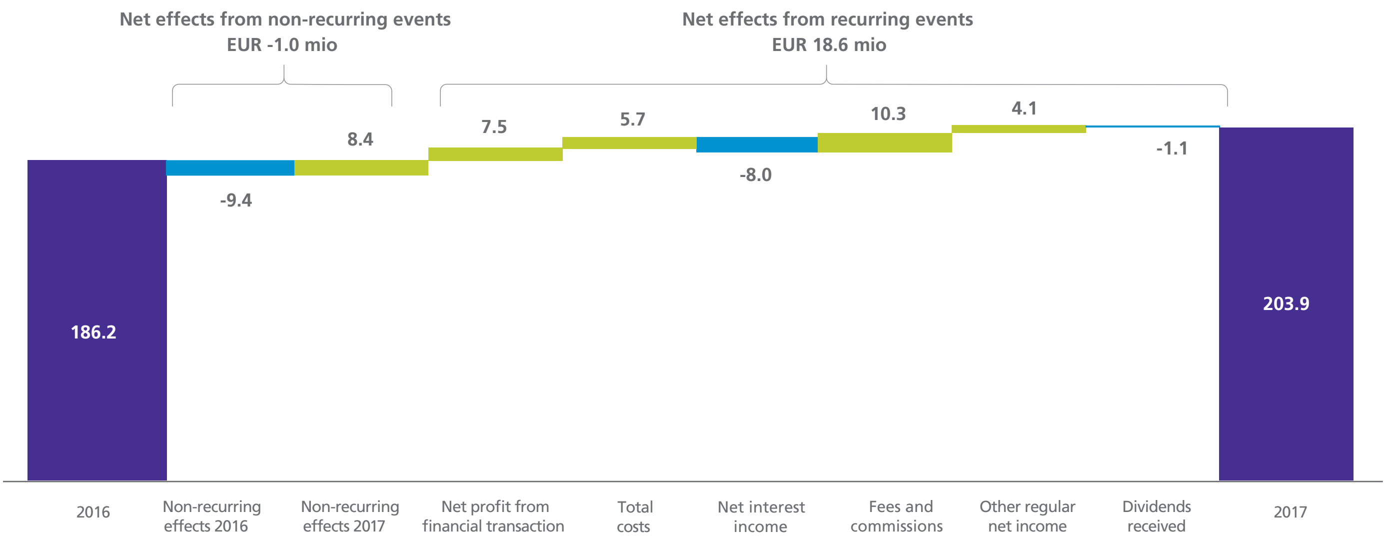


Figure 8: Profit before impairments and provisions of NLB Group (in EUR million)



9. Non-recurring items in 2017: positive effects from non-core equity participation in the amount of EUR +9.5 million, a court settlement with Zavarovalnica Triglav (EUR +1.2 million), the sale of a Czech non-core subsidiary NLB Factoring in liquidation (EUR +1.6 million), and the negative effects from restructuring costs (EUR -1.8 million) and performance rewards (EUR -3.0 million) in the Bank.

Figure 10: Profit before impairments and provisions of NLB Group – evolution YoY (in EUR million)



Profit before impairments and provisions of the Group totaled EUR 203.9 million, which is EUR 17.7 million higher than in 2016 and includes regulatory expenses in the amount of EUR 16.0 million, of which EUR 13.4 million relates to DGS and EUR 2.6 million to SRF.

By excluding the non-recurring effects in 2016 [10] and in 2017[11], the recurring result before impairments and provisions increased by 10%, and was mainly influenced by a solid improvement in regular costs (-2% YoY), higher regular net non-interest income (+14% YoY), and a notable decline in net interest income (-3% YoY).

Net interest income

NIM on the Group level remained stable at 2.57%. The margin of core banks on SEE markets is above the level recorded in 2016. An increase of the interest margin of the Bank as well as the Group in the second half of 2017 can be attributed in large part to the maturity of the Bank's bond in July (bond in the amount of EUR 300 million issued in
July 2014).

Net interest income of the Group accounted for 63% of the Group's total net revenues, decreasing by 3% YoY to EUR 309.3 million however, showing

10. Non-recurring events in 2016 related to positive effects of divestment a non-core equity stake (Trimo) at a profit of EUR 5.5 million (comprising of realised gain on equity investment and fee received as a financial consultant for the bank syndicate), Visa shares at a profit of EUR 7.8 million, and negative effects from restructuring costs of EUR 3.8 million.

11. Non-recurring items in 2017: the positive effects from non-core equity participation in the amount of EUR +9.5 million, a court settlement with Zavarovalnica Triglav (EUR +1.2 million), sale of Czech non-core subsidiary NLB Factoring in liquidation (EUR +2.5 million), and the negative effects from restructuring costs (EUR -1.8 million) and performance rewards (EUR -3.0 million).

Figure 9: Net interest margin (in %)

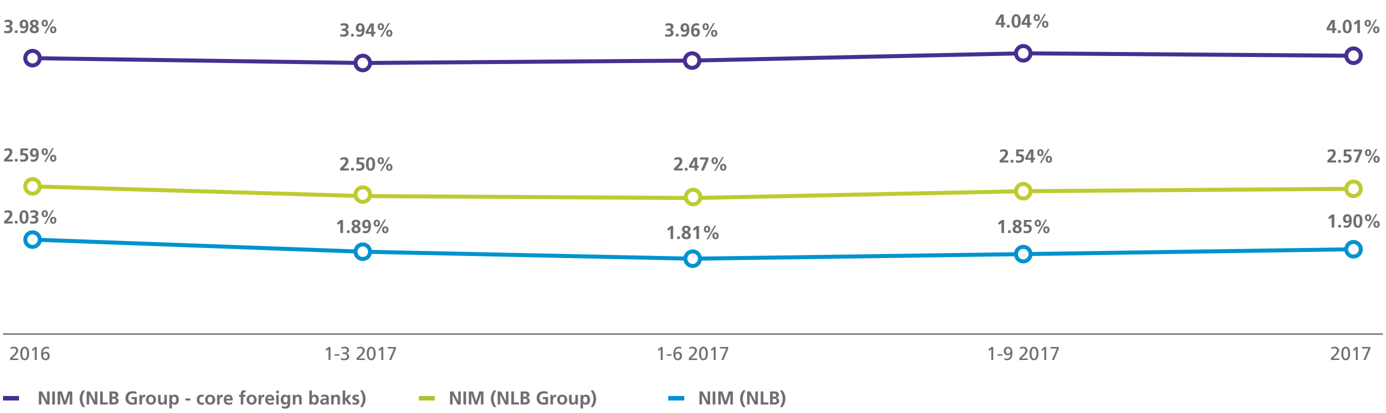


Figure 11: Net interest income of NLB Group (in EUR million)

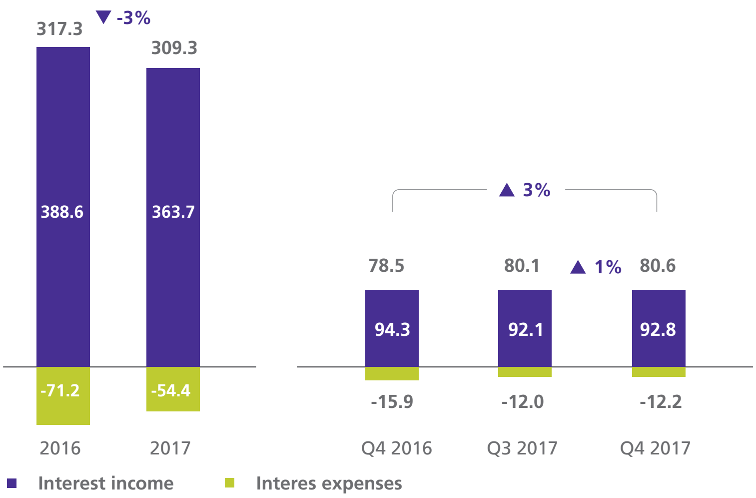


Figure 12: Net interest income of NLB Group by segments (in EUR million)

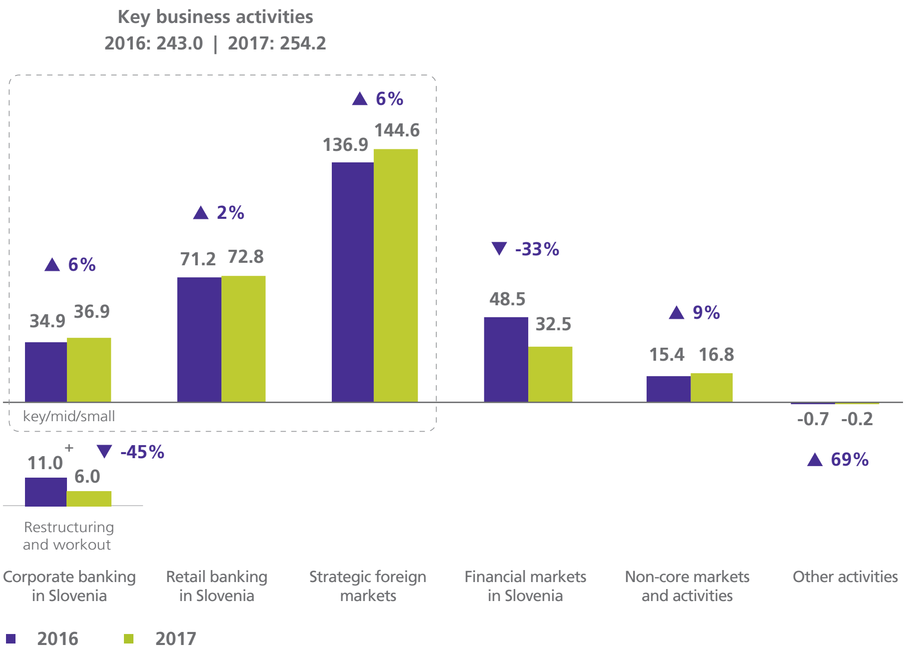
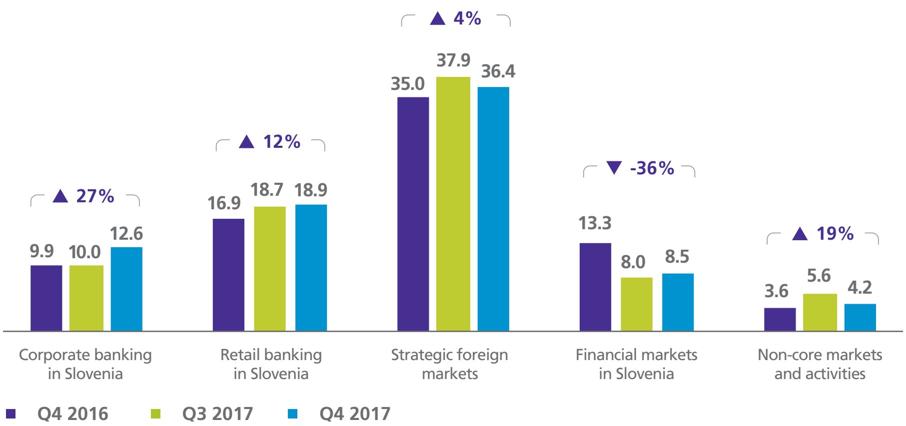


Figure 13: Net interest income of NLB Group by segments (in EUR million) – quarterly comparison



The decline in the interest margin in Slovenia was partially compensated by the improved margins in SEE markets.

obvious signs of recovery on quarterly basis. The Group continued with the very active management of its interest expenses, repaying or repricing some funding lines and continuously adjusting deposit pricing to the prevailing low interest rate environment, thereby substantially reducing interest expenses (-23% YoY). As a reaction to the negative deposit rates quoted by the ECB, the Bank charges asset management fees for larger deposits placed by corporates in Slovenia since the end of 2016.

Net interest income in Key business activities increased 5% YoY despite ongoing pressure on the margin, especially in Slovenia.

Net interest income in key/mid/small corporates in Slovenia slightly increased by EUR 2.0 million, or 6% YoY, and reflected the volume evolution and still strong pressure on pricing.

In Slovenia, retail loans' growth by 7% YoY due to the improved macro environment helped to stabilise margins in this segment. Interest income increased by 2% YoY.

Strategic foreign markets improved net interest income by EUR 7.7 million or 6%, due to the increased loan volume of 8%, or EUR 203.4 million YoY, and stable interest margins in the SEE region (0.03 percentage point increase YoY).

Net interest income in Financial markets decreased predominantly due to a historically low yield environment, and the continuous reinvestment of the securities portfolio at lower yields, and the expiry of higher yielding securities received from the BAMC (EUR 300 million expiring at the end of 2016). However, a slight reversal of this trend occurred in second half of 2017 due to the maturity of the Bank's bond in July, issued on international capital markets.

Net interest income in non-core markets and activities amounted to EUR 16.8 million in 2017 (2016: EUR 15.4 million), an increase of 9% YoY based on the successful resolution of NPL.

Net non-interest income

Net non-interest income of the Group was EUR 20.9 million or 13% higher than in 2016 at the level of EUR 179.3 million (2016: EUR 158.4 million). The higher net non-interest income in 3Q 2017 was due to the positive non-recurring event from the sale of the Czech non-core subsidiary NLB Factoring in liquidation (EUR +2.5 million).

Net non-interest income was affected by the regulatory costs in a total amount of EUR 16.0 million, of which Slovenia (SRF and DGS) totaled EUR 7.3 million and in Strategic foreign markets (DGS) was the amount of EUR 8.7 million.

Regular net non-interest income (excluding non-recurring events[12]) increased by 14%, or EUR 20.9 million, and was impacted by the following factors:

Figure 14: Net non-interest income (in EUR million)

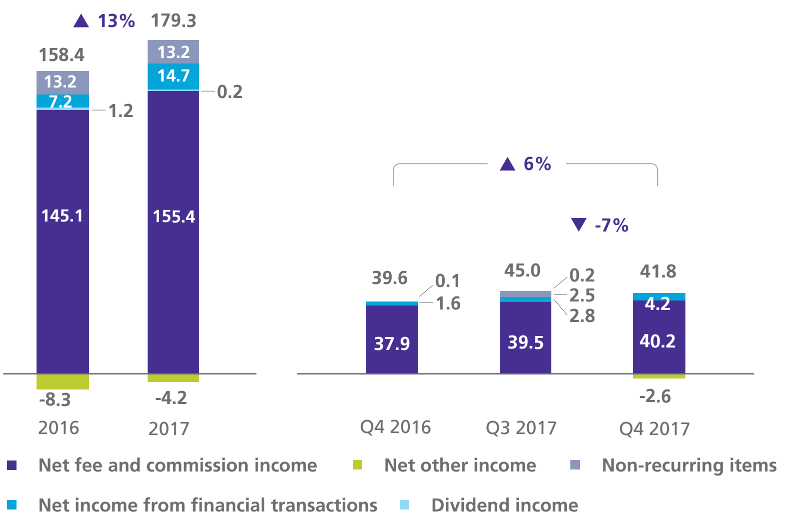


Figure 15: Net non-interest income by segments of NLB Group (in EUR million)

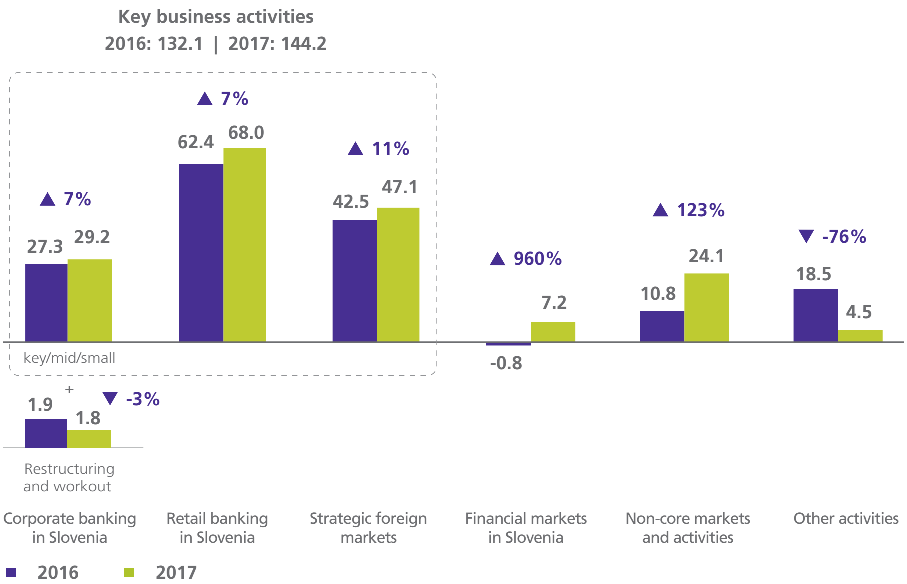
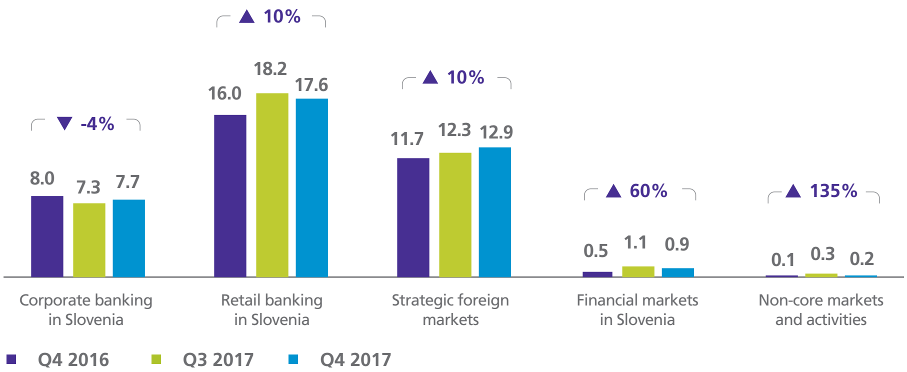


Figure 16: Fee and commission income by segments of NLB Group (in EUR million) – quarterly comparison



The profit growth was supported by the increase of net non-interest income, especially net fees and commissions income.

- EUR 10.3 million higher net fees and commissions, of which EUR 6.9 million derive from an increase in transactional activities such as credit cards, ATMs, payments, and transactional accounts; and EUR 4.0 million derives from ancillary banking services, i.e. investment funds and bank-assurance.

- EUR 7.5 million higher net profit from financial operations, of which EUR 2.2 million was attributed to the sale of the bond portfolio, while the 2016 result includes negative effects in the amount of EUR 3.0 million from the prepayment of wholesale funding.

- EUR 4.1 million higher net other income due to positive effects from lower payment to SRF (EUR - 1.2 million YoY), lower expenses relating to revaluation of investment property (EUR - 6.8 million), and a higher contribution from real estate activities (EUR 5.3 million in 2017).

The net non-interest income of Key business activities continues to increase in Slovenia and in Strategic foreign markets.

Financial markets in Slovenia increased net non-interest income in 2017 to EUR 7.2 million, compared to negative net non-interest income of EUR 0.8 million in 2016 when the result included the negative effects in the amount of EUR 3.0 million from the prepayment of wholesale funding – while in 2017 strong revenue growth of investment banking/securities services was realised.

Non-core markets and activities contributed significantly (EUR 24.1 million) to the Group's net non-interest income, most of which were related to non-recurring events. Significant progress was realised in contributing to non-interest income from real estate management, amounting to EUR 5.3 million.

The other activities segment includes categories in the Bank whose operating results cannot be allocated to individual segments. Net non-interest income of the segment was lower by EUR 14.0 million YoY particularly due to the non-recurring income from the VISA EU share transaction (EUR 7.8 million) which had positive impact on the result in 2016.

Net fees and commissions

The most important source of net non-interest income are net fees and commissions, which were higher by EUR 9.8 million. The increase was recorded in most segments and products, with relatively strong growth in the Retail segment in Slovenia, and in Strategic foreign markets due to efforts to grow revenue on transactional activities such as credit cards, ATMs, payments, and transactional accounts, as well as on assets management.

Lower Operating costs

Total costs amounted to EUR 284.7 million (of which EUR 1.8 million comprised of non-recurring costs related to restructuring and the privatisation process, as well as EUR 3.0 million in performance rewards), and declined overall by 2% YoY in 2017. Special attention was given to general and administrative expenses, with 4% savings achieved as a result of successful cost-optimisation efforts. The Group significantly improved operational efficiency by focusing on the transition to STP processing via online channels with the consequent further rationalisation of the traditional network, employee, and other general and administrative costs. The cost-reduction trend is present in most members of the Group, especially in the Bank and in non-strategic members.

Depreciation decreased by 2% YoY, while employee costs remained stable. Employee costs, net of a discretionary EUR 3.0 million in performance rewards distributed to employees in the Bank under collective agreement, were EUR 3.9 million, or 2% lower YoY because of the 2% decrease in the number of employees in 2017 – mostly in the Bank and non-core subsidiaries. The Group also created HR provisions totaling EUR 8.6 million (shown in 'Other Provisions' in the Financial Statement), of which EUR 8.4 million was in the Bank.

As a result, the CIR amounted to 58.3%, a strong improvement (2.6 percentage point) compared to 2016.

12. Non-recurring events in 2016: positive effects of divestment a non-core equity stake (Trimo) at a profit of EUR 5.5 million (comprising of realised gain on equity investment and fee received as a financial consultant for the bank syndicate) and Visa shares at a profit of EUR 7.8 million. Non-recurring events in 2017: the positive effects from non-core equity participation in the amount of EUR +9.5 million, a court settlement with Zavarovalnica Triglav (EUR +1.2 million), and sale of Czech non-core subsidiary NLB Factoring in liquidation (EUR +2.5 million).

Figure 17: Structure of net fees and commissions of NLB Group (in EUR million)

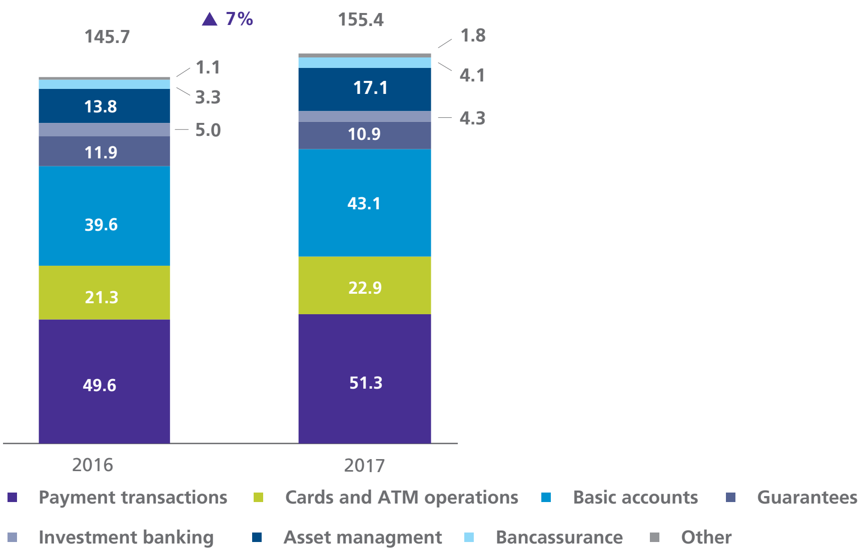


Figure 18: Total costs of NLB Group – evolution YoY (in EUR million)

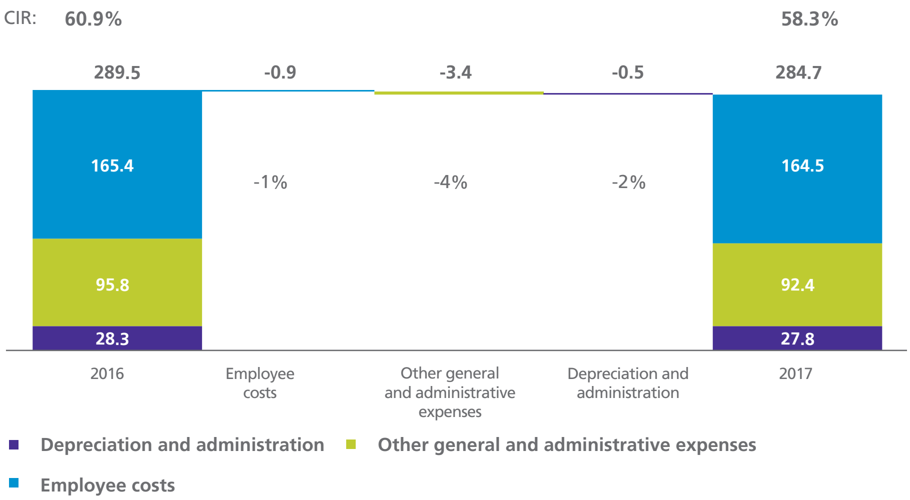
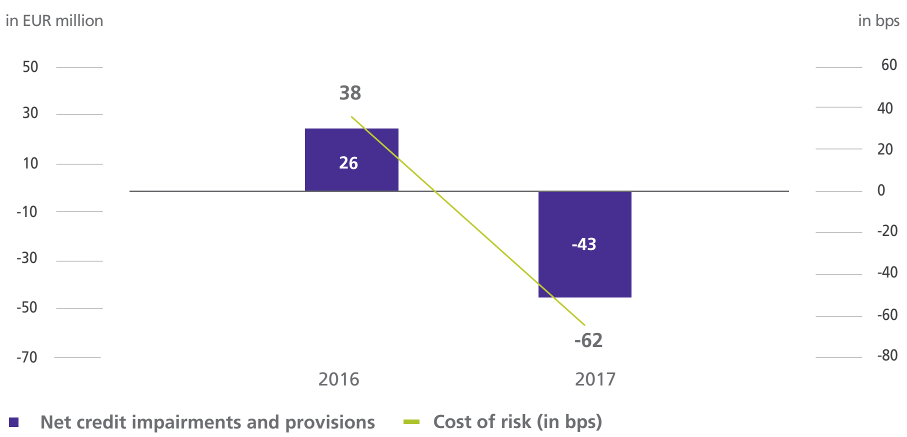


Figure 19: NLB Group credit impairments and provisions, and costs of risk (in bps)



Release of net impairments and provisions

Negative costs of risk on the back of strong macroeconomic conditions in Slovenia was driven by a benign credit environment in most markets where the Group banks operate.

The Group released net impairments and provisions in the amount of EUR 29.5 million, which was the result of successful collections, resolution of non-performing receivables, and improvement in the quality of the credit portfolio's structure with the release of pool provisions in H1 2017. Namely, the Group recalculates the PD's for pool provisions once a year, and the full impact was recognised in the results for H1 2017. Positive trends in the economic environment, and consequently a lower transition of performing customers into default in years 2016 and 2015 contributed positively to lower percentages of PD's, and consequently to lower pool provisions – mainly in the segment of corporate clients. The effect of the release of impairments on the Group level in the segment of corporate clients amounts to approximately EUR 21 million. In contrast, in 2016 additional impairments related to the non-performing portfolio sale in the amount of EUR 25.8 million were formed. Accordingly, the net cost of risk decreased from 38 basis points to -62 basis points.

Other impairments and provisions were established in the net amount of EUR 13.9 million, of which most material were HR provisions (EUR 8.6 million).

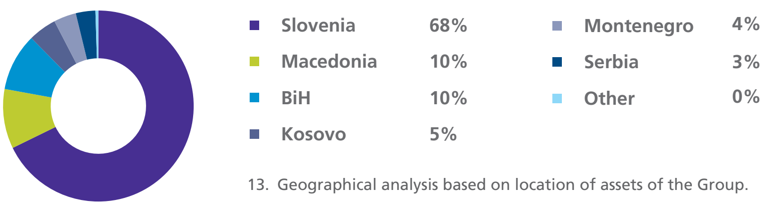
Statement of financial position

Table 5: Statement of financial position of NLB Group and NLB

in EUR million

	NLB Group			NLB		
	31 Dec 2017	31 Dec 2016	Change YoY	31 Dec 2017	31 Dec 2016	Change YoY
ASSETS						
Cash, cash balances at central banks, and other demand deposits at banks	1,256.5	1,299.0	-3%	570.0	617.0	-8%
Loans to banks	510.1	435.5	17%	462.3	408.1	13%
Loans to customers	6,994.5	6,997.4	0%	4,669.6	4,928.9	-5%
Gross loans	7,641.2	7,900.8	-3%	4,986.7	5,433.7	-8%
- corporate	3,705.0	3,917.4	-5%	2,502.5	2,769.1	-10%
- individuals	3,470.2	3,190.7	9%	2,121.2	1,990.2	7%
- state	466.0	792.7	-41%	363.1	674.4	-46%
Impairments	-646.8	-903.4	-28%	-317.1	-504.7	-37%
Financial assets	2,963.4	2,778.0	7%	2,460.3	2,295.2	7%
- Held for trading	72.2	87.7	-18%	72.2	87.7	-18%
- Available-for-sale, held to maturity, and designated at fair value through income statement	2,891.2	2,690.3	7%	2,388.1	2,207.6	8%
Investments in subsidiaries, associates, and joint ventures	43.8	43.2	1%	356.9	346.7	3%
Property and equipment, investment property	240.2	280.5	-14%	96.3	98.6	-2%
Intangible assets	35.0	34.0	3%	23.9	23.3	2%
Other assets	194.4	171.4	13%	73.5	60.0	23%
TOTAL ASSETS	**12,237.7**	**12,039.0**	**2%**	**8,712.8**	**8,778.0**	**-1%**
LIABILITIES						
Deposits from customers	9,879.0	9,439.2	5%	6,811.6	6,617.4	3%
- corporate	2,260.1	2,182.6	4%	1,434.7	1,442.3	-1%
- individuals	7,362.9	6,905.1	7%	5,252.3	4,943.5	6%
- state	256.0	351.5	-27%	124.7	231.7	-46%
Deposits form banks and central banks	40.6	42.3	-4%	72.1	75.0	-4%
Debt securities in issue	0.0	277.7	-100%	0.0	277.7	-100%
Borrowings	353.9	455.4	-22%	266.5	342.7	-22%
Other liabilities	248.7	271.6	-8%	181.5	200.3	-9%
Subordinated liabilities	27.4	27.1	1%	-	-	-
Equity	1,653.6	1,495.3	11%	1,381.2	1,264.8	9%
Non-controlling interests	34.6	30.3	14%	-	-	-
TOTAL LIABILITIES AND EQUITY	**12,237.7**	**12,039.0**	**2%**	**8,712.8**	**8,778.0**	**-1%**

Figure 20: Total assets by country (in %) [13]



13. Geographical analysis based on location of assets of the Group.

Total assets increased by EUR 198.7 million in 2017, and totaled EUR 12,237.7 million. The increase due to the continued inflow of deposits was partially offset by the lower debt securities in issue and borrowings.

Gross loans in Key business activities slightly increased by EUR 66.6 million, or 1% compared to the end of 2016. The decrease in gross loans in Key corporate segment in Slovenia was partially neutralised by strong volume growth in the Mid and Small corporates in Slovenia (10% YoY), in the Retail segment in Slovenia (7% YoY) and in Strategic foreign markets (8% YoY) with record growth in Serbia, Macedonia, and Kosovo.

As a result of continuous efforts to wind down non-core exposures, gross loan volumes continued to decrease to the level of EUR 448.5 million (-34% YoY), now representing 6% of the Group's total gross loans outstanding (9% in 2016). The segments' NPL continued to decrese and reached EUR 279.7 million (2016: EUR 588.3 million). The segment includes EUR 142.0 million of gross performing leasing contracts in NLB Leasing d.o.o., Ljubljana (in liquidation).

Figure 21: Total assets of NLB Group – structure (in EUR million)

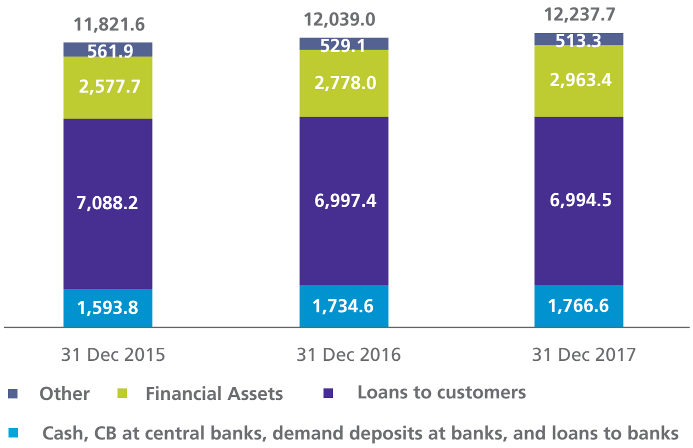


Figure 22: NLB Group gross loans to customers by core segments (in EUR million)

Key business activities in loan book

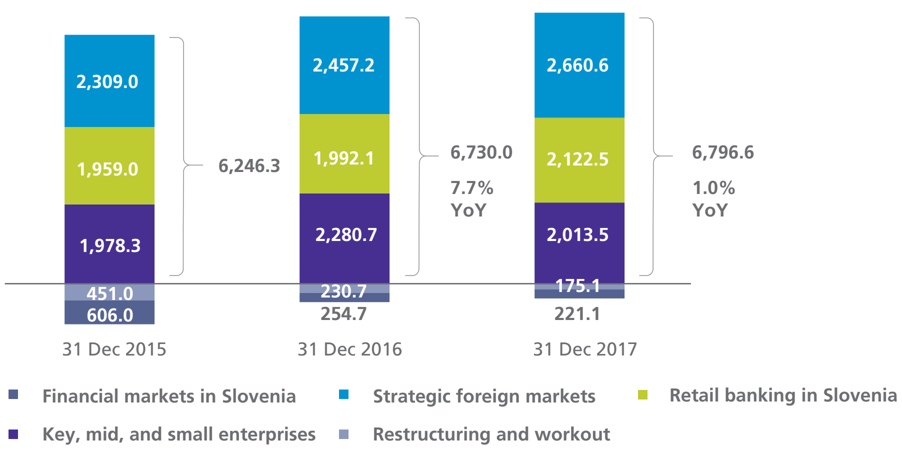
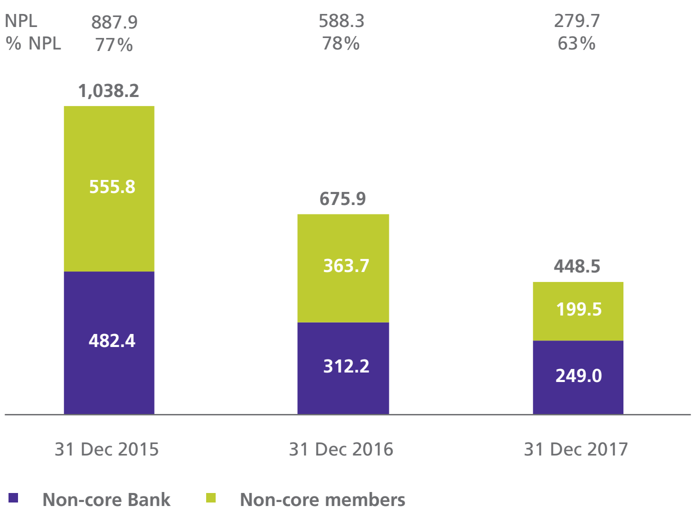


Figure 23: NLB Group gross loans to customers by non-core segment (in EUR million)



Total liabilities increased slightly and amounted to EUR 10,549.6 million. Deposits accounted for 94% of the total funding of the Group. The retail and the corporate segment deposits increased by 7% and 4% respectively, however this was offset by the maturity of issued NLB bond (EUR 282.0 million in July 2017) and lower state deposits (EUR 95.5 million).

At the end of December 2017, the LTD (net) was 70.8% on the Group level, having decreased by 3.3 percentage points compared to the end of December 2016. This was mainly a result of growing, however still moderate loan demand and increased the volume of deposits.

Capital and Capital Adequacy

OCR includes the Pillar 1 requirement (prescribed by the CRR regulation) and the Pillar 2 requirement (bank specific, set by the regulator) – which taken together represent the total SREP capital requirement (TSCR) – as well as the applicable combined buffer requirement (CBR; partially prescribed by law and partially set by the regulator) which the bank must comply with in order to be able to pay discretionary payouts (e.g. dividends) without any restrictions. In 2017, OCR amounted to 12.75% for the Bank on the consolidated level, consisting of:

- 11.50% TSCR (8% Pillar 1 requirement and 3.50% Pillar 2 requirement); and
- 1.25% CBR (1.25% Capital conservation buffer and 0% Countercyclical buffer).

The applicable OCR requirement for 2018 has been raised to 13.375% (the increase is due solely to the gradual phase-in of the capital conservation buffer as prescribed by law).

Figure 24: Total liabilities of NLB Group – structure (in EUR million)

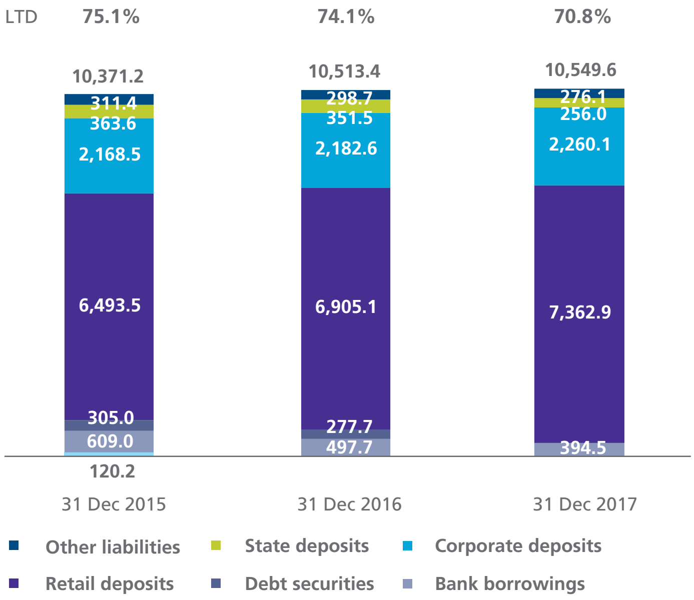
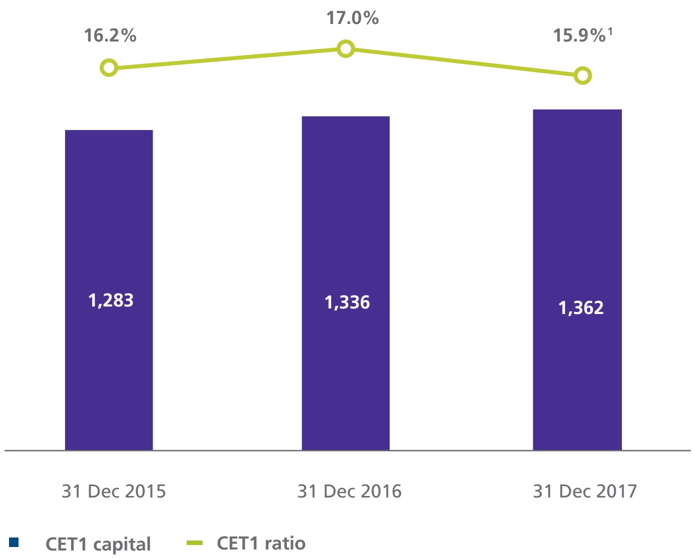


Figure 25: NLB Group CET 1 capital (in EUR million) and CET 1 ratio (in %)



1. Envisaging dividend payment in 100% of net profit after tax of the Bank (EUR 189 million).

Table 6: Total risk exposure (in EUR million) for NLB Group

	31 Dec 2017	31 Dec 2016	31 Dec 2015	Change YoY
Total risk exposure amount (RWA)	**8,546**	**7,862**	**7,927**	**8.7%**
RWA for credit risk	7,096	6,865	6.850	3.4%
RWA for market risks + CVA	501	105	147	378.6%
RWA for operational risk	950	893	931	6.4%

The capital adequacy of the Group and the Bank at the end of year 2017 remained strong, at a level which covers all current and announced regulatory capital requirements, including capital buffers and other currently known requirements, and the Pillar 2 Guidance. Moreover, it is within the stated risk appetite limit and above the EU average as published by the EBA.

In 2017, the capital of the Bank and the Group consists merely of the components of top quality CET 1 capital (no subordinated instruments that would rank in lower capital categories), which is why all three capital ratios (CET 1 ratio, Tier 1 capital ratio and the Total capital ratio) are the same.

At the end of December 2017, the capital ratios for the Group stood at 15.9% [14] (or 1.1 percentage point lower than at the end of 2016) and for the Bank at 21.8% (or 1.6 percentage point lower than at the end of 2016). The lower Group's capital adequacy derives from higher RWA. The RWA for credit risk increased by EUR 231.7 million, mainly for retail exposures (EUR 209.7 million) due to consumer and housing loan growth. RWA for market risks and CVA increased by EUR 395.9 million, particularly as a result of the correction [15] of treatment of the FX position on a consolidated level and treatment of equity investments in non-euro subsidiary banks. The requested correction relates to structural positions arising from operations of the Group's non-euro subsidiaries banks. These positions are long, non-trading and deliberately taken. On a consolidated level, foreign exchange translation differences from these positions are recognised in the consolidated capital and do not have an impact on the Group's profit and loss. By keeping its structural position open the Group maintains a capital ratio insensitive to foreign exchange movements. The Bank will try to partly or fully exclude this position from an open FX position in the future (by getting the approval from the regulator). The increase in the RWA for operating risks (EUR 56.7 million) arises from the higher three-year average of income, which represents the basis for the calculation.

Further information on capital and capital adequacy is available in the Note 5.23 to the Audited Annual Financial Statements.

Strong liquidity position

The Group liquidity remains exceptionally strong, with significant amounts of liquidity reserves in cash and placements with the central bank (EUR 710 million[16]), securities (EUR 2,974 million), placements with banks (EUR 694 million), and ECB eligible loans (EUR 718 million). The Group holds a strong liquidity position at both the Group and subsidiary bank levels, standing well above the targeted risk appetite profile.

14. Envisaging dividend payment in 100% of net profit after tax of the Bank (EUR 189.1 million).

15. Requested by ECB.

16. Excluding obligatory reserve with CB.

Chapter 6

NLB Group Strategy

The NLB Group's 2020 Vision is to become an innovative bank creating simple, customer-oriented solutions with an exclusive strategic focus on Slovenia and countries in SEE.

Following a period of restructuring after the financial crisis, the Group evolved into a sustainably profitable client-oriented banking group, focused on core markets in Slovenia and SEE with the primary objective to become a modern, competitive, efficient, and effective bank. The Group is fully conscious of its future business challenges and is addressing these with a portfolio of short- and medium-term strategic initiatives, as well as a transformation of its IT systems. In order to be able to effectively achieve the Group's strategic goals, the employees of the Group are acquiring new knowledge and capabilities, along with introducing new ways of working.

Strategy of the Group through 2020

The Group's 2020 Vision is to become an innovative bank creating simple, customer-oriented solutions with an exclusive strategic focus on Slovenia and countries in the SEE.

The Group's strategy puts forward strategic initiatives with short- and medium-term impact that aim to modernise and improve the Group's operations, including: enhancing revenues, reducing costs, and improving its growth prospects. The key priorities of the Group's strategy are as follows:

Innovative solutions addressing customer needs

- Omnichannel product distribution.
- End-to-end customer solutions, offering comprehensive solutions within an ecosystem of services.
- Partnership programmes, aimed at strengthening customer relationships by creating additional products and services for customers.

Simplicity champion

- Simple and understandable products, fast processes at low cost.
- Effective procurement practices, efficiency improvements in facility management, and other cost rationalisations.
- Redesigning of end-to-end processes and elimination of simple tasks through automation.
- Transformation and modernisation of the Group's IT operations.

Regional specialist

- Strategic focus to establish and reinforce Group's regional specialist position.
- The 2017 result puts the Group in the top position across target SEE countries under the new unified brand.
- Core foreign banking subsidiaries are self-funded, and profitable with a solid capital adequacy.

The need for a strategic response to digitalisation

The Group recognised the importance of digital transformation very early and formulated a comprehensive strategic response. The Group's digitalisation efforts extend to internal operations of the Bank including digitalisation of the workplace and automation. Successful digitalisation requires a significant overhaul of IT infrastructure and capabilities, as well as changes in innovation and development processes with a corresponding change of enterprise culture.

The Group's comprehensive digital transformation agenda was formulated based on a thorough reflection of the impact of digitalisation in its home markets in Slovenia and SEE, taking into consideration the strategic choices at hand.

Comprehensive IT strategy lays technological foundations for digital transformation of NLB

The Bank thoroughly analysed its application architecture through three main aspects: the level of business support, IT architecture maturity, and (cost) effectiveness. Based on the findings of such analyses, the Bank opted for a variation of technology transformation focusing firstly on customer experience: starting with enhancing and building the missing client-facing capabilities, enhancing information management, and subsequently concentrating on rationalisation and consolidation of the existing legacy IT systems.

NLB is undertaking investments into key capabilities for digital banking

The digital transformation agenda is about mastering the integration, data management, and digital channel capabilities that may profoundly change the business model of financial institutions. To respond to these challenges, the Group has included such capabilities among its enterprise strategy goals, and has initiated several strategic projects to attain such business aspirations:

- platform for creating digital products and services in support of omnichannel strategy,
- customer relationship management solutions,
- integration capabilities,
- payments (contactless, instant payments, mobile, and different micro payments),
- data management with special focus on data governance and advanced analytics,
- document management with intelligent process management capabilities.

These strategic initiatives are closely following the industry architectural standards aiming at solution flexibility, scalability, and modern development capabilities that will be available to any subsidiary of the Group.

The Group puts special emphasis on improvement of cyber security measures.

New way of working and readiness for change

In order to be able to execute its strategic transformation agenda, the Group recognised that further company-wide changes are required.

Changes in innovation and development processes

The Bank is actively exploring possibilities for improving its IT development process to keep pace with the demands of a digital transformation. This involves foreseen adoption of agile development models, and steps in the direction of open models of innovation through collaboration with start-ups, as well as start-up incubators and accelerators.

Cultural change

To execute its strategic agenda, the Group needs to acquire new capabilities and introduce new ways of working. The Group approached cultural change by first extensively communicating transformation goals highlighting competencies and capabilities needed to achieve them. Secondly, the Bank introduced tools for digitalisation of the workplace that support new, collaborative work models. Thirdly, the Bank is introducing new organisational models for effective project work.

Medium-term strategic and financial targets

Based on the measures and potentials outlined above, the Bank set the following medium-term financial targets for the Group:

> 2.7%
net interest margin

< 95%
loans-to-deposits ratio

~ 16%
total capital ratio

~ 50%
CIR

< 100 bps
cost of risk

< 5%
NPE ratio

> 10%
ROE

> 70%
dividend pay-out (as a percentage of the Group's profits)

In 2017, the Group's trend of improvement in profitable operations continued achieving already a significant part of its medium-term strategic and financial goals. However, to sustain and improve its profitability further the Group will have to continuously improve revenue growth and cost efficiency.

The NLB Group is consistently implementing an extensive portfolio of strategic initiatives that address the key business challenges for the Group. We moved from planning the change to executing it. The Group is delivering on its strategic promise to launch innovative solutions addressing customer needs. Furthermore, it is responding to digitalisation and is undertaking an overhaul and upgrade of a number of its IT systems. The Group is embracing new ways of working, promoting cross-functional collaboration, and becoming more agile. In light of these accomplishments, the motivation and ability of the whole organisation to evolve is evident. We are ready for change.

Luka Repanšek
General Manager, Strategy
and Business Development

Chapter 7

Regulatory Environment

A number of EU and Slovenian regulatory requirements were adopted in 2017, following different ongoing regulatory reforms. This chapter focuses on the material ones.

Regarding the Payment Services area, further changes of national legislation are expected regarding the implementation of the Directive 2015/2366 on payment services in the internal market (PSD2). PSD2, inter alia, extends the scope of payment services and their providers, defines more clearly the exceptions to these rules, improves cooperation and the exchange of information between authorities, and introduces stricter safety requirements for electronic payments. During 2017, the Bank already started with implementation activities and monitored the draft of national legislation implementing the PSD2, as well as several directly applicable regulatory and implementing technical standards further regulating the PSD2 requirements which will need to be complied with and affecting also, inter alia, the Application Programming Interface (API) management PSD2 system availability. Therefore, the Bank's implementation activities also focused on monitoring the draft requirements of the Regulatory technical standards (RTS) on Strong Customer Authentication and common and secure communication, Implementing technical standards (ITS) on the details and structure of the information entered by competent authorities in their public registers and in notifying the EBA, and the RTS setting technical requirements on development, operation, and maintenance of the electronic central register, as well as on the access to the information contained therein.

During 2017, the Bank aligned with the new Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-1), transposing the Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and regulations further defining these regulatory requirements. These changes present a major step forward in improving the effectiveness within the EU to combat the laundering of money, and countering the financing of terrorist activities, inter alia, through the implementation of an approach based on risk (hence the 'risk-based approach'), which will lead to increased efficiency of the implementation of measures at the person level, as well as at national and European levels. The approach introduces a broader definition of politically exposed persons, in addition to those from foreign countries it includes domestic politically exposed persons (PEPs), reducing the threshold for reporting cash transactions from EUR 30,000 to EUR 15,000, the introduction of the national central register of beneficial owners to ensure transparency of ownership structures of business entities, and by improving the system of supervision and sanctioning with new inspection powers for the Office for Money Laundering Prevention.

In 2017, the EC also adopted a proposal amending the CRD, the CRR, and the BRRD. Proposed amendments include, among other measures, enhancing the resilience of EU financial institutions and financial stability, supporting bank lending to the EU economy, and accelerating banks' role for deeper and more liquid EU capital markets in order to form an EU capital markets union.

The ZPotK-2 entered into force on 3 March 2017, which introduced minimal standards for lending process managerial employees, their remuneration policies, and business strategies, as well as providing an informational credit cost calculation to the consumer on a uniform standard template (ESIS).

During 2017, the Bank ran several implementation activities to ensure timely implementation of the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data, on the free movement of such data, and repealing Directive 95/46/EC (GDPR), which was already published in May 2016 and is applicable from May 2018. The GDPR is reforming the data protection area in the EU to follow the intense development of information and communication technologies, the extent, intensity, and transfers of personal data (e.g. the development and expansion of the use of cloud computing, social networking, and smart phones), all of which require adaptation and modernisation of the EU legislative framework. Unique and updated legislation on data protection is essential to ensure the fundamental rights of individuals to the protection of

A number of EU and Slovenian regulatory requirements were adopted in 2017, following different ongoing regulatory reforms.

personal data, the development of the digital economy, and the strengthening of the fight against international crime and terrorism. The GDPR regulates the rights of natural persons whose personal data are processed. It also establishes the obligation of persons responsible for data processing regarding the provision of transparent and easily accessible information to individuals about the processing of their data. The GDPR also specifies the general obligations of the operators and persons who process personal data on behalf of processors. These obligations include the obligations to implement appropriate security measures and to notify the relevant stakeholders about personal data breaches. The GDPR also gives, inter alia, greater emphasis to (preliminary) analysis of the effects on the protection of personal data in the event of incidents, such as loss of personal data, and establishes the obligation of reporting to the supervisory authority and, in some cases, all affected individuals. The national legislation regulating further rules set under the GDPR is expected to be adopted in the first months of 2018.

In the area of financial markets, during 2017, the Bank continued with implementation activities to ensure timely implementation of the MiFID II, and the MiFIR rules, along with a number of delegated regulatory acts regarding financial market transactions, enhanced investor protection, transparency, and reporting obligations. MiFID II introduced a number of new measures which are designed to overhaul existing rules for market infrastructures (including the application of regulatory requirements to a new category of multilateral, discretionary trading venues for non-equities, the Organised Trading Facility), increase transparency and transaction reporting requirements, enhance existing conduct of business requirements and supervisory enforcement powers, increase the regulation of commodities business, and introduce new rules for third-country firms accessing EU markets. The new requirements introduce a number of changes to the banking sector's market infrastructure and conduct rules (including enhanced suitability requirements), and introduce new investor protection measures – including product governance requirements. The national legislation transposing MiFID II is expected to be adopted during 2018, and the Bank will align with the new requirements of the national legislation, as well as the different regulatory and implementing technical standards and other EU regulatory acts in due course.

In 2017 the Bank was faced with many complex and demanding regulatory changes in different areas. In Slovenia, the MifID II, PSD2, and the laws further regulating rules under GDPR are waiting to be transposed during 2018. During 2017, the Bank identified over 170 different regulatory changes relevant for the Bank, whereas at the Group this number is much higher.

Weekly meeting with the President of the Management Board Blaž Brodnjak, responsible for Strategy and Business Development, Legal and Secretariat, Communication, Human Resources and Organisation Development, Group Steering, Retail and Private Banking and Corporate Banking

Blaž Brodnjak
President & CEO

Jana Benčina Henigman
General Manager, Group Steering


Tanja Piškur
General Manager, Development and Sales Management

Vincenc Jamnik
General Manager, Mid Corporates

Nada Drobnič
General Manager, NLB Contact Centre

Andrej Lasič
General Manager,
Large Corporates

Helena Belingar
General Manager, Trade Finance Services

Luka Repanšek
General Manager, Strategy and Business Development

Marko Jerič
General Manager, Legal and Secretariat

Lotti Natalija Zupančič
General Manager, Private Banking

Tanja Ahlin
General Manager, Distribution Network


Vesna Vodopivec
General Manager, Human Resources and Organisation Development


Andrej Krajner
General Manager, Communication

Chapter 8

Retail Banking in Slovenia

The Bank maintained its leading position on the Slovenian market through a strong focus on upgrading client digital experience and satisfaction. Innovativeness and digital orientation enabled the Bank to further enhance customer relationships and achieve growth in all business areas, while reducing costs and streamlining internal processes.

Routine and standardised services are being simplified to become gradually available to the customer as a digital experience available 24/7, while personal interactions in branches focus on more complex transactions and advisory services.

Retail banking remains the solid anchor of the Bank. With leading market shares in retail net loans and deposits, widespread branch network, and by constant development of new products and services, the Bank is ready for all future challenges.

Retail's segment in Slovenia profit before tax amounted to EUR 41.7 million, or 52% higher YoY. Growth was based on the net non-interest income increase and improved cost of risk.

Net interest income was still under pressure given the continued low interest environment, nevertheless it remained stable due to growth of retail loan portfolio. In 2017 costs were stable and the cost of risk remained low.

Loans to retail clients in Slovenia increased by EUR 130.4 million, or 7% YoY. Especially noticeable was a pickup in the housing loans segment.

Market leader in retail banking in Slovenia

The Bank maintained its leading position with a market share in retail lending of 23.4% and 30.7% in deposit-taking. Compared with 2016, market shares have decreased by 0.1 percentage point in lending, and increased by 0.3 percentage points in deposit-taking. The market share of the volume of new housing loans approved in 2017 increased to 27% (24% in 2016).

The Bank operates the largest branch network in the country. Its branch network is still the main sales channel, with 108 branches and with the largest ATM network (557 ATMs represent 33.8% market share as at 31 December 2017).

The NLB Contact Centre is the largest bank contact centre in Slovenia, with competent advisers available to customers 24 hours a day, 7 days a week.

Roughly a quarter of the Bank's clients have a personal adviser. High quality client experience is provided by the experienced and well-trained personal advisors, whereby personal services are available to the client and its family members. The expertise and level of service is confirmed by customer satisfaction index, which is above average when compared to competition.

#1 in private banking with best-in class-advisory and asset management services

Private banking is 15 years in operation in the Bank and has the leading position among private banking providers in Slovenia with increasing number of clients (8.4% YoY). The private banking team of highly-skilled consultants are entrusted with EUR 747 million (34.8% increase YoY) of client's assets.

Complementing banking services with asset management and insurance products

NLB Skladi, which products are exclusively sold via the Bank's network, is the market leader with a 29.93% market share (2.71 percentage points increase YoY).

NLB Skladi business continued to grow with net inflows of EUR 93.2 million into mutual funds and EUR 32.3 million into discretionary portfolios. At the end of 2017, total assets under management amounted to EUR 1.2 billion (compared to EUR 1.1 billion at the end of 2016).

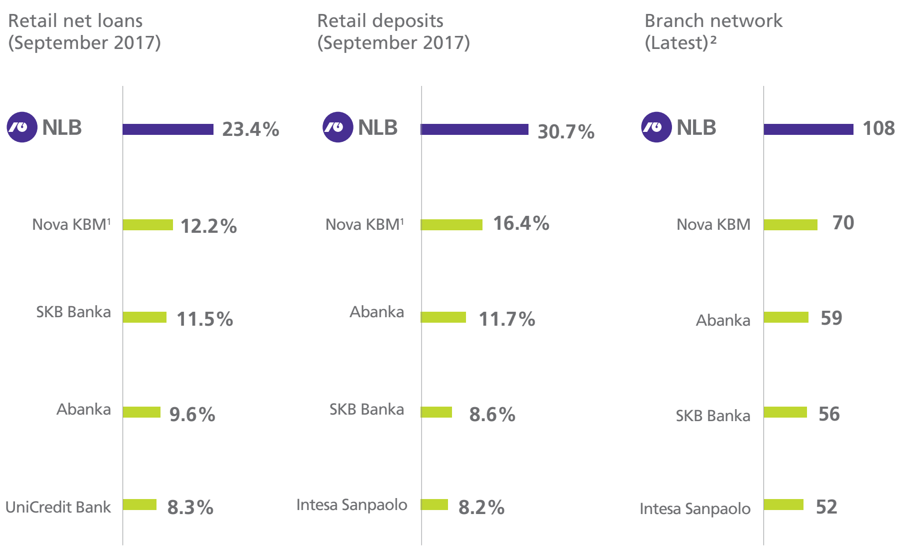
NLB Insurance company NLB Vita increased a market share in classical life insurance products of 13.5%, up from 12.5% at the end of 2016. Its insurance products are also exclusively sold via the Bank's network.

Table 7: Performance of the retail banking segment in Slovenia

in EUR million consolidated

	Retail banking in Slovenia		
	2017	2016	Change
Net interest income	72.8	71.2	2%
Net non-interest income	68.0	62.4	9%
Total net operating income	**140.7**	**133.6**	**5%**
Total costs	-100.8	-101.1	0%
Result before impairments and provisions	**40.0**	**32.4**	**23%**
Impairments and provisions	-2.9	-10.2	-71%
Net gains from investments in subsidiaries, associates, and JV	4.6	5.2	-10%
Result before tax	**41.7**	**27.4**	**52%**
Net loans to NBS	2,083.9	1,952.7	7%
Gross loans to NBS	2,122.5	1,992.1	7%
Housing loans	1,324.6	1,227.4	8%
Consumer loans	525.0	486.8	8%
Other	272.9	277.8	-2%
Deposits from NBS	5,537.1	5,224.3	6%
Non-performing loans (gross)	47.8	49.9	-4%

Figure 26: Overview of the market shares in Slovenian retail banking



Source: Association of Slovenian Banks, Annual Reports
1. Data as of 30 June 2017.
2. NLB as of 31 December 2017, Nova KBM, SKB and Intesa Sanpaolo as of Dec-16; Abanka as of Jun-17.

Highlights:

- The Bank operates the largest branch network in the country, with 108 branches and with 557 ATMs.
- Well recognised competence in client advisory and relationship management was confirmed with an above the competition average in the overall client satisfaction index.
- The Bank was the first on the Slovenian market to enable customers access via web chat and video call, use of contactless ATMs, and acquisition of a consumer loan through a mobile app (paperless solution).
- High accessibility through an omnichannel approach with a traditional and fully-fledged digital banking service, supported by the largest 24/7 Contact Centre on the Slovenian market.
- Leading position in private banking.
- NLB Skladi is the largest manager of mutual funds on the Slovenian market, with a market share of close to 30%.
- NLB Vita successfully increased the coverage of banking customers with insurance products, whereby the Bank in 2017 distributed more than 70% of all life insurance policies sold through the banking channel.

Figure 27: Assets under management and number of private banking clients

Figure 28: NLB Skladi and NLB Vita (traditional life products) market share evolution

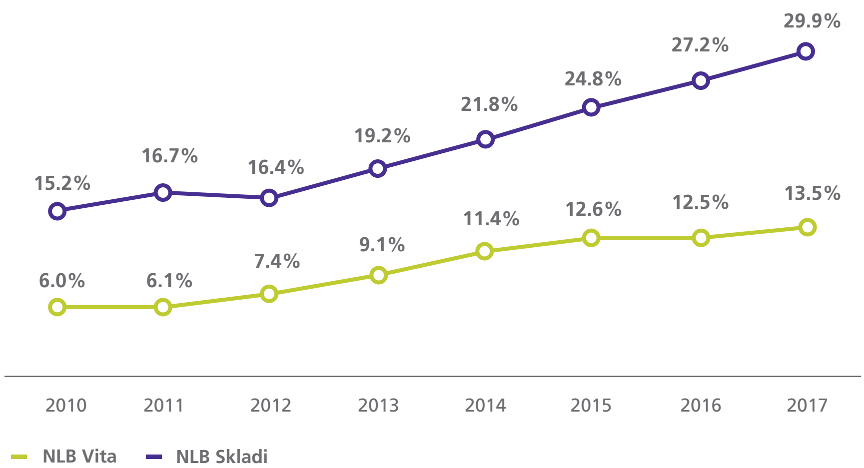
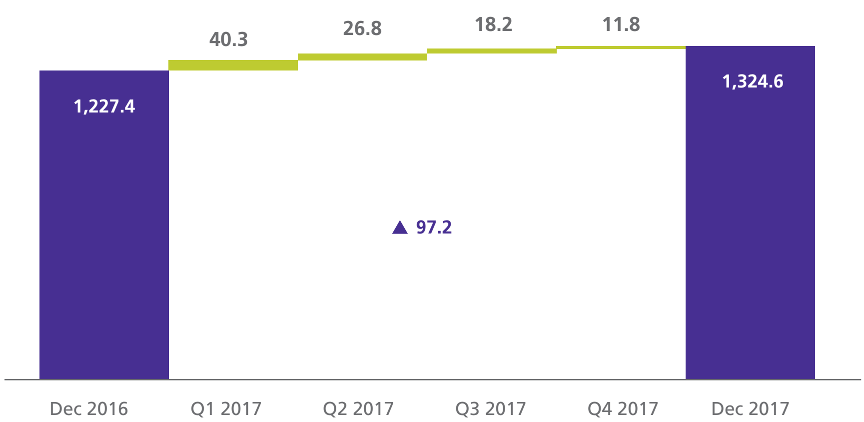


Figure 29: Housing loans portfolio (in EUR million)



In 2017 NLB Vita charged EUR 70.8 million in gross premiums (EUR 63.8 million in 2016), and as at 31 December 2017 the total balance sheet reached EUR 462.9 million (EUR 409.5 million at the end of 2016). With the expansion of the product portfolio and the increasing awareness of the importance of adequate insurance coverage, NLB Vita successfully increased the coverage of banking customers with insurance products.

In cooperation with the insurance company GENERALI Zavarovalnica d.d., the Bank provides non-life insurance products to the Bank's clients, including car and home insurance. In 2017, an additional 22.1% polices were acquired. Gross written premium for 2017 amounted to EUR 3 million, representing a 36.4% increase YoY.

Growth of retail loan portfolio

The volume of newly approved loans in 2017 increased by 14% YoY, while gross loans increased to EUR 2,122.5 million (7% YoY). The highest growth was achieved in housing loan portfolio, reaching EUR 1,324.6 million at the end of 2017 (EUR 1,227.4 million at the end of 2016). In 2017, 21% more new housing loans were approved compared to 2016.

High accessibility through omnichannel approach

In 2017 19,571 of new users of NLB Klik, and 55,625 new users of Klikin were attracted. The process of digitalisation continues rapidly. In 2017 the penetration of the mobile app Klikin reached 16.4%.

Bringing banking experience close to customer expectations

Retail banking in Slovenia serves over 743,000 clients, segmented according to their life cycle and financial strength. The Bank developed better knowledge of customers' life styles and behaviours to tailor banking products, services, and pricing models more appropriately.

The Bank focuses simple, efficient, and innovative services to address customer needs. The evolution of these areas as perceived by the customers are followed and measured by the annual customer satisfaction survey. The results show that customers' satisfaction is on average higher than in 2016. Furthermore, the overall satisfaction level is above the average of competitor banks. The Bank employees' attitude toward customers remains a competitive advantage; customers appreciate a personal approach, reliability, and professionalism. Trusting NLB is in line with competitor banks' average, while a moderately increasing trend of the Bank's reputations continues.

Figure 30: Klikin penetration (in %) and the number of users

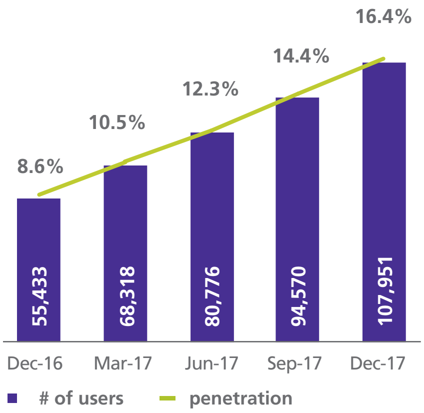
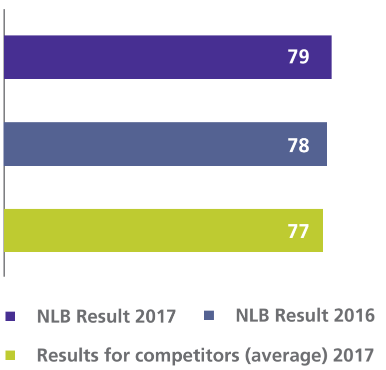


Figure 31: Overall satisfaction index – retail customers in Slovenia



Retail clients

743,606
clients in total

653,801
active clients

481,284
payroll clients

24,261
new clients joined the Bank in 2017

Contact Centre

1,795,504
cases were processed

80.6%
inbound contacts via phone

19.4%
inbound contacts via digital

5,521
inbound contacts via chat & video

Private banking

8.4%
more clients in private banking than in 2016

1,168
private banking clients

34.8%
increase in the volume of assets under management

746.9
million EUR assets under management

Digital services

34.4%
digital users

91%
digital payments

94.7%
more mobile bank users than in 2016

34.4%
of contactless payments

Innovative solutions based on customer needs

The Bank is focused on developing and implementing new and innovative solutions using digital and mobile technologies in order to meet the needs of customers, and to adapt to the changing environment. Following the NLB Group 2020 Strategy, the Bank focuses on development of omnichannel solutions. A number of new solutions to improve user experience, such as chat and video call, upgrades of the mobile bank Klikin, and the web bank NLB Klik, as well as further enhanced cards and ATM functionalities, were introduced.

- The Bank launched a 24/7 chat and video chat with a dedicated banking specialist/consultant available through the Bank's contact centre, thereby maintaining the human touch in the digital age and overcoming the restrictions of time or location. Online chat is intended for general information about the Bank's offering or client requests, while the online video call is also intended for providing certain services, such as financial transactions up to EUR 15,000. Chat and video calls are free-of-charge and available to all customers.

- The Bank is the first bank on the Slovenian market to enable customers to apply for an Express loan using a user-friendly mobile app (Klikin) 24/7 in only a few minutes, without visiting a branch. The entire loan process is conducted via a mobile app, from the order to the document signing with a cloud-based digital certificate. Updates of the Klikin app are also reflected in the significant increase in the number of users, with a penetration of 16.4% of the Bank's customers.

- The mobile bank Klikin's updates in 2017 delivered features focused on user needs that simplify everyday banking. New modules (Savings and Deposits, Loans) for customers were introduced, as well as transaction and payment enhancements, fingerprint login, and other functional and user experience upgrades.

- By upgrading the e-bank NLB Klik (18 years in operation), customers now have the option of concluding certain NLB Vita insurance products.

- The Bank is the 1st bank in Slovenia to introduce contactless ATMs for contactless ATM transactions (Cash Withdrawal and Balance Inquiry) with contactless cards.

- All internationally accepted cards (Maestro, MasterCard, and Visa) are issued only as contactless cards.

The Bank is aware of increasing user demands in terms of digital solutions. Therefore, we are actively exploring new opportunities to offer better user experience.

Banking business and customer habits are impacted by digitalisation and new technologies. Branches are becoming the place for more focused and specific personal advisory activities. On one hand, the Bank actively manages the branch offices network (in 2017 five branches were closed; the current count is 108), and on the other the Bank adapts the layout and appearance of the branches by implementing an open space concept (in 2017 in 15 branches).

Corporate Security is a constant challege

In order to upgrade clients' digital experience and satisfaction, the Bank is dedicating special attention to information/cyber security, and consequently assuring confidentiality, integrity and availability of data, and information and IT systems that include banking services and products for customers. Information/cyber security in the Bank is constantly tested and upgraded by applications and network security assessments, penetration testing, and self-assessment in the cyber security area.

The Bank is aware that a high level of cyber security is not achieved only by implementation of technical and organisational measures. That's why the Bank is also focusing on educating all employees about the importance of information/cyber security, testing of employee awareness on social engineering, providing employees and customers with safety notifications, especially in the occurrence of incidents in the (global) environment with potential impact on the functioning of the Banks' IT systems and/or the Banks' services and products.

Simplicity champion

Following the NLB Group 2020 Strategy, the Bank focuses on development of simple and understandable products and fast processes at low cost. Some of the projects completed in 2017 are:

- A NLB Housing loan without collateral with a maximum maturity of 120 months, and up to a maximum amount of EUR 50,000. In doing so, the process of renting a housing loan for NLB clients for smaller amounts was simplified, and enabled them to achieve goals more easily.

- For health insurance when travelling NLB Vita Abroad, included a prepaid MasterCard, allowing immediate reimbursement of expenses incurred for medical care of up to EUR 150.

- Instead of several different savings plans, a new, more flexible NLB Skladi Saving plan is available that doesn't require an initial deposit. The savings plan is suitable for achieving long-term savings targets such as saving for an additional pension (or early retirement), for the needs of children in the future, or for the purchase of a property.

- Within the investment life insurance product groups of NLB Vita Multi and NLB Investment Vita Multi Senior new investment packages with partial guarantees were introduced to NLB Vita Global Share Equity 2, NLB Vita Advanced Europe 3, and NLB Vita South, Central, and Eastern Europe packages. It provides a long-term investment with low risk, with the possibility of higher returns and included life insurance.

- To ease the renewal process of life insurance in the case where a policyholder passes away, NLB Vita Responsible offers policyholders the conclusion of insurance with or without a link to a loan. Furthermore, NLB Vita Savings+, a new universal insurance (all-life umbrella investment life insurance) that can be adjusted to all life situations and their requirements, was introduced.

- The volume of payments via the web and mobile devices increased by 15.1% compared to 2016, mostly due to the implementation of new functionalities of Klikin, and to the increase of users, both the web bank NLB Klik and mobile bank Klikin.

108
branches

557
ATMs (33.8% market share)

15.1%
increase in the volume of payments via web and mobile devices

We are committed to our customers. Digitalisation and innovation enable us to develop better knowledge of our customers' behaviours and anticipate their future needs. We actively explore new opportunities to offer better user experience, and to even further enhance our customer relationships.

Tanja Piškur
General Manager, Development and Sales Management

Chapter 9

Corporate and Investment Banking in Slovenia

Corporate Banking

By understanding client needs and key trends in banking and the broader environment, and developing partnership relationships, the Bank continues to be a reliable partner to all segments of corporates. The Bank offers a full spectrum of financial services to its clients, including lending, cash management, payment services, trade finance, as well as capital markets advisory services. The strategic focus remains a successful development of relevant and efficient client-oriented and technology-based solutions.

In 2017, the Corporate banking segment in Slovenia realised a profit before tax in the amount of EUR 52.8 million, or 90% higher YoY, based on the higher release of credit impairments and the growth in fees and commissions income. Nevertheless, the result was still affected by the low interest environment and the generally very high liquidity in the market.

The cost of risk was negative (i.e. impairments and provisions have been released on a net-basis), and was the result of continued success in Restructuring and Workout, as well as positive trends in the economic environment. Improved quality of the credit portfolio resulted in the release of pool provisions.

Loans in key, mid, and small corporate segments in Slovenia decreased in 2017 in the amount of EUR 267.2 million (-12% YoY), impacted by prepayment and repayment of some high-volume exposure to government institutions, while the restructuring and workout portfolio was reduced by EUR 55.6 million due to successful restructuring processes and write-offs. Sterilized for the reduction (in line with the strategic orientation of the Bank) of state (-53% YoY), and restructuring and workout (-24% YoY) loan portfolio, corporate segment portfolio was stable (+0.4% YoY). Corporate deposits decreased by EUR 71 million (-6% YoY) in 2017. The Bank is charging an asset management fee on larger corporate deposits since the end of 2016.

Market leader with a strong focus on customers' needs

NLB is the leading corporate bank in Slovenia, with by far the largest client base, servicing more than 47,000 companies and maintaining its stronghold in all client segments. It is especially active and successful with key clients/large corporates given the depths and scale of services on offer, and the tailored service model for mid and small corporates based on a simplified and more standardised offer.

Companies are supported throughout their business cycle with the full range of banking services provided with the expert advice offered by the Bank's professionals. In cooperation with other Group members the Bank constantly seeks synergies that best suit clients and business in the SEE.

Despite strong competition, the Bank maintained its leading position with a market share of 20.8% (in 2016: 22.6%) in corporate loans and in trade finance services a market share of 25.6% (in 2016: 26.9%).

The primary focus with key Slovenian corporates is on complex transactions which require more time, knowledge, experience, and professional services. In such deals, synergies of the Group and a comprehensive approach to individual companies of the group are of paramount importance, and thus delivered by the Group.

The main focus for small enterprises is online banking and simple products and services, while one of the most important elements of successful cooperation with large and mid-corporates is a personal approach. Moreover, the Bank strongly believes in in-depth understanding of the clients, mutual development, and learning. Thus, in 2017 account managers completed 7,282 visits to clients, and the very well accepted series of local events for mid corporates in cooperation with local business entities continued.

Furthermore, in 2017, successful events such as 'How to optimise the operation of the company with different approaches' were organised in cooperation with the regional Chambers of Commerce.

To help entrepreneurs understand their finances easily, a calculator to plan and monitor cash flows was published on the Bank's website.

Table 8: Performance of the corporate banking segment in Slovenia

in EUR million consolidated

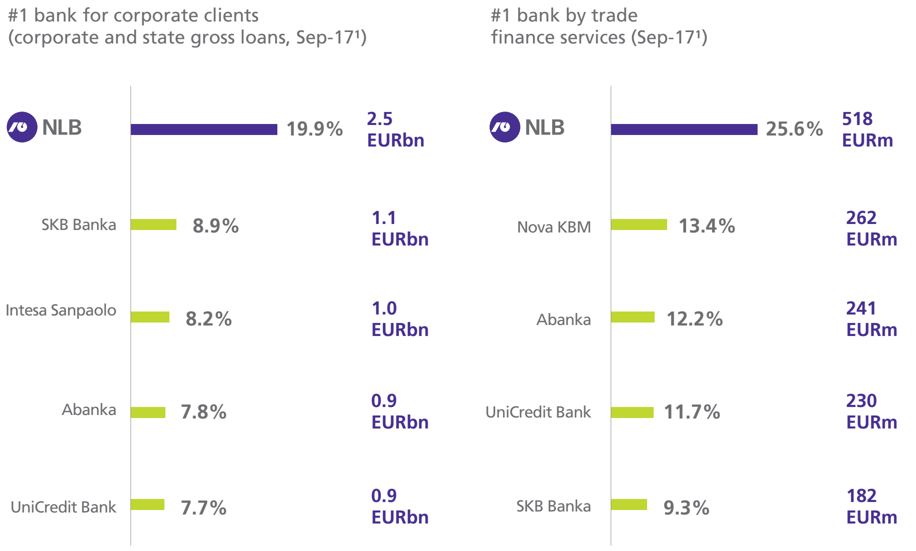
	Corporate banking in Slovenia		
	2017	2016	Change
Net interest income	42.9	45.9	-7%
Net non-interest income	31.0	29.2	6%
Total net operating income	**73.9**	**75.0**	**-1%**
Total costs	-43.6	-44.6	-2%
Result before impairments and provisions	**30.3**	**30.5**	**-1%**
Impairments and provisions	22.5	-2.7	-
Result before tax	**52.8**	**27.8**	**90%**
Net loans to NBS	2,026.3	2,307.4	-12%
Gross loans to NBS	2,188.6	2,511.3	-13%
- corporate	1,939.3	1,985.2	-2%
-o/w Restructuring and Workout	168.6	221.4	-24%
- state	248.7	526.2	-53%
Deposits from NBS	1,080.9	1,152.0	-6%
Non-performing loans (gross)	262.8	346.2	-24%

Note: NBS – non-banking sector

Highlights:

- **The Bank of choice for corporate businesses with an increasing focus on the SME segment and an extensive range of financial products.**
- **Services focused on digitalisation and modernisation.**
- **The NLB IEC represents good banking practice in creating a supportive entrepreneurial environment.**
- **Companies can communicate/ transact with the Bank through various sales channels 24/7.**

Figure 32: Overview of the market shares in Slovenian corporate banking



Source: Company information

1. Data for NLB as at 31 December 2017, Nova KBM as at 30 June 2017, other banks as at 30 September 2017

Figure 33: Evolution of business volumes/segment (in EUR million)

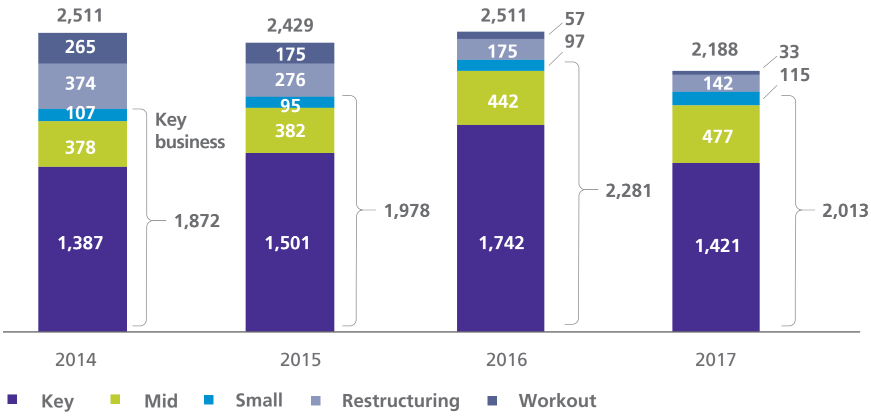


Figure 34: Evolution of business volumes - Small, Mid and Key corporates (in EUR million)

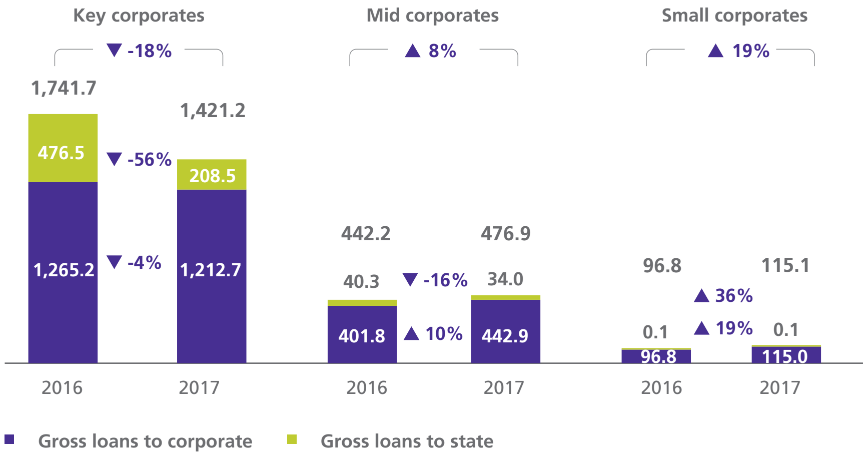
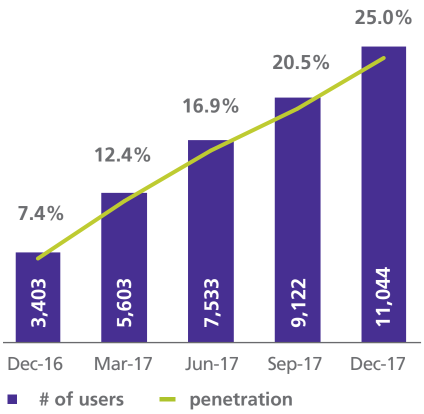


Figure 35: Klikpro penetration (in %) and the number of users



Corporate banking overview in Slovenia

Loan balances overall decreased, while the attractive sub-segment of mid and small enterprises and entrepreneurs grew by 8% and 19% YoY, respectively.

In 2017, 2,391 new NLB Proklik and 8,112 new Klikpro users started using the electronic and mobile bank. Klikpro achieved a remarkable almost three-fold increase in its number of users, and after only a year and a half in operation reached an outstanding 25.0% penetration.

Merchant acquiring in cards operations continued performing solidly in 2017. Namely, on merchants points of sale (POS) acquired by the Bank, an increase of the number of transactions was recorded (6.3%); as well as an increase in the volume of transactions (5.1%).

Improved customer satisfaction and loyalty

Customer Satisfaction Survey carried out at the end of 2017 confirms that on average customers are more satisfied than in 2016. The increase in satisfaction is most noticeable in the context of user experience (particularly in the context of digital use of services), informing and servicing customers, and the Bank's products (where daily banking services are rated the highest). Acceptability of the Bank's price offers improved as well.

Attitude towards customers remains on a high level. Customers especially appreciate the personal approach, reliability, professionalism, and knowing customers. Trust in the Bank is stable, while its reputation shows a positive trend. Most customers declared they will remain loyal to the Bank in the future.

Innovative solutions based on customer needs

Following the NLB Group 2020 Strategy, the Bank focuses on development of an omnichannel solution for corporate segments. The Bank is focused on simplifying and digitalising the solution for the small enterprises and developing a personal, professional approach with tailor-made solutions for mid-sized companies and large corporate clients.

- Among the most important development solutions created for customers, especially small enterprises, are the upgrades of the mobile bank Klikpro, which enabled login with a fingerprint (Touch ID) for Apple and Android users, using QR code by Capture and pay functionality, and analytical tools for monitoring and improving user experience. Continuous enhancement of the mobile bank Klikpro reflects in a significant increase in the average monthly number of mobile transactions by almost five times compared to 2016.

- The product offer for micro and small enterprises, as well as sole proprietors, is standardised and streamlined to ensure fast and simple solutions. The most commonly used daily products are grouped in product packages, thus providing customers with an improved user experience.

- Improvements have also been made for traditional banking services such as deposits and loans. More specifically, these improvements were to help clients invest their surplus liquidity in more profitable investments. A new offer of a NLB Investment Pair for corporates was prepared, which is a combination of simultaneous payment into a long-term deposit and a selected product of the NLB Skladi. Furthermore, to enable the clients to get short-term financing quick and easy when needed, Express loan and Express overdraft for the small business segment were introduced. By streamlining the process and response time for concluding these products, cash can now be available in a couple of hours, if the customer is meeting certain predetermined conditions.

- IEC, with its operations, is a good banking practice of creating a supportive entrepreneurial environment. In 2017 243 external entrepreneurial educational and corporate events were organised. In the IEC Entrepreneurial Gallery (show room), 54 different entrepreneurs with their products were hosted.

Companies are supported throughout their business cycle with a full range of banking services, and with the help of the Bank's experts.

Our strategic focus remains the development of relevant solutions through genuine understanding of our clients' needs. The Bank continues to be a reliable partner to all segments of enterprises.

Andrej Lasič
General Manager,
Large Corporates

Corporate clients

47,101
clients in total

38,724
active clients

4,603
new clients joined the Bank in 2017

Market share

20.8%
a market share in corporate loans

25.6%
a market share in trade finance services

Digital services

92.4%
digital users

224.5%
more mobile bank users than in 2016

94.5%
of POS terminals enabling contactless payments

34.9%
market coverage with POS terminals

Investment Banking and Securities Service

The Bank further strengthened its role as a leading provider of Investment Banking and Securities Services in Slovenia, and increased turnover and income in all segments. The Bank continued its full-scale coverage of corporate and institutional clients with offerings in debt and equity capital markets, M&A, advisory, and treasury solutions. After gaining a proven track record in Slovenia, Investment Banking's focus spread to the region where the Group is present. In 2017 the Bank successfully concluded the sales agreement of the Macedonian company Nov penziski fond AD Skopje, which will be a reference for future transactions on designated markets.

In 2017 strong growth in investment banking business was recorded. The largest contribution to the result derives from Treasury Sales.

Table 9: Performance of the investment banking and custody services in Slovenia

in EUR million consolidated

	Investment banking		
	2017	2016	Change
Net non-interest income	**9.3**	**6.8**	**36%**
Total costs	-5.8	-5.6	3%
Result before tax	**4.1**	**1.6**	**166%**

Note: The result of the investment banking in Slovenia is included under the segment result of Financial markets in Slovenia in the Audited Financial Statements of NLB and NLB Group part of the Annual Report

Debt capital markets and M&A advisory

In 2017 the Bank provided its customers the whole range of corporate finance solutions. Among others:

- Helped many companies broaden funding base and arranged the issuance of both long-term and short-term instruments in the total of EUR 61 million on debt capital markets. The Bank successfully organised the first Green Bond issue in Slovenia, based on green bond principles regarding the use of proceeds, the process for project evaluation and selection, the management of proceeds, and reporting on behalf of the issuer GEN-I Sonce d.o.o. in the total amount of EUR 14 million.
- Lead the syndication market as a mandated lead arranger with a EUR 570 million of the total amount of syndicated transactions.
- Was active in M&A and other financial advisory engagements. As the sole financial advisor it successfully organised the sales process of the Macedonian company Nov penziski fond AD Skopje. The Bank successfully organised four takeover bids and two squeeze-outs of minority shareholders.

Brokerage and Treasury Sales

The Bank is the market leader in brokerage services to both retail and institutional clients, with a network in domestic and international markets. The total brokerage turnover in 2017 amounted to EUR 895 million, while clients' assets on trading accounts surpassed EUR 9.2 billion, which represents 5% growth compared to 2016.

The Bank provides standard treasury products to corporate and institutional clients. In addition to plain vanilla FX spot transactions, the Bank also trades with derivatives for hedging against currency and interest rate exposures. In 2017 the overall volume of these transactions exceeded EUR 2.4 billion, which represents 80% growth compared to 2016, and which can be attributed to intensive sales activities and specific market conditions. Due to the volatile and unpredictable business environment, special attention was dedicated to corporate clients engaging in interest rate and FX hedging activities. In 2017 this segment grew by more than 200%, measured by transaction volume, and reached EUR 1.5 billion.

Upon successful transition to the new T2S environment, NLB is the only bank in Slovenia that provides Payment Bank Services to its customers to support their securities transaction and corporate actions activities on the Slovenian market.

Custody

The Bank remains one of the top Slovenian players in custodian services for Slovenian and international customers, strengthening its position as a depositary for investment and pension funds, and since 2016 also alternative investment funds.

Assets under custody grew by approximately EUR 2.5 billion to a total of EUR 14.7 billion. The Bank also acts as a gateway into the region using its own network and partner institutions for seamless service to its customers. Upon successful transition to the new T2S environment, the Bank as the only bank in Slovenia, provides Payment Bank Services to its customers to support their securities transaction and corporate actions activities on the Slovenian market.

The best result ever

Investment Banking and Custody achieved the highest income in history with growth of net non-interest income more than 36% compared to last year.

The focus has shifted to the region and our successful M&A transaction in Macedonia last year will be an excellent reference for future transactions in designated markets.

Andrej Meža
General Manager, Investment Banking and Custody Services

507
million EUR in total amount of organised syndicated loans

200%
growth of interest rate and FX hedge transactions volume

14.7
billion EUR in total assets under custody

Chapter 10

Core Foreign Markets

The core part of the Group in foreign markets consists of six banks and two SPVs (for NPL transferred from subsidiary banks). The banks are distinguished by strong reputation, stable market position, and increasing relevance to the Group in terms of financial performance. Market shares of subsidiary banks exceed 10% in four out of six markets. Despite a competitive market environment, 2017 was successful for all core members of the Group in foreign markets – all of them posted a profit before tax, contributing in total EUR 102.0 million (2016: EUR 67.6 million) of the profit before tax of the Group, representing an increase of 51% compared to 2016. This is the result of strong loan production, especially in the retail segment, improved cost efficiency, and favourable cost of risk developments. Improvement of corporate governance, coordination, and supervision of strategic projects' implementation and initiatives at the Group level, the exchange of good practices and realisation of synergies among banks contributed to the solid financial results. Subsidiaries remain committed to ensuring a locally anchored organic growth strategy, and boost business operations and service excellence by implementing Group-wide initiatives.

Despite a competitive market environment, 2017 was successful for all core members of the Group in foreign markets – all of them posted a profit before tax in the total amount of EUR 102.0 million (2016: EUR 67.6 million), including the result of minority shareholders. The contribution to the Group results of the strategic foreign members was 43% (2016: 52%). Compared to 2016, the operating result improved mainly due to higher operating income and lower impairments and provisions.

NLB Banka, Skopje, NLB Banka, Banja Luka, and NLB Banka, Prishtina have continued successful stories. These banks and NLB Banka Sarajevo posted the highest net profit ever. NLB Banka, Podgorica, and NLB Banka, Belgrade posted a profit for the third year in a row, and laid solid foundations for long-term profitable growth after introducing changes to improve efficiency and completing the implementation of a restructuring plan aimed at reducing costs and NPL ratios.

All core foreign banks continued strong loan production with an increase in gross loans of 8% (especially in Serbia, Macedonia, and Kosovo), as well as the exceptionally low risk results in all entities.

In 2017 subsidiary banks were focused on operational efficiency and rationalisation processes leading to CIR of 48%, a decrease of 2.6 percentage points.

Subsidiary banks focus primarily on the retail, micro enterprises, and SMEs.

The results of 2017 created a solid and sound basis to focus on new business opportunities, and to respond to client needs with contemporary up-to-date solutions. Regulatory framework changes were introduced in a majority of the countries where the Group is present, bringing them closer to EU banking rules.

The Group aims to continue capitalising on synergies among the Group members in the areas of: HR and business developments, client centricity, the introduction of modern technologies and digitalisation, increased operational excellence, cost efficiency, and profitability, as well as to assure tight and effective internal control systems.

Table 10: Results of the strategic foreign markets segment (in EUR million consolidated)

in EUR million consolidated

	Strategic foreign markets		
	2017	2016	Change
Net interest income	144.6	136.9	6%
Net non-interest income	47.1	42.5	11%
Total net operating income	**191.7**	**179.4**	**7%**
Total costs	-97.2	-95.5	2%
Result before impairments and provisions	**94.5**	**83.9**	**13%**
Impairments and provisions	7.6	-16.3	-146%
Result before tax	**102.0**	**67.6**	**51%**
o/w Result of minority shareholders	8.2	5.6	47%
Net loans to NBS	2,393.5	2,148.0	11%
Gross loans to NBS	2,660.6	2,457.2	8%
Deposits from NBS	3,078.3	2,824.4	9%
Non-performing loans (gross)	252.0	312.1	-19%

Highlights:

- **1.1 million clients in six markets.**
- **A strong network of 242 branches.**
- **Contributing a total of EUR 102.0 million or 43% (2016: EUR 67.6 million or 52%) of the Group's profit before tax.**
- **Dividend pay-outs in the amount of EUR 48.7 million (2016: EUR 21.9 million), representing an increase of 123% compared to 2016.**

Figure 36: Profit after tax (in EUR million)

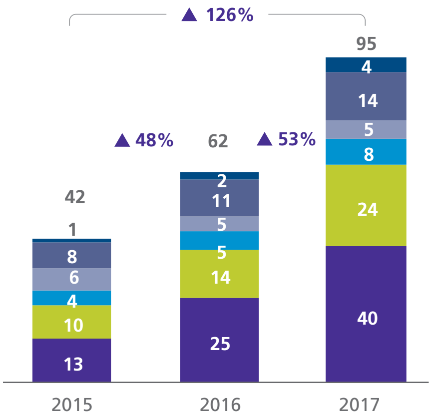


Figure 37: ROE a.t. (in %)

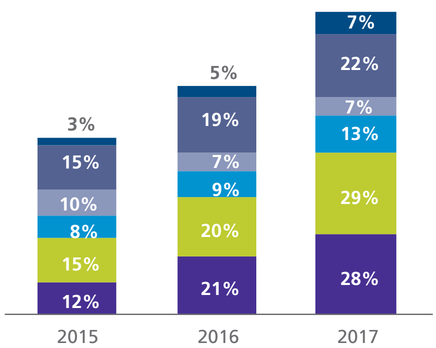


Figure 38: Net interest income (in EUR million)

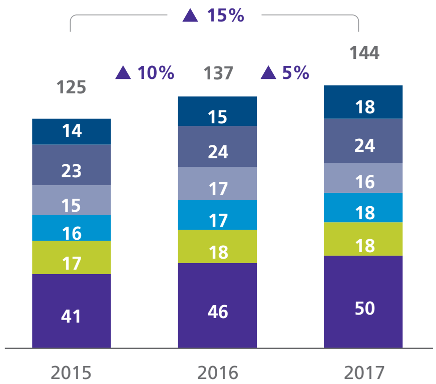


Figure 39: Operating expenses (in EUR million)

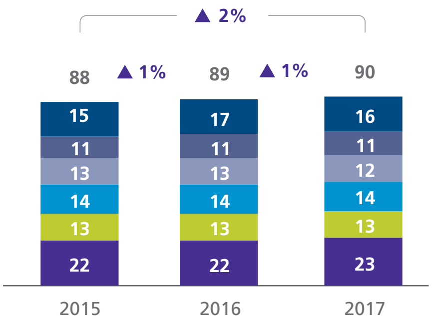
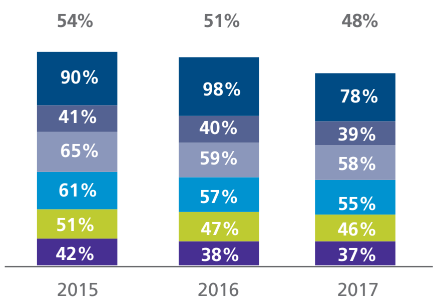


Figure 40: CIR (in %)



■ Macedonia ■ BiH - RS[1] ■ BiH - Fed[2] ■ Montenegro ■ Kosovo ■ Serbia

Source: Company disclosure

Note: Figures represent simple sum of individual financials from core foreign banks only (SPV in Serbia and Montenegro are excluded) excluding consolidation adjustments;

1. Republika Srpska; and 2. Federation of BiH.

Figure 41: Net retail loans to customers (in EUR million)

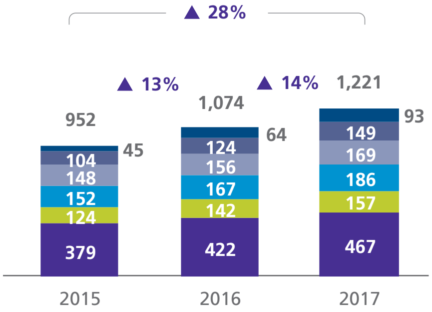
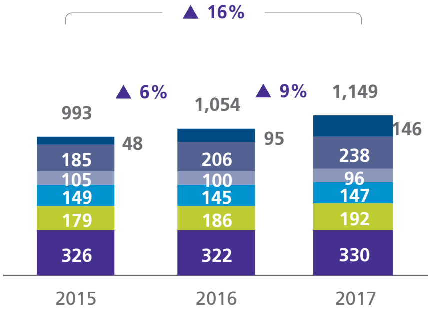


Figure 42: Net corp. loans to customers (in EUR million)



■ Macedonia ■ BiH - RS[1] ■ BiH - Fed[2] ■ Montenegro ■ Kosovo ■ Serbia

Source: Company disclosure
Note: Figures represent simple sum of individual financials from core foreign banks only (SPV in Serbia and Montenegro are excluded) excluding consolidation adjustments;
1. Republika Srpska; and 2. Federation of BiH.

Ambitious targets, increased cooperation, and best practice sharing within The Group, as well as diligent implementation of strategic initiatives on the Group level performed by highly committed local and regional teams led to record-breaking results in net profit by core members, and the highest contribution of dividends from the members into the Group's results. All of these efforts set the basis for further development of continuously successful operations of the Group in the region.

Jana Benčina Henigman
General Manager, Group Steering

NLB Banka, Skopje

For NLB Banka AD Skopje, 2017 will be noted as a dynamic, challenging, and at the same time very successful year. The bank effectively steered its way through challenging market conditions, stabilisation of political situation, and intensified activities of the country for EU accession.

The bank posted a result after tax of EUR 40.0 million (2016: EUR 25.0 million), ROE of 27.8%, and CIR of 37.4%. These results were driven by strong retail lending, card operations, payment services, and the sale of insurance products supported by a high interest margin and resilient collection of retail loans.

To continue a long-lasting partnership with clients, the bank developed new products and services, implemented technology changes, optimised processes, and improved mass loan platforms.

Faced with strong and healthy banking competition, the bank consolidated its competitive edge by investing in an information system to improve technical support for digital services. This full awareness of the digital future in 2017 led the bank to introduce ‘mProklik’ - a new mobile application for legal entities, the first on its domestic market. It also launched the ‘Happy’ co-branded credit card with favourable cash-back options for clients.

The success of the bank is based on the affirmation of the new organisational culture, the revival of our core values, and greater engagement of all employees in the process of constantly adapting to new opportunities as a foundation for creating positive customer experience.

In 2017, the bank received the ‘Cristal Bell’ award from the Macedonian Stock Exchange for transparency and also for being the company with the largest volume of transactions. In addition, its mobile application NLB mKlik was among the

Highlights:

- **3rd largest bank measured by total assets on a highly concentrated market.**
- **Continuously profitable performance over the years, with substantial dividend pay-out capacity.**
- **Wide and dispersed Branch, ATMs, and POS network.**

Key strengths and strategic actions:

- **A bank with good corporate governance, perceived by the community as being reliable, accountable, and modern.**
- **Market-oriented, with innovative products and services and diverse sales channels, a leader in digitalisation, and with access to regional and international financial markets through the Group’s network.**
- **Motivated employees, with excellence in meeting customer’s expectations and skills to deliver quality products and services.**

Table 11: Key performance indicators of NLB Banka, Skopje

in EUR thousand

Income statement indicators	2017	2016	Change
Net interest income	49,665	46,327	7.2%
Net non-interest income	12,846	12,297	4.5%
Total costs	-23,381	-22,250	5.1%
Provisions and impairments	5,481	-8,747	-
Result before tax	44,611	27,627	61.5%
Result after tax	40,004	24,997	60.0%
Financial position statement indicators			
Total assets	1,235,914	1,153,091	7.2%
Loans and advances to non-banking sector (net)	796,678	743,341	7.2%
Deposits from non-banking sector	1,005,282	938,496	7.1%
Equity	156,609	129,083	21.3%
Key financial indicators			
Capital adequacy ratio	14.4%	13.9%	0.5 p.p.
Interest margin	4.9%	4.7%	0.2 p.p.
Return on equity after tax (ROE a.t.)	27.8%	20.8%	7.0 p.p.
Return on assets after tax (ROA a.t.)	3.5%	2.3%	1.2 p.p.
Cost Income Ratio	37.4%	38.0%	-0.6 p.p.
Non-performing loans	53,800	55,911	-3.8%
Non-performing loans/total loans (risk methodology)	5.2%	5.7%	-0.5 p.p.
Market share in terms of total assets	16.4%	16.2%	0.2 p.p.
Loans to non-banking sector (net)/deposits from non-banking sector (LTD)	79.2%	79.2%	0.0 p.p.

awarded applications, and the only one in the segment of finance.

During the year the bank was actively engaged in different corporate and social responsibility activities, which further strengthened the relationship with clients and the society.

Retail and Corporate banking

In the retail segment, the bank retained a market share of loans of 21.1% and saw slight increases in the segment of deposits from private individuals to 19.2%. The main focus was on: intensifying credit activities directly or through loan intermediaries and mass-sale platforms, meeting customer preferences, supporting traditional housing loans, offering non-banking services, and massive use of the functionalities of payment services.

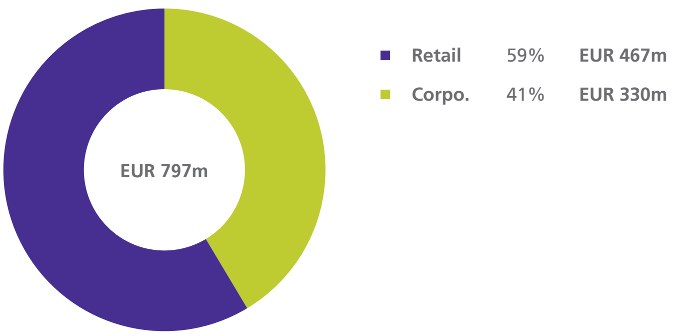
An improvement was made in customer relations management, which was supported by new IT tools helping the bank to better understand its client's needs.

The bank has fostered a supportive business climate for micro SMEs, and offered reliable service to corporates through constant improvement of its sales force knowledge. The focus remained on providing a full spectrum of financial services to companies, including lending, cash management, payment services, trade finance, cross-border financial services support for corporate clients active on markets where the Group is present, standardised financial facilities for export-oriented companies, as well as capital markets advisory services. In 2017 the offer was enriched with new products for financing projects in the scope of the 'Woman in Business' programme supported by EBRD, as well as for development of micro, small, and medium enterprises supported by the MBDP.

Antonio Argir
President of the Management Board

We ended 2017 with an annual profit of EUR 40.0 million, based on the exceptional performance in sales of banking and non-banking products, management of our non-performing portfolio, and cost management. We keep a strong team spirit, and are ready to respond to the future challenges of digitalisation and evolving customer expectations with the same commitment and ambition.

Figure 43: Net non-banking sector loan book split



NLB Banka, Banja Luka

Since it was established, NLB Banka, Banja Luka has operated successfully and with a positive trend. In 2017 the bank achieved solid performance in all segments of its business, reduced cost of risk and delivered its highest profit so far.

In 2017 net profit totalled EUR 23.7 million (2016: EUR 14.1 million), with improved cost efficiency (CIR of 46.1%; 2016: 47.2%). The net non-interest income grew by 9.3% compared to 2016. NPL ratio was further reduced to 3.7% (2016: 5.1%). Net loans to the non-banking sector increased by 6.6% and deposits by 7.5%.

To further accommodate client needs, the bank continued to improve its business and operational models, and to develop new products. Along with a focus on sales activities that resulted in growth of net loans by 6.6%, special attention was placed on active client monitoring and managing risks.

Firmly determined to continue transformation and further development, the bank is committed to continuous optimisation and enhancement of distribution channels, reflecting in the growth of active electronic and mobile (e/m) banking users by 35%. The bank will continue its sustainable growth and be prepared for future challenges because of the dedication to the life-long development of employees, a high level of engagement, and the deep trust of clients.

Highlights:

- **3rd largest bank in the Republic of Srpska by total assets* with 58 branches.**
- **Achieved record profit and maintained the high quality of portfolio.**
- **Combined growth of users of E- and M-banking.**
- **Share of retail loans increased in portfolio structure.**

* Last available data as at 30 September 2017.

Key strengths and strategic actions:

- **Sustainable growth, especially in retail and the high quality of portfolio.**
- **A large client base, with acknowledged trust and reliability.**
- **Modernisation of sales channels, processes, and services.**
- **Synergies through the Group initiatives.**

Table 12: Key performance indicators of NLB Banka, Banja Luka

in EUR thousand

Income statement indicators	2017	2016	Change
Net interest income	18,146	18,255	-0.6%
Net non-interest income	9,636	8,819	9.3%
Total costs	-12,803	-12,788	0.1%
Provisions and impairments	10,579	1,994	-
Result before tax	25,558	16,280	57.0%
Result after tax	23,694	14,117	67.8%
Financial position statement indicators			
Total assets	669,949	634,501	5.6%
Loans and advances to non-banking sector (net)	349,102	327,430	6.6%
Deposits from non-banking sector	532,546	495,438	7.5%
Equity	84,440	74,607	13.2%
Key financial indicators			
Capital adequacy ratio	15.3%	16.3%	-1.0 p.p.
Interest margin	2.8%	2.9%	-0.1 p.p.
Return on equity after tax (ROE a.t.)	29.3%	20.0%	9.3 p.p.
Return on assets after tax (ROA a.t.)	3.6%	2.3%	1.3 p.p.
Cost Income Ratio	46.1%	47.2%	-1.1 p.p.
Non-performing loans	20,151	27,940	-27.9%
Non-performing loans/total loans (risk methodology)	3.7%	5.1%	-1.4 p.p.
Market share in terms of total assets	18.9%[1]	18.9%	0.0 p.p.
Loans to non-banking sector (net)/deposits from non-banking sector (LTD)	65.6%	66.1%	-0.5 p.p.

1. as at 30 September 2017

Retail and Corporate banking

The bank maintained the positive trend from previous years, achieving nearly double-digit growth of retail loans and showing solid growth in all other segments. Acting together with the corporate department to increase cross-selling, loan offers were tailored to match the needs of other segments as well. The bank continued to improve operating processes and developing capabilities to introduce new sales channels already having an impact on the increased usage of digital solutions.

The focus on SMEs was increased by maintaining existing, and acquiring new clients by highly competitive, tailored offers for all corporate segments. Synergies within the Group provided additional flexibility and yielded new business opportunities and transactions. Important efforts were made to enhance digital channels to ensure better user experience, and to maintain a high level of security at the same time.

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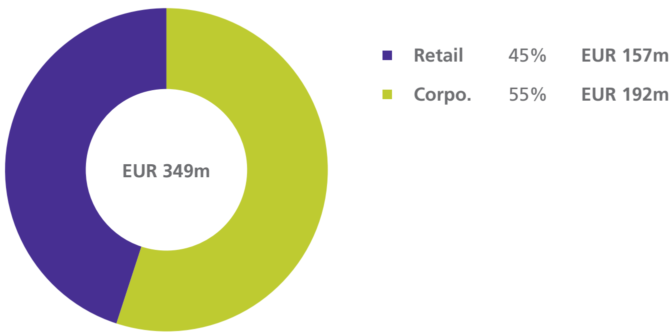
Radovan Bajić
President of the
Management Board

In 2017 we delivered the highest profit of EUR 23.7 million, with a solid contribution by all business segments. Our firm determination to transform and develop ourselves allowed us to maintain focus on optimisation and the enhancement of distribution channels to further improve customer experience.

Figure 44: Net non-banking sector loan book split



NLB Banka, Sarajevo

The year 2017 was marked by profitable results and strong performance guided by the implementation of the new Strategy that continues to include comprehensive banking services to businesses and private individuals. The bank built a stronger reputation and brand recognition, while placing special focus on developing new banking services, as well as improving customer experience and bank accessibility to its clients.

In 2017, the bank achieved a net profit of EUR 8.3 million (2016: EUR 5.4 million), with improved cost efficiency (CIR of 54.8%; 2016: 57.1%). The net interest income and net non-interest income of the bank grew by 6.7% and 6.1%, respectively compared to 2016. NPL were significantly reduced compared to 2016 by EUR 12.8 million (NPL ratio 6.9%; 2016: 9.9%).

Notwithstanding strong banking competition, the bank managed to achieve growth in total assets by 6.7%, as well as increase the net interest margin by 0.1 percentage point compared to 2016 – keeping the stable client base with a proactive sales and marketing approach and introducing new products and services such as: an improved loan offering – new mobile banking application for private individuals, and a specialised approach to small and medium enterprises and corporate clients.

Throughout the year, the visibility of the bank was reinforced by continuous marketing efforts and positive feedback in the media. The bank continued to have positive impact on the community through corporate and social responsibility activities.

Employee development and talent management remained vital for supporting the continuous improvement of processes to ensure the bank meets the various needs of its clients.

Highlights:

- **Increased stability and profitability – CAR 15.2% and ROE a.t. 12.8%.**
- **Stable market share. 6th largest bank in the Federation of BiH market by total assets.***

* Last available data as at 30 September 2017.

Key strengths and strategic actions:

- **Strong brand recognition and trust within the Federation of BiH.**
- **New business strategy adopted with focus on customer experience and the Group synergy.**
- **Synergy activities in all business areas with NLB Banka a.d., Banja Luka for stronger recognition in BiH.**

Table 13: Key performance indicators of NLB Banka, Sarajevo

in EUR thousand

Income statement indicators	2017	2016	Change
Net interest income	18,059	16,927	6.7%
Net non-interest income	7,453	7,026	6.1%
Total costs	-13,973	-13,670	2.2%
Provisions and impairments	-2,000	-4,286	-53.3%
Result before tax	9,539	5,998	59.0%
Result after tax	8,300	5,357	54.9%
Financial position statement indicators			
Total assets	531,016	497,861	6.7%
Loans and advances to non-banking sector (net)	332,557	312,012	6.6%
Deposits from non-banking sector	427,932	406,940	5.2%
Equity	69,086	60,780	13.7%
Key financial indicators			
Capital adequacy ratio	15.2%	14.2%	1.0 p.p.
Interest margin	3.5%	3.4%	0.1 p.p.
Return on equity after tax (ROE a.t.)	12.8%	9.1%	3.7 p.p.
Return on assets after tax (ROA a.t.)	1.6%	1.1%	0.5 p.p.
Cost Income Ratio	54.8%	57.1%	-2.3 p.p.
Non-performing loans	34,014	46,854	-27.4%
Non-performing loans/total loans (risk methodology)	6.9%	9.9%	-3.0 p.p.
Market share in terms of total assets[1]	5.3%	5.3%	0.0 p.p.
Loans to non-banking sector (net)/deposits from non-banking sector (LTD)	77.7%	76.7%	1.0 p.p.

1. as at 30 September

Retail and Corporate banking

The commitment to retail banking is reflected not only in the strategic vision, but also in dedication to client relations, loan processes, strong risk management, and continued investment in technology contributing to outstanding performance for the year. The business approach to corporate clients and enterprises is built upon the principle of putting the clients' needs first. Dedicated teams with deep industry knowledge fully invest in each client relationship, which results in the growth of the clients' base.

One of the achieved priorities in 2017 was to be easily and securely accessible 24/7, with easy-to-use innovated services. The new and improved NLB M-Bank was launched to allow clients to access accounts, check balances, make transfers, pay bills, etc. To facilitate the process of applying for new loans and cards, the bank launched online applications through its website. In cooperation with MasterCard and Visa, the bank provided customer care campaigns and introduced new credit card products. The bank launched a new product 'Cash loans' at the end of 2017 to further support clients.

In an effort to come closer to corporate clients' needs, the corporate loan approval process was optimised to enable clients to improve liquidity and investment planning through access to necessary funds in a more efficient way. Increased use of alternative business channels such as POS terminals, contactless cards, and E-banking additionally improved the quality of services offered to clients. The bank was happy to provide a customised solution and participated in the largest syndication financing projects on the domestic market, and proved the expertise and gained the trust of corporate clients.

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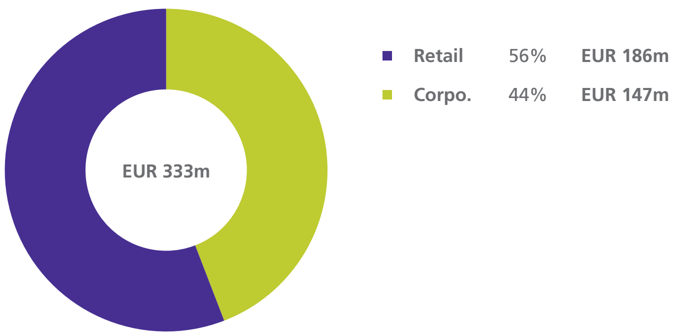
Lidija Žigić
President of the Management Board

2017 was the most profitable year ever, with a net profit of EUR 8.3 million, and a year of significant growth in all segments of business operations. Tailored services, digitalisation initiatives, new products, and improved services have set a strong foundation for the years to come.

Figure 45: Net non-banking sector loan book split



NLB Banka, Prishtina

NLB Banka, Prishtina had remarkable results on its 10th anniversary of operations in Kosovo. In a delicate economic environment, the agile response focusing on long-term value creation remains the key success factor for excelling in servicing a client base and creating value. Being part of the Group enables high brand recognition and trust by customers for strong presence on a market ready to embrace future challenges. The strategy focuses on remaining a simple, client-oriented bank that grows responsibly with advanced digital solutions, which enabled the bank to retain the position among the largest financial institutions in Kosovo. The bank remained committed to employee development, clearly one of the key drivers for success.

Net profit amounted to EUR 14 million (2016: EUR 11 million), representing an increase of 26%, while cost efficiency improved (CIR of 38.7%; 2016: 40.1%). NPL ratio decreased to 2.9% (2016: 3.6%), while coverage ratio (NPL coverage with provisions) increased by 8.9 percentage points (2016: 176.6%). Net loans to the non-banking sector increased by 17.4%, while deposits increased by 14.6%.

Highlights:

- **Continuously profitable operations, with the ROE after tax reaching 22.2% in 2017.**
- **The 3rd largest bank by total assets with 44 branches.**
- **Sound asset quality with NPL ratio of 2.9%.**

Key strengths and strategic actions:

- **Increased use of alternative business channels (POS, Contactless cards, M-banking, E-banking).**
- **Substantial dividend pay-out capacity.**
- **A user-friendly E-banking platform for providing customers constant availability of services.**

Table 14: Key performance indicators of NLB Banka, Prishtina

in EUR thousand

Income statement indicators	2017	2016	Change
Net interest income	24,471	23,545	3.9%
Net non-interest income	4,611	4,213	9.4%
Total costs	-11,242	-11,118	1.1%
Provisions and impairments	-2,176	-4,088	-46.8%
Result before tax	15,664	12,552	24.8%
Result after tax	14,197	11,263	26.0%
Financial position statement indicators			
Total assets	584,086	516,115	13.2%
Loans and advances to non-banking sector (net)	386,804	329,608	17.4%
Deposits from non-banking sector	506,672	442,095	14.6%
Equity	66,705	62,845	6.1%
Key financial indicators			
Capital adequacy ratio	15.9%	16.6%	-0.7 p.p.
Interest margin	4.9%	5.0%	-0.1 p.p.
Return on equity after tax (ROE a.t.)	22.2%	18.9%	3.3 p.p.
Return on assets after tax (ROA a.t.)	2.6%	2.4%	0.2 p.p.
Cost Income Ratio	38.7%	40.1%	-1.4 p.p.
Non-performing loans	14,804	15,845	-6.6%
Non-performing loans/total loans (risk methodology)	2.9%	3.6%	-0.7 p.p.
Market share in terms of total assets	15.7%	14.9%	0.8 p.p.
Loans to non-banking sector (net)/deposits from non-banking sector (LTD)	76.3%	74.6%	1.7 p.p.

Retail and Corporate banking

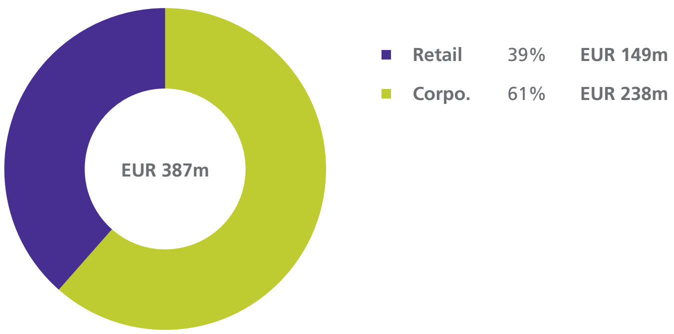
Retail banking sales grew steadily, particularly the number of the clients, the personal loans portfolio, and electronic banking. The main focus continues to be improvements of the quality of services, and promoting new products and services. Recently, all main branches were equipped with ATMs, enabling clients to make a deposit, which is an example of the continuous care in improving the quality of service.

The bank continues to be a reliable partner to all segments of corporate clients, but with a strategic focus on SMEs. The product offerings for the segment of micro and small enterprises, as well as sole proprietors are standardised and streamlined to ensure fast and simple solutions. In addition, the bank developed various package offers, which helped to attract a significant number of important large corporates. The bank optimised the risk profile determination through close monitoring of the loan portfolio.

Albert Lumezi
President of the Management Board

With a net profit of EUR 14 million, 2017 was another exceptional year with outstanding performance. We continue to grow responsibly, with a focus on customers and the long-term objectives of our shareholders.

Figure 46: Net non-banking sector loan book split



NLB Banka, Podgorica

The bank is the 2nd largest bank in Montenegro, with a market share in total assets of 11.0%. Despite the competitive market environment, stable and positive performance was recorded for the fourth year in a row. This provided the basis for a regular and extraordinary dividend.

The Bank recorded a net profit of EUR 5.4 million (2016: EUR 5.3 million), supported the local economy in 2017 with new business by lending EUR 50 million to retail (15.7% market share) and over EUR 50 million to corporations/state, and reached an exposure of EUR 30 million in the guarantee business (9.3%). The bank's sales strategy to combine an innovative approach in creating an offer that meets clients' needs based on current development trends, and the bank's experience in the banking environment in Montenegro yielded good results. The asset portfolio quality was improved, and was demonstrated by a NPL ratio reduction from 14.7% to 8% while the coverage ratio (NPL coverage with provisions) increased by 14 percentage points (2016: 57.1%).

The bank launched several innovative products for private individuals (the first housing loan offer on the bank's domestic market, with a combination of fixed and variable interest rates). The overall bank orientation to clients' needs and expectations was rewarded by a high customer satisfaction index score, which increased for the 3rd year in a row and was above the country's banking system average.

Highlights:

- **The 2nd largest bank measured by total assets, with 18 branches and full geographical coverage, and with years of experience in Montenegro.**
- **Improved assets portfolio quality, reflected in a NPL ratio reduction from 14.7% to 8%.**
- **Market leader in housing loans (27% outstanding and 23% of new production).**

Key strengths and strategic actions:

- **Transformation to a retail business-oriented bank, with an efficient business network and ongoing innovation capacity.**
- **High brand awareness among the Montenegrin population.**
- **Upside potential from selectively increasing credit activity in the tourism industry, highway construction, and energy industries.**

Table 15: Key performance indicators of NLB Banka, Podgorica

in EUR thousand

Income statement indicators	2017	2016	Change
Net interest income	16,416	17,162	-4.3%
Net non-interest income	5,110	4,243	20.4%
Total costs	-12,414	-12,570	-1.2%
Provisions and impairments	-3,807	-3,505	8.6%
Result before tax	5,305	5,330	-0.5%
Result after tax	5,385	5,318	1.3%
Financial position statement indicators			
Total assets	457,236	473,058	-3.3%
Loans and advances to non-banking sector (net)	265,062	255,888	3.6%
Deposits from non-banking sector	359,736	361,201	-0.4%
Equity	66,975	75,787	-11.6%
Key financial indicators			
Capital adequacy ratio	14.9%	15.0%	-0.1 p.p.
Interest margin	4.1%	4.3%	-0.2 p.p.
Return on equity after tax (ROE a.t.)	7.0%	7.3%	-0.3 p.p.
Return on assets after tax (ROA a.t.)	1.1%	1.1%	0.0 p.p.
Cost Income Ratio	57.7%	58.7%	-1.0 p.p.
Non-performing loans	31,054	58,516	-46.9%
Non-performing loans/total loans (risk methodology)	8.0%	14.7%	-6.7 p.p.
Market share in terms of total assets	11.0%	12.5%	-1.5 p.p.
Loans to non-banking sector (net)/deposits from non-banking sector (LTD)	73.7%	70.8%	2.9 p.p.

As a specialist in housing loans lending with 27% of market share, the bank proved that clients trust the bank to assist them in navigating the important process of buying a property.

The bank was engaged in corporate social activities by strongly supporting important projects with an aim to help improving the quality of life for citizens of Montenegro.

Retail and Corporate banking

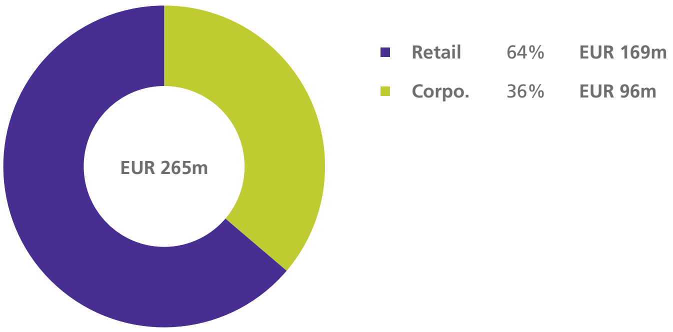
NLB Banka AD Podgorica maintained its position as the leading retail bank, with a strong share of 15.9% and a growing portfolio of loans (7.9% YoY) in 2017. An improved offer for the senior citizens segment (Silver Loan) and a number of improvements in the card/overdraft offer streamlined the processes. The bank supported several major housing projects, and also improved existing housing loan offers with products offering combined interest rates. By redesigning the loan process, loan documentation is now in a digital form. The bank started a number of initiatives and major investments in digital channels. All this led to further improvements in customer satisfaction as measured by Gfk (B2C: the bank 86 vs. competition 78).

In the corporate banking segment, the focus has shifted to the SME segment with new products and an optimised loan approval process. The bank also organised different panels for its clients. By investing time and energy in educating the team, the bank managed to deliver major digitalisation initiatives for improving the loan-approval process and promoting several new products such as Visa Business revolving.

Martin Leberle
President of the Management Board

We transformed into a retail-oriented financial institution. With EUR 5.4 million of net profit in 2017, and by launching new and innovative products, we demonstrated the ability to reach our ambitious strategic goals, and to ensure our readiness for the future.

Figure 47: Net non-banking sector loan book split



NLB Banka, Beograd

The year 2017 has been a good year for NLB Banka, Beograd, which generated EUR 3.73 million of profit after tax (in 2016: EUR 2.15 million). Despite challenging market conditions, the pressure on interest rates, increasing regulatory requirements, and strong competition in the market, the bank achieved growth of more than 20% in all its key business segments. The bank supported the retail and corporate sector of Serbia, with over EUR 238 million in loan products that contributed to an increase of its balance sheet by EUR 95 million (34.4% YoY). This growth is generated by accelerated performing loans portfolio growth of 50% (EUR 79 million). At the same time, customer deposits grew by 36.7% (EUR 70 million). NPL ratio stood at 5.1% (the average of the Serbian banking sector is around 12%), down from 10.3% in 2016.

The bank is working on improving customer experience, aligning it with the needs of a modern-day client who expects a seamless omnichannel journey. In 2017, growing customer satisfaction and improving customer experience with a team of dedicated professionals were one of the key business priorities. In this respect, the bank also continued adjusting its offer to meet clients' needs also by further development of an online cash loan application, and introduced an online application for loans in the agriculture segment. Following the latest trends in the banking industry, the bank implemented a number of innovative communication and sales channels initiatives by modernising its contact centre, online chat, M-banking, and E-banking applications.

The bank expanded its sales force by introducing a network of sales agents to reach the regions of country where the bank is not present with its branch network.

The efforts to cater to clients' needs resulted in a substantial increase in customer

Highlights:

- **Universal bank, focused on private individuals, agro business, SMEs, large corporates and international companies.**
- **A network of 31 branches all over Serbia and 1.2% market share by total assets.***
- **Achieving organic and sustainable business growth in all segments.**

* Last available data as at 30 September 2017.

Key strengths and strategic actions:

- **A strong focus on customer experience and delivering outstanding service to each client, with the development of innovative sales and communication strategies, both digital and traditional.**
- **Increasing brand name and awareness of the bank as a reliable partner.**
- **Enthusiastic and motivated team of professionals eager to move forward.**

Table 16: Key performance indicators of NLB Banka, Beograd

in EUR thousand

Income statement indicators	2017	2016	Change
Net interest income	17,984	14,748	21.9%
Net non-interest income	3,015	2,612	15.4%
Total costs	-16,336	-16,980	-3.8%
Provisions and impairments	-919	1,808	-
Result before tax	3,744	2,191	70.9%
Result after tax	3,731	2,152	73.4%
Financial position statement indicators			
Total assets	370.806	275,798	34.4%
Loans and advances to non-banking sector (net)	238,795	159,363	49.8%
Deposits from non-banking sector	259,755	189,962	36.7%
Equity	61,443	45,525	35.0%
Key financial indicators			
Capital adequacy ratio	20.1%	19.1%	1.0 p.p.
Interest margin	6.1%	6.0%	0.1 p.p.
Return on equity after tax (ROE a.t.)	6.7%	4.7%	2.0 p.p.
Return on assets after tax (ROA a.t.)	1.2%	0.9%	0.3 p.p.
Cost Income Ratio	77.8%	97.8%	-20.0 p.p.
Non-performing loans	15,184	21,891	-30.6%
Non-performing loans/total loans (risk methodology)	5.1%	10.3%	-5.2 p.p.
Market share in terms of total assets	1.2%[1]	1.0%	0.2 p.p.
Loans to non-banking sector (net)/deposits from non-banking sector (LTD)	91.9%	83.9%	8.0 p.p.

1. as at 30 September 2017

satisfaction, and the growth of trust in the bank showed by the survey highlighting Gfk (B2C: NLB Banka 84 vs. competition 77).

The bank also continued to invest in educational and training programmes, aiming to boost potential of employees and develop the team's learning and execution capacity and improve overall employee experience. All those efforts resulted in enhancement of employee engagement and improvements in corporate culture as also confirmed by the related surveys.

Retail and Corporate banking

In 2017, the bank was one of the fastest growing banks on the market in the retail segment. The bank achieved YoY growth of cash loans of 43%, with the total loans disbursed of EUR 61 million. Digital marketing campaigns generated 19% and the bank's network of sales agents contributed 11% of the total cash loans production.

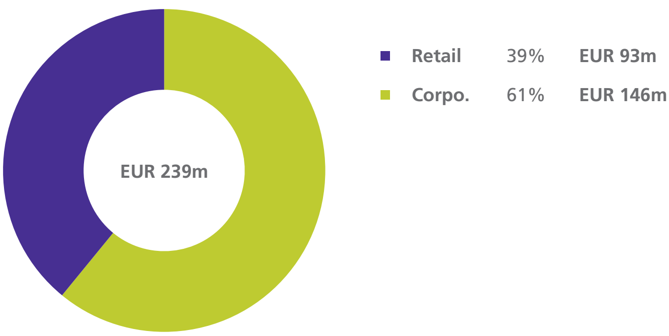
Despite the fact that there was no loan growth in the corporate lending in Serbian banking sector, the bank managed to place 35% more loans than in 2016, and reached the level of EUR 93 million of this segment net performing loans portfolio.

The results achieved in agro banking in 2016 were surpassed significantly in 2017, increasing its portfolio in the segment by 116%. The bank reached the market share of 10% and the level of EUR 47 million of the outstanding amount (2016: EUR 22 million). In 2017, the bank was among the market leaders for loans subsidised by the government. In an effort to build relationships with customers and to act in line with its motto 'NLB na polju' (NLB on the field), the bank continued with various activities and events organised for farmers. The bank also participated in both local and international fairs to improve its relationships in the segment, including the most important event in this segment – the International Agricultural Fair in Novi Sad.

Branko Greganović
President of the
Management Board

In 2017 we recorded a solid EUR 3.73 million in net profit. We will strive to improve our customers' experiences and align them with the needs of a modern-day client who expect a seamless omnichannel journey.

Figure 48: Net non-banking sector loan book split



Chapter 11

Financial Markets[17]

The segment includes income generated by the liquidity reserves, as well as the surplus from fund transfer pricing to other business segments in Slovenia. Financial markets in Slovenia recorded a profit before tax of EUR 23.0 million, despite a negative interest rate environment and low returns on the international bonds market.

Net interest income in Financial markets in Slovenia decreased by 34% in 2017 due to decreasing yields in the securities portfolio, the maturity of some high yield assets, and due to higher expenses resulting from the increased level of excess liquidity. Substantially lower reinvestment yields negatively affected net interest income of the segment. Decreasing LTD contributed to increased cash equivalent positions with negative carry. Management of the structure and volume of banking book securities and the hedging derivatives portfolio is aimed at optimisation of net interest income that should benefit from potential improvements in the interest rate environment.

17. As included in the Financial markets segment in Slovenia.

The negative net non-interest income of Financial markets in Slovenia in 2017 was affected by regulatory costs related to payment to SRF, while the 2016 result includes negative effects from a wind-down of interest rate hedging derivatives and fees related to prepayment of selected wholesale funding in the total amount of EUR 3.0 million.

The Group's ALM

The purpose of the Group ALM process is to manage the Group's balance sheet with respect to interest rate, currency, and liquidity risk considering macroeconomic development and financial markets environment, as well. In accordance with the Group policy, the ALM function supports the Group's business lines and enables them to fully focus on their commercial tasks and credit risk management. By applying a funds transfer pricing methodology, the Group's business lines transfer assets and liabilities risks to ALM so that they are not affected by market movements in interest rates or liquidity spreads.

With many years of experience in trading with financial instruments, the Bank has a high level of expertise and is constantly learning and adapting to the changing market environment and customers' needs. The Bank helps maintain its competitive advantage in providing high quality services in the field of financial instruments by nurturing strong relationships with global partners.

The main building block activities of the Financial markets Business Line are:

- Management of banking book securities for the Bank. The main aim of this portfolio is to provide liquidity, along with stabilisation of the interest margin and management of the interest rate risk.
- Operational liquidity management of the Bank, including transactions on the interbank market, such as placements and deposits, currency swaps, buying and selling of securities, and repo transactions. The Bank's liquidity position can also be managed through the ECB's open market operations if required, as a result of the substantial portfolio of ECB eligible assets in the banking book.
- Wholesale funding activities of the Group, with the aim of achieving diversification, improvement of structural liquidity, and fulfilment of regulatory requirements.
- Foreign exchange and interest rate risk management of the Bank, through transactions on the interbank market, including currency spot/forward transactions, interest rate swaps, and cross currency interest rate swaps.
- The Bank's trading activities include proprietary trading, acting as the primary dealer for bonds issued by RoS and treasury bills, market-making for Slovenian eurobonds, co-leading at ESM/EFSF bond issues, and managing banknotes.
- The Bank provides market access to corporate clients, financial institutions, and the Group (money market instruments, debt securities, foreign exchange, and interest rate derivatives).

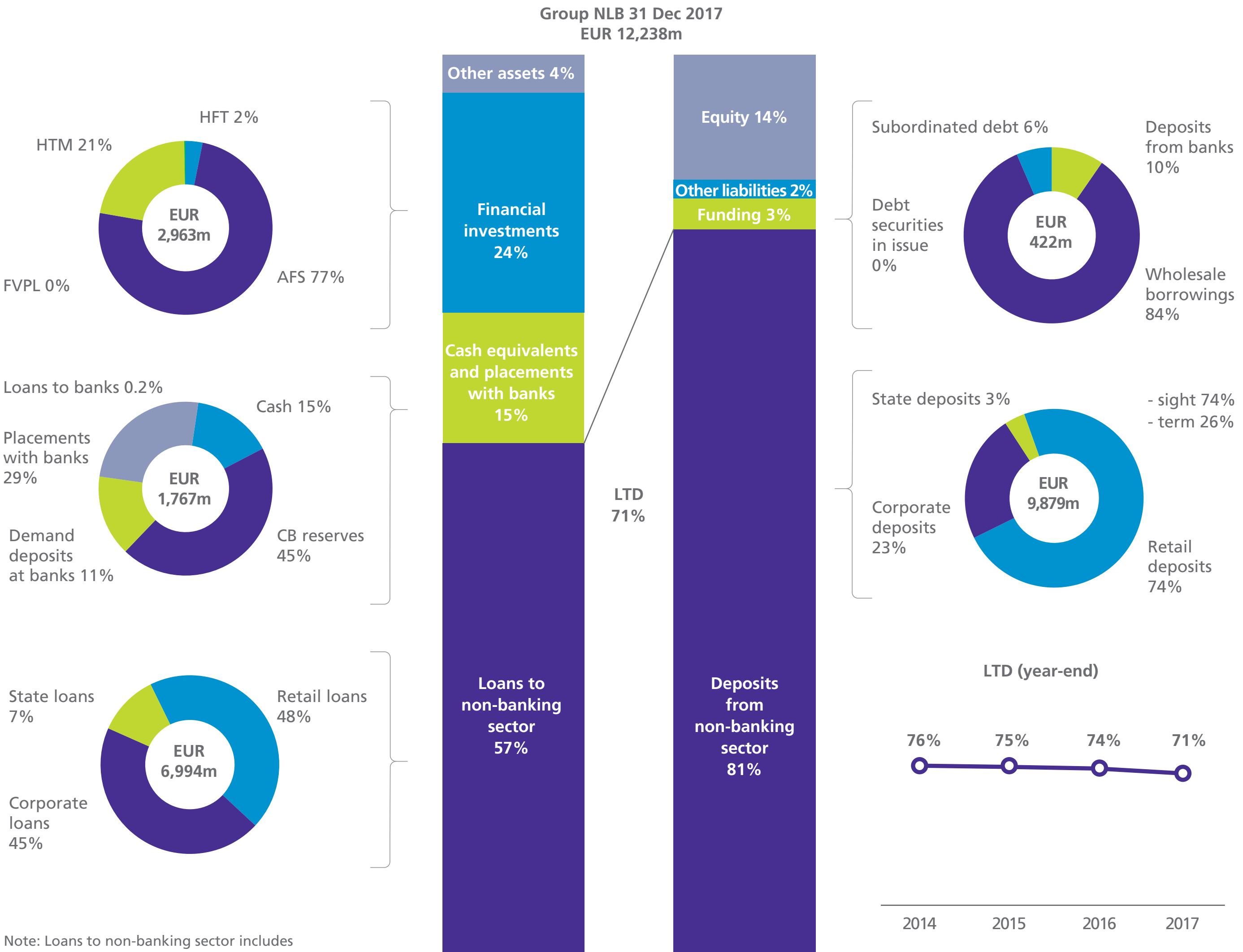
Table 17: Performance of the Financial markets segment in Slovenia

in EUR million consolidated

	Financial markets Slovenia		
	2017	2016	Change
Net interest income	31.9	48.3	-34%
Net non-interest income	-2.1	-7.7	72%
Total net operating income	**29.8**	**40.6**	**-27%**
Total costs	-6.7	-6.6	1%
Result before impairments and provisions	**23.1**	**34.1**	**-32%**
Impairments and provisions	0.0	0.0	-
Result before tax	**23.0**	**34.2**	**-33%**
Gross loans to NBS	221.1	254.7	-13%
Borrowings	260.7	616.2	-58%

Note: Investment banking and Securities Service as a part of the Financial markets in Slovenia segment is represented in a separate chapter.

Figure 49: NLB Group balance sheet structure as of 31 December 2017



Note: Loans to non-banking sector includes EUR 717.5 million loans eligible with ECB as collateral (liquid assets).

The Group is well-capitalised (CET1 ratio 15.9%[18]) and self-funded (LTD 70.8%), and has a stable deposit base that ensures a robust liquidity position (liquid assets of EUR 5.45 billion)

Despite the low interest rate environment, the Group managed to maintain a strong and stable deposit base, consisting mostly of sight deposits. This demonstrates the strong relationship between the Group and its clients, which contributes to a well-diversified funding sources of the Group. In order to keep a conservative risk profile, the liquidity buffers of the Group have been predominately kept in high quality liquid assets, forming a sufficient liquidity cushion to facilitate a re-leveraging of the Group.

The funding structure of the Group remained simple; the increase of customer deposits was compensated by the decrease in wholesale borrowings. Total loans to the non-banking sector did not meet non-banking sector deposit dynamics, mostly due to corporate segment deleveraging.

From the interest rate risk perspective, the low interest rate environment contributed to greater demand for fixed rate loans. Duration of securities portfolio also increased. In order to decrease interest rate risk exposure the Group increased the volume of interest rate derivatives and managed to slightly decrease duration gap between interest sensitive assets and liabilities to 1.76 years from 1.85 years in 2016. Positions are well in line with the Group's conservative risk profile, and within all regulatory and internal limits. Exposure to interest rate risk and basis risk is being monitored carefully from earnings, as well as from an economic value perspective. It has been managed via responsive fund transfer pricing and external pricing policy. When necessary, derivatives are also used, mainly plain vanilla interest rate swaps with an application of Hedge Accounting rules.

Active profitability management has been supported by a highly disciplined deposit pricing policy, enabling the response to a very competitive loan market all over the Group home countries.

Active optimisation of liability structure

Wholesale funding activities in the Group are conducted with the aim of achieving diversification, improving structural liquidity, and fulfilling regulatory requirements.

Due to a solid liquidity position in 2017, the Bank and its Group members did not raise new wholesale long-term funds on the international financial markets by borrowing or issuing debt instruments. In July 2017 the senior unsecured bond issued by the Bank, in the amount of EUR 300 million, matured. The Group undertook an active liability management approach with the optimisation of its long-term liabilities by selected prepayments, improvements of financial conditions, and prolongation of credit arrangements. To achieve harmonisation and optimal terms all activities for borrowing and optimisation of funding of Group members on international financial markets are coordinated by the Bank.

Through the Investor Relations function, the Bank and its Group members in 2017 maintained an active dialogue with its existing investor base, and with a wider international capital markets community.

The Bank regularly monitors regulatory developments and keeps a constant dialogue with the regulator regarding future requirements, including the MREL which will likely influence the Bank's future activities on financial markets. In this context, majority of all measures for the adjustment of the Bank's certain existing long-term liabilities to meet MREL criteria were already undertaken in 2017.

Figure 50: Key changes of NLB Group liabilities and capital in 2017 (in EUR million)

18. Envisaging dividend payment in 100% of net profit after tax of the Bank (EUR 189.1 million).

A price insensitive deposit base and the structure of the loan book enables the Group to benefit from an uptrend in interest rates

Despite the historically low levels of interest rates, the Group managed to optimise its funding sources by attracting core customer segments, resulting in the increase of customer deposits, which presented 81% of the Group's total assets as at 31 December 2017, compared to 78% as at 31 December 2016. Driven by a low interest rate environment, the main change in the funding structure was the transformation of term to sight deposits, to which the Group responded with conscious liquidity reserves management. The share of sight deposits in the total balance sheet increased to 74%, but still proved to be very stable according to the internal methodology.

12,238
million EUR in total assets of NLB Group

80.7%
deposits from the non-banking sector (% of total liabilities and equity)

44.6%
liquid assets (% of total assets)

Figure 51: Evolution of the funding structure confirms a stable deposit base in NLB Group (in EUR million, year-end)

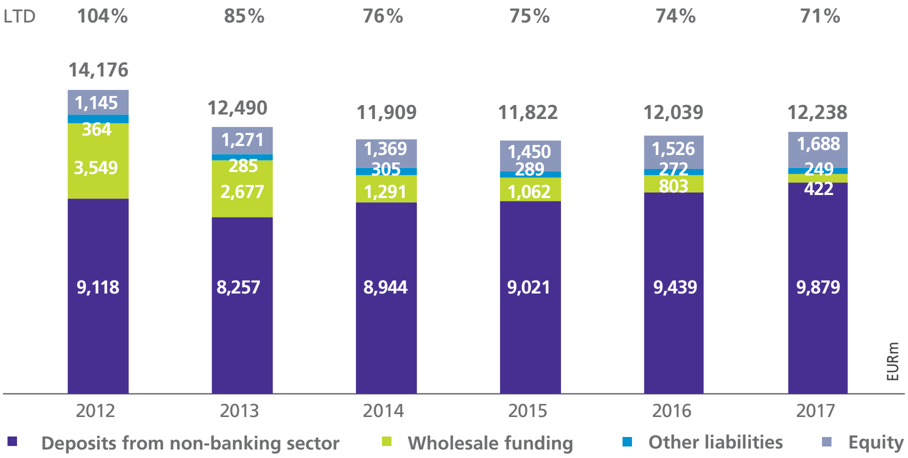
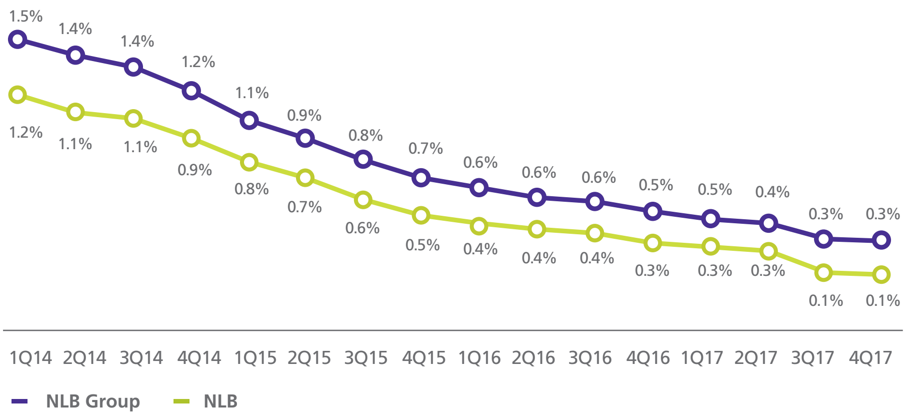


Figure 52: Decreasing average liabilities interest rates in NLB and in NLB Group



Despite the low interest rate environment, the Group managed to maintain a strong and stable deposit base, consisting mostly of sight deposits.

Figure 53: Key changes of NLB Group assets in 2017 (in EUR million)

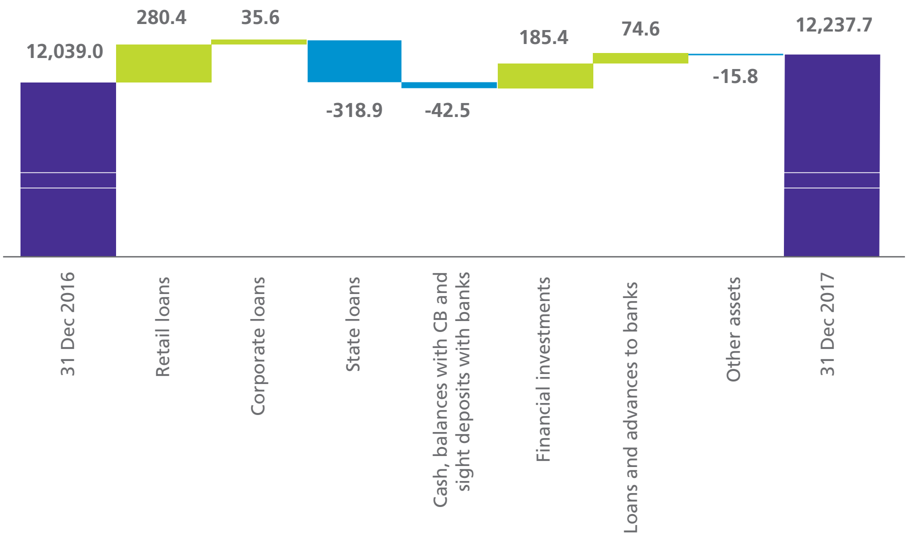


Figure 54: Evolution of NLB Group liquid assets structure reflects a robust liquidity position (in EUR million) providing the basis for future core growth (year-end)

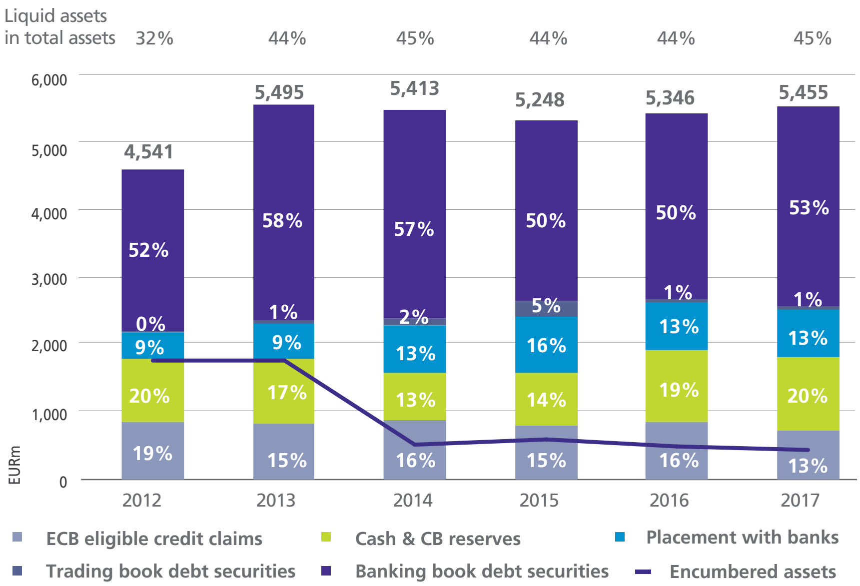
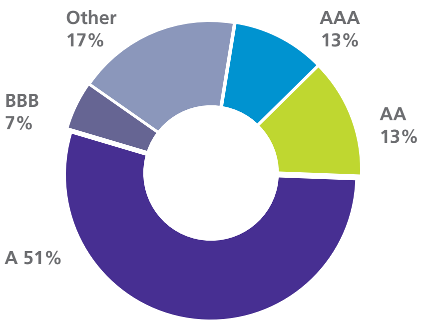
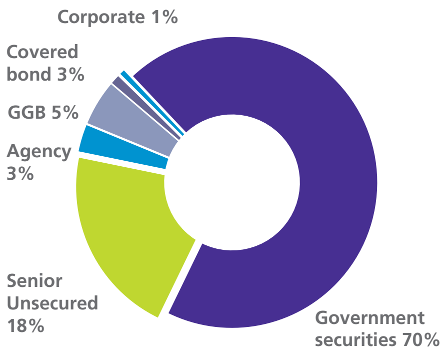
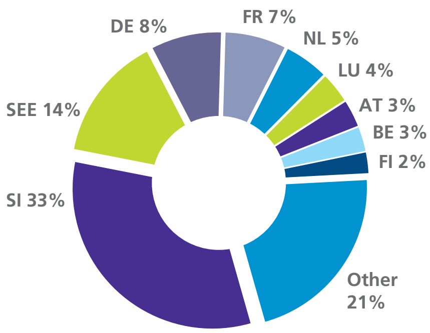


Figure 55: Banking book portfolio of NLB Group by Fitch rating, asset class, and by geographical structure as at 31 December 2017







Note: 'Other' in split of the portfolio by rating represents mostly exposures towards sovereigns of subsidiary banks.

The Group liquidity reserves (41% of total assets) act as a safety cushion in times of severe market stress

Total assets remained stable throughout 2017. Due to early prepayment or the maturity of certain loans in a significant amount that were not being fully replaced by new production, loans to customers decreased. The Group maintained a strong liquidity position with liquid assets, accounting for 44.6% of total assets.

The Group's liquid assets are comprised of cash, placements with central banks, placements with banks, debt securities portfolio, and credit claims eligible for central bank secured funding operations. A small part of liquid assets is encumbered for operational and regulatory purposes. The liquidity reserves consist of liquid assets which are not encumbered and can provide funding of future core growth.

Low interest rates and excess liquidity throughout 2017 put some pressure on the financial performance of the Group. The focus was therefore on the optimisation of the composition of the liquidity reserves and on achieving a positive carry. The Group banking book securities portfolio was further diversified in terms of asset class (corporate bonds) to avoid concentration risk, as well as geographically by including some SEE countries with a lower rating to increase the portfolio's profitability. The investment strategy, for the most part, remained conservative and focused on a prudent tenors and rating structure.

A simple balance sheet supported by a strong capital position, stable funding, and robust liquidity puts the Group on the path of future growth.

Uršula Kovačič Košak
General Manager, Financial Markets

Archibald Kremser
Member of the Management Board

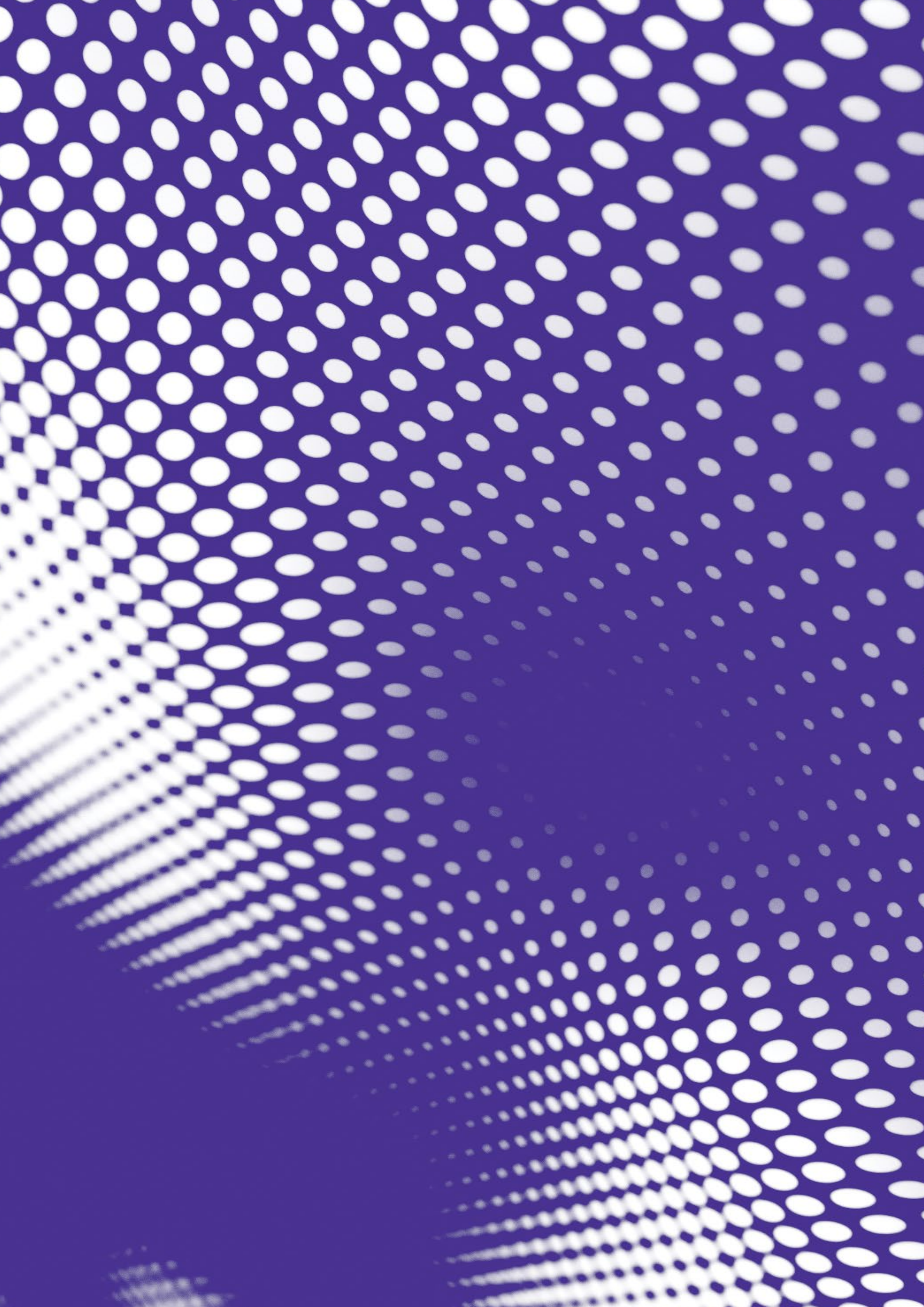
Andreja Stražišar
General Manager, Controlling

Andrej Meža
General Manager, Investment
Banking and Custody Services

Uršula Kovačič Košak
General Manager, Financial Markets

Anica Knavs
General Manager, Financial Accounting

Jovica Jakovac
General Manager, Group Real
Estate Asset Management



Chapter 12

Non-core Markets and Activities

In 2017, the Group successfully realised its strategy and objectives of the Restructuring plan with regard to the wind-down of the non-core segment in line with the EC commitments.

Non-core markets and activities include operations to be divested according to the Restructuring plan including the non-core Group members, non-core part of the Bank's portfolio, as well as some non-core equity investments. The Group successfully realised the objectives of the plan by implementation of the sales of entities, portfolios, individual assets, and the collection or restructuring of assets, as well as by closing of subsidiaries. In 2017, the segment recorded a positive result supported by successful collection of NPL, a gain from divesting an equity exposures and successful divestment of non-core subsidiaries.

The non-core pre-tax result in 2017 amounted to EUR 31.2 million (2016: EUR -18.9 million). A significant improvement was based on one hand on active NPL management (major effects on release of provisions due to collections) reflected in a positive development of cost of risk (EUR 12.9 million of released impairments and provisions; in 2016 the result included impairments due to the sale of part of the non-performing portfolio in the amount of EUR 7.0 million), and on the other hand on generation of non-recurring income [19] (EUR 13.2 million; in 2016 result included effects of the sale of an equity investment amounting to EUR 4.9 million). Activities related to real-estate management contributed to non-interest income as well (EUR 5.3 million).

In 2017, the non-core segment made a positive contribution to the Bank's results for the first time.

One of additionally contributing factors to the segment's result was a decrease of costs of operations, which were reduced by as much as 10% YoY to the level of EUR 21.7 million (2016: EUR 24.2 million).

Total assets in the segment of Non-core markets and activities of the Group in 2017 amounted to EUR 391.3 million. The segment includes EUR 141.1 million of net performing leasing contracts in NLB Leasing d.o.o., Ljubljana (in liquidation). Compared to the end of 2016, the figure was reduced by EUR 111.3 million in line with the Restructuring plan and the strategy of non-core divestment. The large majority of the non-strategic assets comprise loan exposures (approximately 69%), and a smaller share of investment properties and properties&equipment received for repayment loans (approximately 21%), equity exposures (approximately 1%), and other assets.

The wind-down of the non-core segment in 2017 included:

- a reduction of the Bank's credit business with foreign clients,
- divestment of non-strategic Group members,
- sale of the Bank's equity participations, and
- active management of real estate assets.

Reduction of the Bank's credit business with foreign clients

The Bank refrains from undertaking any new credit activities with corporate clients incorporated outside Slovenia that are not members of the groups of clients whose headquarters or final beneficiary is in Slovenia. Consequently, the wind-down of the legacy portfolio in 2017 in line with the restructuring plan continued. The Bank resolved several important Croatian receivables in 2017 to contribute to the exposure reduction by EUR 36.1 million. With the final resolution of NPE towards several Bosnian corporate clients, the exposure was additionally reduced by EUR 91.2 million.

19. Non-recurring income mainly from the sale of non-core equity investments (EUR +9.5 million), as well as one court settlement (EUR +1.2 million) and the sale of Czech factoring company in liquidation (EUR +2.5 million).

Table 18: Results of the non-core foreign markets and activities segment

in EUR million consolidated

	Non-core markets and activities		
	2017	2016	Change
Net interest income	16.8	15.4	9%
Net non-interest income	24.1	10.9	120%
Total net operating income	**40.9**	**26.3**	**55%**
Total costs	-21.7	-24.2	-10%
Result before impairments and provisions	**19.2**	**2.1**	**784%**
Impairments and provisions	12.9	-20.9	-162%
Result before tax	**31.2**	**-18.9**	**264%**
Segment assets	**391.3**	**502.6**	**-22%**
Net loans to NBS	269.9	325.1	-17%
Gross loans to NBS	448.5	675.9	-34%
Investment Property and Property & Equipment received for repayment of loans	81.6	113.7	-28%
Other assets	39.9	63.8	-38%
Deposits from NBS	10.2	26.5	-61%
Non-performing loans (gross)	279.7	588.3	-52%

Main achievements of the non-core segments in 2017:

- **Realisation of the strategy and objectives from the Restructuring plan, with regard to the wind-down of the non-core segment in line with the EC commitments.**
- **Sale of non-strategic equity participations (leaving the remaining non-core equity portfolio at EUR 0.9 million), as well as the sale of the Czech non-core subsidiary NLB Factoring which was in liquidation. The total result from these transactions amounted to EUR 11.1 million.**
- **Several individual exposures to Croatian clients were sold, thereby contributing to a reduction of NPL.**
- **A substantial decrease of costs of operations, which were reduced by as much as 10% YoY to the level of EUR 21.7 million (2016: EUR 24.2 million).**

Divestment of non-strategic Group members

In the Group's non-core members (most of which operated in leasing, factoring and real estate), new business has been stopped and the total portfolio has been decreasing through regular repayments, collections, restructurings, sales, etc. In 2017 liquidation proceedings were initiated in the remaining non-strategic entities (listed below), except for the leasing company in Bosnia and Herzegovina. Apart from that a Czech factoring company in liquidation was sold.

List of liquidation proceedings initiated in 2017:

- NLB Propria, Ljubljana
- NLB Leasing, Ljubljana
- Prospera Plus, Ljubljana
- NLB InterFinanz, Praha
- NLB InterFinanz, Beograd
- Prvi faktor, Beograd

List of companies sold in 2017:

- NLB Factoring Brno, in liquidation

New business has been stopped in non-strategic subsidiaries, liquidation procedures were introduced, and the total portfolio has been decreasing through regular repayments, restructurings, collections, sales, etc.

Efficient and transparent real estate value optimisation and divestment was achieved by a dedicated team of experts and specialised real-estate management software.

Sale of NLB's equity participations

The Bank has continued divesting its equity participations, and consequently by the end of 2017 the overall asset volume of equity participations had been further reduced from EUR 21.7 million to EUR 0.9 million. The sales resulted in positive P&L effect of EUR 9.8 million.

The Bank and Zavarovalnica Triglav d.d, Ljubljana, which had squeezed out the Bank as one of minority shareholders of Pozavarovalnica Triglav RE d.d., reached a court settlement and agreed that Zavarovalnica Triglav d.d., Ljubljana would pay to the Bank the additional EUR 1.2 million.

Active management of real estate assets

The remaining NPL exposure divestment process is being facilitated through a specialised team for collateral real estate repossessing, managing, and divesting. Real estate expertise and services are offered to the Group members so they are able to most efficiently divest remaining NPL, or to repossess collateral real estate. Besides the Group's REAM, local management entities remain in four relevant markets: Slovenia, Croatia, Serbia, and Montenegro, also offering local support to other Group markets.

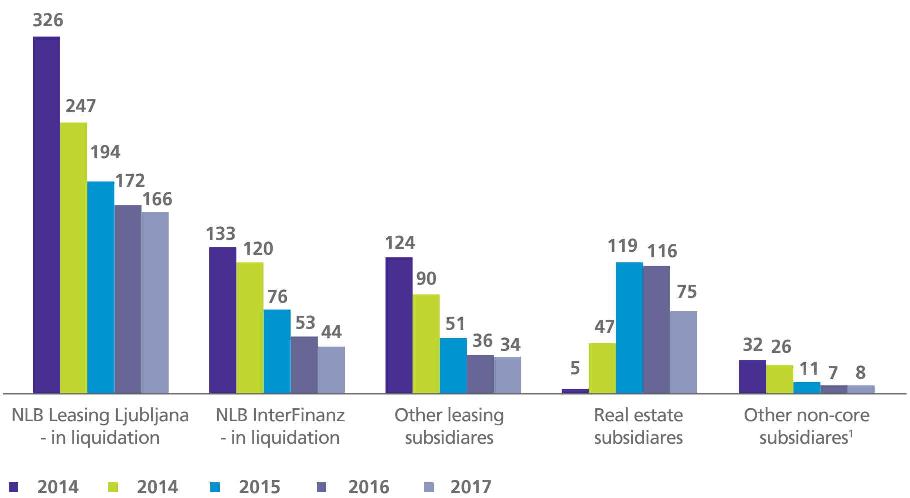
The main task of these management teams is to ensure value-preserving strategies for the management of real estate, respectively the collateral value of NPL claims by either temporarily repossessing real estate or ensuring a value-preserving divestment process of the real estate or a claim. From 2015 to 2017 the team executed or supported real estate transactions with a total sales value of over EUR 100 million, and directly or indirectly contributed to a EUR 350 million of NPL reduction, including EUR 160 million in 2017 alone.

In Q4 2017 the Group digitalised operations through the implementation of comprehensive real estate software integrated with a dedicated web page (www.nlbrealestate.com). This provides real time information about actual offers for the clients, including real estate performance indicators analyses and scenarios for more demanding investors.

Over
182.5
million EUR in reduction of gross loans to foreign clients in 2017

Over
100
million EUR in total sales value of real estate transactions executed or supported by the real estate team from 2015 to 2017

Figure 56: Total asset evolution by activity (in EUR million)



1. NLB Factoring - sale in July 2017, NLB Propria, Prospera Plus, LHB AG

Chapter 13

Processing Operations

Market trends dictated by digitalisation, and continuous endeavouring for further optimisation of processes (processing) have become the Bank's essential and permanent tasks to enhance customer experience.

Retaining the position of market leader and most trusted payment service provider through experience, market insight, and quick responses to present and future challenges

The Group recorded a higher volume of payment transactions processed than in the previous year (a 1.5% increase in number of transactions, and a 12.5% increase in the total value of transactions), and retained market share in the area of payment services. The Bank succeeded in retaining its market position as the leading and trusted payment service provider with a stable 23.9% market share in Slovenia. This positive result confirms continued commitment to quality, reliability, and security of payment services in the Group.

The constantly changing payment services environment demands flexibility, accurate assessment, and adequate responses to market and regulatory challenges (e.g. regulation, standards, and scheme rules). Among other adjustments due to changes in the external environment, the Bank successfully introduced a QR code for payment orders on all bank channels, enabling simplified initiation of payment orders for customers. As many of bill issuers (billers) in Slovenia are still preparing (or just starting initial phase) to offer usage of a QR code, wider application of a named code on payment orders is expected in 2018.

Following current trends like digital payment instruments, improved technical devices, and STP end-to-end processes, the Bank was very proactive and supportive in developing the Instant payment solution, which is planned to be introduced by Bankart (National automated clearing house) to the Slovenian payments market in the last quarter of 2018. The National instant payments scheme (based on SEPA standards) is the next important step to accommodate higher customer demands. According to the scheme rules, most of the payments will be processed in real time, 24 hours a day, 365 days a year in less than 5 seconds.

Simultaneously, within the Instant payment project in the Bank, a number of activities were initiated in order to realise necessary internal technical and process adaptions on time.

The largest cash processing centre in Slovenia

Cash services are an important part of the Bank's product line which aims to satisfy customers' needs. An ongoing process of increased automation and the digitalisation of business process and paperwork has improved service quality, and this remains the primary focus.

With engagement and dedication, the Bank provides professional services to clients and strives for the development of the best client experience.

The Bank is the biggest all around cash support services provider in Slovenia, offering services to 13 out of 15 commercial banks (NLB included). The Bank, with its highly automated, technology-based operations and specialised experience-based knowledge, is providing service of exceptional quality which has been recognised by a majority of the banks in Slovenia that have trusted their cash operations to the Bank.

The cash processing centre with its armoured vehicle fleet, is processing and supplying cash for the Bank and other banks operating in Slovenia – including nearly 500 bank branches and over 950 ATMs. Using an advanced forecasting system, the Bank is able to estimate future cash use in each cash point it supplies, taking into account many factors that drive cash demand and its volatility. This enables adaptability, flexibility, and efficiency in managing cash supply and logistics.

The constantly changing payment services environment demands flexibility, accurate assessment, and adequate responses to market and regulatory challenges.

A new settlement environment for securities operations and legislative challenges on financial markets

The biggest challenge regarding financial markets processing in 2017 was integration of the Slovenian capital market into a T2S environment. In addition to the implementation of a new securities settlement process on the domestic market through a DCA for the Bank, T2S introduced European harmonised rules for corporate actions processing, according to which KDD members must process all corporate actions for their clients. Due to those reasons, the Bank processed almost 35,000 corporate actions in 2017 for its brokerage clients with trading accounts.

As the most important financial institution in the country, the Bank is also the only bank in Slovenia offering access to DCA in T2S to other clients and so provides indirect access to cash settlement for those participants who cannot carry it out themselves (brokerage and insurance companies). In 2017 the Bank processed more than 1,500 transfers to and from DCA in the context of T2S Payment Bank role.

Due to major EU legislative changes and new requirements, 2017 was very challenging including the implementation of margin requirements and revised reporting requirements of derivatives under the EMIR Regulation, the introduction of new comprehensive reporting of all financial instruments under the MiFIR regulation, and the preparation for the new International Accounting Standard IFRS9. Necessary adjustments arising from the aforementioned changes in legislative requirements were implemented with continuous optimisation of processes and implementation of several improvements and automations.

With engagement and dedication, the Bank provides professional services to clients and strives for continuous development of the best client experience.

NLB has the biggest market share in payment services and cash supply services in Slovenia. It's the result of a continued commitment to quality, reliability, and security of payment services in the Group. Our future endeavours are focused on upgrading customer satisfaction through further optimisation of processing based on deep insight into market trends that are dictated by digitalisation.

Supporting banking operations:

Efficient processing operations contribute to the quality of Bank's payment services.

23.9%
payment services market share in Slovenia

1,450
cash points are supplied with cash by NLB in Slovenia

35,000
processed corporate actions for brokerage clients

Irena Dolinar
General Manager, Payments Processing

Alenka Korče
General Manager, Cash Processing

Dražen Bundalo
General Manager, Financial Markets Processing

Chapter 14

Risk Management

The strong capitalisation and liquidity position continued in 2017. A robust Risk Management framework is comprehensively integrated into decision-making, steering, and mitigation processes within the Group in order to proactively support its business operations. Risk management in the Group is responsible for managing, assessing, and monitoring risks within the Bank as the main entity in Slovenia, and the competence centre for six banking subsidiary banks. Furthermore, it is also responsible for several ancillary services companies and non-core subsidiaries which are in a controlled wind-down.

In the year 2017 the trend of an additionally improved credit portfolio quality continued, with a focus on the quality of new placements leading to a diversified portfolio of customers and further decrease of NPE volume, which approaches the average EU banking level. In addition, the coverage ratio remains high, enabling further NPE reduction without significant influence on the cost of risk in the years to come. Positive trends have been recorded throughout the region in terms of clients putting greater trust in economic developments, alongside the related recovery in consumption and the real estate market. An economic upswing and other one-off occurrences resulted in the negative cost of risk on the Group level, whose evolution was otherwise very stable and in line with strategic business orientations and expectations.

In a negative interest rate environment, the Group was facing growing excess liquidity, whereby significant attention was put on the structure and concentration of the liquidity reserves, also having in mind potential adverse negative market movements. Excess liquidity and market demand for fixed interest rates products resulted in moderately increased interest rate risk exposure, which stayed within relatively low to moderate tolerance toward this risk. The Group was included in the ECB Stress test 2017 – interest rate risk in the banking book which resulted in a favourable adjustment of Pillar 2 Guidance as a part of the overall SREP requirements. Moreover, during 2017 the Group's capital and liquidity position remained strong at both the Group and subsidiary bank levels, standing well above the targeted risk appetite profile.

Risk management principles

The Bank is, as a systemic bank, involved in the SSM, whereby the supervision is under the jurisdiction of the Joint Supervisory Team of the ECB and the BoS. ECB regulations are followed by all Group members, whereby the Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators. Across the Group, assessments are made and risks managed in the Group's uniform manner, taking into account the specifics of the markets in which individual Group members are operating in line with the Group's risk management standards.

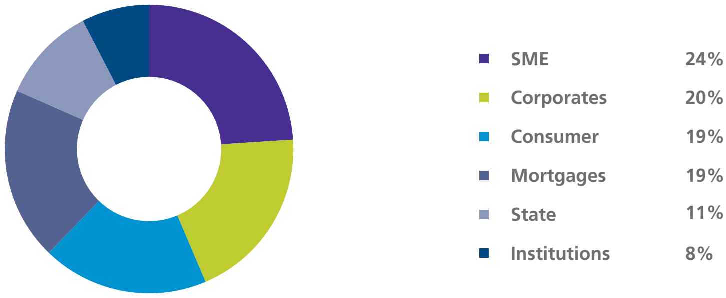
The Group pays great attention and importance to the risk culture and awareness of all relevant risks within the entire Group. The main risk principles are integrated into the Group Risk Strategy, designed in accordance with business strategy and risk appetite orientations. Special focus is put on the inclusion of risk analysis in the decision-making process on strategic and operating levels, diversification in order to avoid a large concentration, optimal capital usage and its allocation, appropriate risk-adjusted pricing, and the assurance of overall compliance with internal policies/rules and relevant regulations.

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

Proactive Risk management in 2017

The activities related to IFRS 9 requirements, entering into force in the beginning of 2018, including methodological adaptations and anticipated quantitative impacts, were fully implemented already in 2017, including an internal validation and external methodological review. Due to very favourable macroeconomic trends and the improved quality of the credit portfolio, positive effects on the cumulative Group basis were recorded (as the difference between IFRS 9 and IAS 39), where effects, which are arising mainly from collective impairments, strengthened the Group's capital basis. More information on effects from transition to IFRS9 is disclosed in the accounting part of the annual report in note 2.34.

Figure 57: NLB Group structure of the credit portfolio (gross loans and advances) by segment



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

One of the key aims of Risk Management is to preserve a prudent level of the Group's capital adequacy. The Group monitors its capital adequacy at the Group and individual subsidiary bank level within the established ICAAP process, under both normal conditions and stressed conditions. As at 31 December 2017, the Group had a strong level of capital adequacy (CET 1) of 15.9% [20] which is well within the stated risk appetite limit, and above the EU average as published by the EBA. The Group is complying with both the applicable capital requirements for 2018 as well as the capital requirements on a fully-loaded basis (i.e. the capital requirements including the combined buffer in full amount, irrespective of the legally applicable transitional implementation).

In comparison with 2016, the capital adequacy ratio decreased by 1.1 percentage point of which 0.8 percentage points were due to correction of treatment of the FX position on the consolidated level and treatment of equity investments in non-euro subsidiary banks, requested by the regulator. The requested correction relates to structural positions arising from operations of the Group's non-euro subsidiaries banks. These positions are long, non-trading, and deliberately taken. On a consolidated level foreign exchange translation differences from these positions are recognised in the consolidated capital and do not have an impact on the Group's profit and loss. By keeping its structural position open, the Group maintains a capital ratio insensitive to foreign exchange movements. The Bank will try to partly or fully exclude this position from an open FX position in the future (by getting the approval from the regulator).

- More than 68.5% reduction of NPL portfolio in last four years.
- The Group reduced the NPL legacy portfolio from EUR 2,687 million to EUR 844 million in the period from 2014 to 2017 on the basis of a proactive NPL reduction strategy, while NPL formation from new production is very low due to improved credit standards and other enhanced risk management tools.

The second key aim is to maintain a solid level and structure of liquidity. The Group holds a strong liquidity position at the Group and individual subsidiary bank level, which is well above the risk appetite with the LCR (according to the delegated act) of 276%, and unencumbered eligible reserves in the amount of EUR 5,026 million. Even in the event the stress scenario was to be realised, the Group has sufficiently high liquidity reserves in place in the form of placements at the ECB, prime debt securities, and money market placements. The main funding base of the Group at the Group and individual subsidiary bank level predominately entails customer deposits with a comfortable level of LTD at 70.8%, giving the Group the potential for further customer loan placements.

Preserving a high credit portfolio quality represents the most important key aim, with a focus on the quality of new placements leading to a diversified portfolio of customers. The Group is actively present on the market, financing existing and new creditworthy clients. The lower indebtedness of companies in Slovenia and their successful deleveraging has had a positive influence on the approval of new

The strong capitalisation and liquidity position continued in 2017.

loans. In the retail segment, positive trends have been recorded throughout the region in terms of clients putting greater trust in economic developments, alongside the related recovery in consumption and the real estate market. The efforts, arising from the improved credit standards, resulted in the cumulatively very low new NPL formation ratio (2017: 0.6% of gross loan portfolio, which equals EUR 58 million). In addition, a favourable macroeconomic environment across the region resulted in the negative cost of risk, whose evolution during the year was otherwise very stable and sustainable in line with strategic orientations.

On the Slovenian market, the focus is on providing appropriate solutions for retail, medium-sized, and small enterprise segments, while on the corporate segment the Bank established cooperation with selected corporate clients (through different types of lending/investments instruments). All other banking members in the SEE region, where the Group is present, are universal banks mainly focusing on the

20. Envisaging dividend payment in 100% of net profit after tax of the Bank (EUR 189.1 million).

Figure 58: Structure of NLB Group credit portfolio by client credit ratings (in EUR million) as at year end

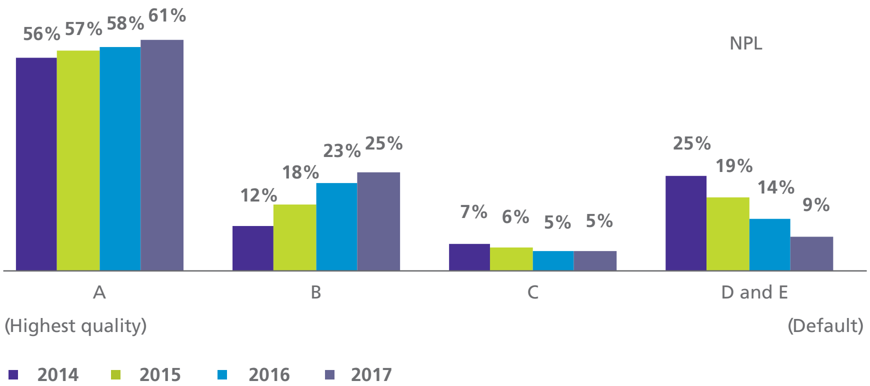


Figure 59: NLB Group NPL volume (in EUR million)

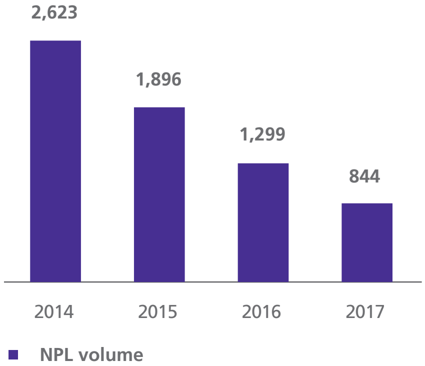


Figure 60: NLB Group NPE (NPE% by the EBA) and NPL ratio

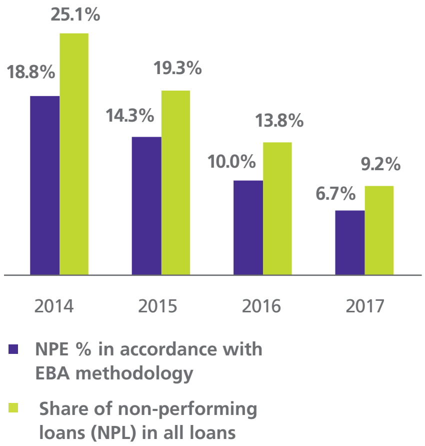
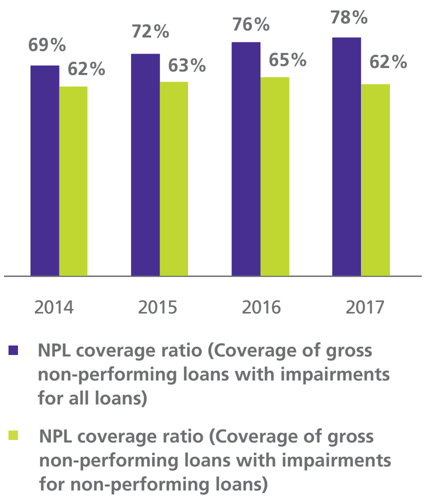


Figure 61: NLB Group Coverage ratio



retail segment and the segment of medium-sized and small enterprises. Their primary goal is to provide comprehensive services to clients by taking prudent risk management principles into account. The current structure of the credit portfolio (gross loans) consists of 38% of retail clients, 20% of large corporate clients, 24% of SMEs and micro companies, while the remainder of the portfolio entails other liquid assets.

The Group puts considerable emphasis on new corporate and retail financing, the sustainability of the credit risk volatility in terms of its structure and cost of risk, including the sustainable size of the subsidiary banks. Moreover, the Group is constantly developing a wide range of advanced approaches supported by mathematical and statistical models in the area of credit risk assessment in line with best banking practises to further enhance existing risk management tools, while at the same time enabling faster responsiveness for clients.

The restructuring approaches built in the past are focused on early warning detection of clients with potential financial difficulties and their proactive resolving. The structured approach and successful application of various restructuring tools resulted in a number of clients being cured in past years, and transferred back to the front office. In addition, substantial progress was made in retail restructuring by focusing on a systematic approach and proactive usage of standardised tools for the timely restructuring of exposures to private individuals.

The strong commitment to reduce the NPE legacy on the Group level continued in 2017. Precisely set targets and constant monitoring of the realisation supported a further substantial reduction in the volume of the non-performing portfolio. The existing non-performing credit portfolio stock in the Group was reduced from EUR 1,299 million to EUR 844 million YoY, where the reduction exceeded the set targets. The combined result of all effects resulted in a decreased share of NPL ratio from 13.8% to 9.2% YoY, while the internationally more comparable NPE ratio based on the EBA methodology was reduced from 10.0% to 6.7% YoY.

An important Group strength is the NPL coverage ratio regarding all impairments, which remains high at 77.5% (an increase of 1.4 percentage points). Further, the Group's NPL coverage ratio regarding NPL's imapirments stands at 62.2%, which is well above the EU average as published by the EBA (44.7% for Q3 2017). As such, it enables a further reduction in NPL without significantly influencing the cost of risk in the coming years. Moreover, it proves that past reduction was done on average without a negative impact to profit and loss.

When considering market risks, the Group pursues the orientation that such risks should not significantly affect a single Group subsidiary or the whole operations of the Group. Exposure towards trading is allowed only in the Bank as the main entity of the Group, and is very limited. As such, it does not represent a material risk to the Group's operations.

The Group operates its main business activities in euros, while in the case of the subsidiary banks, beside their domestic currencies, they also partly operate in euros, which is the Group's reporting currency. The Group's net open FX position from transactional risk is low and amounts to less than 1.74% of capital, excluding structural position arising from non-EU subsidiaries.

The Group's exposure to interest rate risk is relatively low, but has increased moderately in the recent period in line with expectations as a result of an excess liquidity position and a low interest rate environment. The Group was included in the ECB Stress test 2017, focusing on a sensitivity analysis and various components of interest rate risk in the banking book. The results reflected in a favourable adjustment of Pillar 2 Guidance as a part of overall SREP requirements. Net interest income sensitivity of the Group would amount to EUR 10 million in the case if Euribor increases by 50 bps, while the case of decreased sensitivity would be lower due to zero floor clauses. From an economic perspective, a basis point value (BPV) sensitivity of 200 bps increase equals 5.73% of the Group's 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. Special attention was dedicated to developing the stress-testing system, which is based on modelling data on loss events and scenario analysis referring to potential high severity, low frequency events. Furthermore, key risk indicators as an early warning system for the broader field of operational risks were established with the aim of improving the existing internal controls and reacting on time when necessary.

In addition, the Group was also diligently managing other, non-financial risks as a part of the ICAAP process, including strategic risk, reputation risk, capital risk, and profitability risk. Besides the uniform stress testing framework, which includes internally-developed models, it was also additionally enhanced in connection with relevant expected macroeconomic factors. Such a stress testing framework is the subject of regular internal validations and back testing procedures.

276%
the Group LCR

6.7%
the Group NPE % by EBA

- 62bps
the Group Cost of Risk was negative

Constant enhancing of the risk framework, proactive risk management, a favourable macroeconomic environment, and a moderate risk appetite yielded results above expectations.

Igor Zalar
General Manager, Global Risk


Andreas Burkhardt
Member of the Management Board


Rok Praprotnik
General Manager, Compliance and Integrity

Rok Šturm
General Manager, Evaluation and Control

Peter Zelen
General Manager, Restructuring

Nataša Simčič
General Manager, Credit Risk
- Corporate and Retail

Vesna Pogačar
General Manager, Workout and Legal Support

Polona Kurtevski
General Manager, Internal Audit

Chapter 15

Corporate Governance

The corporate governance of the Bank is based on applicable legislation, its Articles of Association, and rights and responsibilities of the Bank's management bodies that follow the principles of responsible management and/or supervision of all activities of the Bank and the Group. In compliance with Slovenian legislation, the Bank has a two-tier management structure under which the relationships between individual bodies are founded on a mutual division of rights and responsibilities. The Bank's corporate governance bodies are as follows: the General Meeting of Shareholders, the Supervisory Board, and the Management Board.

The General Meeting of Shareholders

Shareholders exercise their rights related to the Bank's affairs at the General Meeting of the Bank. The rights of the RoS, as the only shareholder of the Bank, are represented at the General Meeting by SSH.

The Bank's General Meeting adopts decisions in compliance with the legislation and the Bank's Articles of Association. Competences of the Bank's General Meeting are stipulated in the Companies Act, the Banking Act, and the Articles of Association of the Bank. Decisions adopted by the Bank's General Meeting include among others: adopting and amending the Articles of Association, the use of distributable profit, granting of discharge from liability to the Management and Supervisory Board, changes in the Bank's share capital, appointing and discharging members of the Supervisory Board.

The General Meeting of Shareholders of the Bank met twice during 2017.

On 7 April 2017 the 28th General Meeting of Shareholders of the Bank was held, at which the rights of the RoS as the only shareholder of the Bank were represented by the SSH. Among others, the General Meeting acknowledged the NLB Group Annual Report for 2016 and decided on the use of distributable profit for 2016 as it adopted the resolution to allocate EUR 63.78 million of the distributable profit for 2016 to the sole shareholder of the Bank (EUR 3.189 per share). The General Meeting acknowledged the Supervisory Board's Report on the results of examining the Annual Report, the Information on the remuneration of the Bank Management Board and Supervisory Board members in 2016, and the amendments to the Rules on determining other rights under management employment contracts or other documents of the Bank. The General Meeting of Shareholders of the Bank also acknowledged the Internal Audit Report adopted for 2016 and the positive opinion of the Supervisory Board of the Bank.

The General Meeting of Shareholders granted discharge to the Management Board and Supervisory Board for the business year 2016. At the end of the General Meeting, the four-year term of office of the member of the Supervisory Board Uroš Ivanc, expired. The Supervisory Board thus continued its work with seven members. At the General Meeting, the shareholder requested an additional item of the agenda, proposing an amendment to the Articles of Association, with which the independence of the members of the Supervisory Board was defined more precisely, as well as an amendment to the Articles of Association regulating permission for the transfer of shares.

On 8 September 2017 the 29th General Meeting of Shareholders was held. The rights of the RoS as the only shareholder of the Bank were represented by the SSH. Following the proposal presented by the Supervisory Board of the Bank, the General Meeting appointed three new members to the Supervisory Board as follows: Vida Šeme Hočevar, Simona Kozjek and Peter Groznik. In the selection procedure, which was conducted in accordance with regulatory requirements and internal rules, the Bank carried out Fit & Proper assessments. In line with the banking regulation, the Nomination Committee of the Supervisory Board of the Bank issued a positive Fit & Proper assessment of the candidates, which included assessment of all key criteria of candidates' suitability, also the statement on potential conflicts of interest and the independency of mind of candidates. The latter was also approved by the Supervisory Board of the Bank. All three candidates were assessed as fit and proper for the function.

Shareholders exercise their rights related to the Bank's affairs at the General Meeting of the Bank. The rights of the RoS, as the only shareholder of the Bank, are represented at the General Meeting by SSH.

As the parent bank, the Bank implements corporate governance of the Group members in compliance with the legislation of the RoS and one of the countries in which the Group members operate, while also considering internal rules, the commitments made to the EC, and ECB regulations.

The Supervisory Board of the Bank currently consists of eight members (further information on current composition of the Supervisory Board is provided in the chapter on the Supervisory Board).

General information with respect to the convocation of a session of the General Meeting of Shareholders, participation in the General Meeting of Shareholders, and on the method of decision-making at the General Meeting of Shareholders, as required by the Article 70 (Paragraph 5, Point 5) of the ZGD-1, is set out in the section 'Corporate Governance Statement'.

Group's Corporate Governance

As the parent bank, the Bank implements corporate governance of the Group members in compliance with the EU and RoS legislation, local legislation, and regulatory requirements applicable to respective Group members, while also considering internal rules, the commitments made to the EC, ECB, and other applicable regulations.

The roles, authorisations, and responsibilities of individual bodies and organisational units, as well as how to coordinate their operations to achieve the set business goals are stipulated comprehensively in the NLB Group Corporate Governance Policy. In the Bank, the Group Steering Department is the principal partner of the Bank's Management Board in the governance of strategic and non-strategic Group companies, and is responsible for appropriate corporate governance, the alignment of strategies and the objectives achieved by subsidiaries.

The Group is governed:

- In accordance with fundamental corporate rules through various bodies of the Group members:
    - by voting at general meetings of the Group members,
    - with proposals for appointing the managements of the Group members,
    - with proposals for appointing representatives of the Bank to supervisory bodies,
    - by exercising supervision through the supervisory bodies of the Group members,
    - through participation of Bank's representatives in various committees and commissions of the Group members.
- By mechanisms providing efficient business control in all business lines, harmonisation of the operating standards, and exchange of information between the Group members according to the Business Line principle.
- By additional supervision of the Group members by Internal Audit of the Bank and Compliance and Integrity of the Bank, as well as external supervisors (e.g. the ECB, the BoS, external auditors, and local regulators).

In recent years the concept of corporate governance of the Group has been upgraded, and the role of members of the Management Board of the Bank and management of the Group members strengthened. The target composition of supervisory bodies in the Group members was established, the functioning of the supervisory bodies optimised, and the reporting and standards related to the harmonisation of operations simplified. In line with strategic aspirations, the concept of 'country managers' was introduced with the main goal to support and steer the Group members, as well as to be a strong link between Group members and the Bank. They also facilitate best practice sharing on different levels. At the end of 2017 one country manager covered Serbia and Montenegro, another covered both entities in Bosnia and Herzegovina.

Competences of the management bodies, the Articles of Association, and other data related to corporate governance are available at: https://www.nlb.si/corporate-governance.

Supervisory Board

The highest objectives include compliance with strategic guidelines, as well as the trust of the owners and business partners in the functioning of the Bank.

The Supervisory Board of the Bank implements its tasks in compliance with the provisions of the laws governing the operations of banks and companies, as well as with the Articles of Association of the Bank.

At the beginning of 2017, the Bank had a full nine-member Supervisory Board, as stipulated by the Articles of Association. It was composed of: its Chairman Primož Karpe, Deputy Chairwoman Sergeja Slapničar and the following members: Uroš Ivanc, Andreas Klingen, László Urbán, David E. Simon, David Kastelic, Matjaž Titan, and Alexander Bayr.

On 13 March 2017, Sergeja Slapničar, submitted her statement of resignation. Based on the approval by the Supervisory Board of the Bank, her function was terminated on 20 March 2017. At the closing of the 28th General Meeting of Shareholders held on 7 April 2017, the four-year term of office of Supervisory Board member Uroš Ivanc expired. On 21 April 2017, the Supervisory Board of the Bank acknowledged the statement of resignation of Matjaž Titan, and his proposal for a shorter notice period. Based on the approval by the Supervisory Board, his function was terminated on 21 April 2017.

On 7 April 2017, the Supervisory Board of the Bank appointed Andreas Klingen as the new Deputy Chairman, and on 11 May 2017, the Supervisory Board of the Bank passed a resolution to appoint members to its committees.

On 7 September 2017, the Supervisory Board of the Bank acknowledged the statement of resignation of David Kastelic, and his proposal for a shorter notice period. Based on the approval of the Supervisory Board of the Bank, his function was terminated on 8 September 2017.

On 8 September 2017 the 29th General Meeting of Shareholders appointed three new members of the Supervisory Board. It is currently composed of eight members, namely: Primož Karpe - Chairman, Andreas Klingen - Deputy Chairman, and the following members: Alexander Bayr, David Eric Simon, László Urbán, Vida Šeme Hočevar, Simona Kozjek and Peter Groznik (members).

In accordance with the two-tier governance system and the authorisations for supervising the Management Board, the Bank's Supervisory Board issues approvals to the Management Board related to the Bank's business policy and financial plan, approves the strategy of the Bank and the Group, organises the internal control system, drafts the audit plan of the Internal Audit and all financial transactions (e.g. issuing of own securities and 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 interest.

Further information about the work and powers of the Supervisory Board is set out in the section 'Corporate Governance Statement of NLB'.

The highest objectives include compliance with strategic guidelines, as well as the trust of the owners and business partners in the functioning of the Bank.

Primož Karpe, MSc

Chairman of the Supervisory Board
Term of office: 2016–2020

Education:

- Obtained a master's degree from San Diego State University (Master of Science – Business Administration)
- Graduated from the Faculty of Economics in Ljubljana (majoring in Finance)

Career:

- Managing Director of Angler Ltd. Koprivnica, Croatia (since 2015)
- Partner (passive – investor) at Blue Sea Capital SCSp, Luxembourg (2011 – to date)
- Partner (active – operational manager) at Blue Sea Capital SCSp, Luxemburg/ Zagreb (2011-2015)
- Co-founder and the leading partner in company Vafer Ltd. (2008-2010)
- Managing Director of company Publikum Korpfin d.o.o. (2007-2008)
- Head of the business development (M&A) department at Telekom Slovenija d.d. (2006-2007)
- Assistant to the CEO of Mobitel d.d. (2002-2006)
- Chief Operating Officer at Eon d.o.o. (2000-2002)
- FX trader/head of the assets and liabilities management department at SKB banka d.d. (1996-2000)

Other important positions and achievements:

- Partner in a private equity fund investing in small- and medium-sized companies operating in traditionally stable or fast developing industries in the region of the former Yugoslavia (primary health care, nutrition, and niche production)
- His specialties are the preparation, assessment, negotiating, and structuring of complex equity and debt transactions, and restructuring/business management

Membership in NLB Supervisory Board committees:

- Nomination Committee (Chairman)
- Audit Committee (Member)
- Remuneration Committee (Member)

Membership in management bodies of related or unrelated companies:

- Angler d.o.o. – Director.

Andreas Klingen, MSc

Deputy Chair of the Supervisory Board
Term of office: 2015-2019

Education:

- Master of Business Administration, Rotterdam School of Management, Rotterdam, The Netherlands
- Master of Science in Physics, Technical University, Berlin, Germany

Career:

- Independent Banking consultant, entrepreneur, Berlin, Germany (since 2014)
- Deputy CEO, CFO PC Erste Bank, Kiev, Ukraine (2010-2013)
- Head of Strategic Group Development in Erste Group Bank, Vienna, Austria (2005-2010)
- Senior Vice President, Investment Banking, Financial institutions in JP Morgan, London, UK (1998-2005)
- Senior Associate in Lazard, Frankfurt/Paris/London (1993-1998)

Other important functions and achievements:

- Member of Supervisory Board of Kyrgyz Investment and Credit Bank (since December 2016)
- Member of Supervisory Board of Credit Bank of Moscow (since November 2016)
- Member of the Board of Directors of Komercialna banka Beograd a.d. (since November 2014)
- Member of Supervisory Boards of Banks in Central and Eastern Europe and Russia (2005-2013)

Membership in NLB Supervisory Board committees:

- Nomination Committee (Deputy Chairman)
- Risk Committee (Chairman)

Membership in management bodies of related or unrelated companies:

- none

Alexander Bayr, Mag
Member of the Supervisory Board
Term of office: 2016–2020

Education:

- Faculty of Economics in Innsbruck (1985)

Career:

- Manager of Corporates and Real Estate, BAWAG PSK, Vienna (since 2013)
- CEO, BAWAG banka d.d., Ljubljana (2009-2012)
- Real Estate Projects, BAWAGPSK, Vienna (2008-2012)
- Management Board Member, Istrobanka a.s. Bratislava, Slovakia (BAWAG) (2004-2008)
- Management Board Member, Ludova banka a.s., Bratislava, Slovakia (Volksbank) (2000-2004)
- Sales Manager, Ascom Austria (1998-2000)
- Deputy Head of Large Corporates Department, Deutsche Bank, Austria (1997-1998)
- Key Customer Account Manager, Österreichische Volksbanken AG (1987-1997)
- Sales Manager, Unilever (1985-1987)

Other important functions and achievements:

- Member of the Management Board of the Chamber of Commerce of Slovakia-Austria (2000-2012)
- Member of the Supervisory Board of WKBG Bank, Austria (since 2016)

Membership in the NLB Supervisory Board Committees:

- Audit Committee (Deputy Chairman)
- Nomination Committee (Member)

Membership in management bodies of related or unrelated companies:

- WKBG Bank, Vienna; member of the Supervisory Board (since 2016)

David Eric Simon
Member of the Supervisory Board
Term of office: 2016-2020

Education:

- IFS School of Finance (1974)
- City of London College, UK (1970)

Career:

- Chief Restructuring Officer and Advisor to the General Manager, Czech Export Bank a.s. (2013-2014)
- Advisor, PricewaterhouseCoopers, Prague (2012-2013)
- Advisor (1994-2004), Head of Restructuring (2004-2007), Head of Central Europe Bad Debts Unit (2007 onwards) and Senior Restructuring Officer (2007-2014), Ceskoslovenska Obchodni Banka a.s.
- Independent Banking Consultant, cooperating with USAID and EBRD (1992-1994)
- International Banking Consultant, Morgan Grenfell & Co (1993-1994)
- Assistant General Manager Tijari Finance Limited (wholly owned subsidiary Commercial Bank of Kuwait), (1988-1992)
- Joint Branch Manager, Byblos Bank Sal, London (1986-1988)
- Assistant Vice President, American Express Bank, London (1980-1986)
- Senior Credit Analyst, Manufacturers Hanover Trust, London (1978-1980)
- National Westminster Bank, London (1971-1977)

Other important functions and achievements:

- Primary expertise in credit, restructuring, and NPL

Membership in the NLB Supervisory Board Committees:

- Audit Committee (Chairman)
- Risk Committee (Member)

Membership in management bodies of related or unrelated companies:

- Jihlavan a.s., President of the Supervisory Board;
- Czech Aerospace industries sro, legal representatives;
- Central Europe Industry Partners a.s., member of the Supervisory Board.

László Urbán, Ph.D.
Member of the Supervisory Board
Term of office: 2016–2020

Education:

- Completed Advanced Management Program, Harvard Business School, Cambridge, MA (2000)
- Doctorate at Budapest University of Economics, Hungary (1985)

- Master of Arts, Budapest University of Economics, Hungary (1982)

Career:

- Adjunct Professor at Central European University Business School (since 2012)
- Member of the Supervisory Board at European Bank for Reconstruction and Development (EBRD; 2010-2011)
- Chief Financial Officer and Member of the Board of Directors at OTP Bank (2007-2009)
- Director, General Secretariat at National Bank of Hungary (2005-2006)
- Vice President, Business Planning Director at Citigroup, New York (2000-2005)
- Deputy CEO and member of the Board of Directors at Postabank, Hungary (1998-2000)
- Director of Planning and Chief Economist at ABN-AMRO Bank, Hungary (1996-1998)

Other important functions and achievements:

- Visiting Fellow, Economist at The World Bank, Washington DC (1995-1996)
- Member of Parliament, Hungary (1993-1994)
- Associate Professor at Eotvos University of Budapest (1985-1992)

Membership in the NLB Supervisory Board committees:

- Risk Committee (Deputy Chairman)
- Remuneration Committee (Member)

Membership in management bodies of related or unrelated companies:

- none

Vida Šeme Hočevar, Ph.D.
Member of the Supervisory Board
Term of office: 2017-2021

Education:

- Doctor of Juridical Science – Faculty of Law, University of Maribor (2006)
- Master of Laws – Faculty of Law, University of Ljubljana (1996)
- Bachelor of Laws – Faculty of Law, University of Ljubljana (1991)

Career:

- Authorised Officer of the Board – Skupna pokojninska družba d.d., Ljubljana (since 2017)
- Secretary General/Executive Director – Bank of Slovenia, Ljubljana (2006-2017)
- Undersecretary, Member of the Management – Office for Money Laundering Prevention, Ministry of Finance, Ljubljana (2004-2006)
- A13 – TA Officer, Consulting Counsel – International Monetary Fund (IMF), Washington D.C., USA (2003-2004)
- Counsellor to the Government, Head of Prevention and Supervision Dept.– Office for Money Laundering Prevention, Ministry of Finance, Ljubljana (1997-2003)
- Counsellor to the Minister – Ministry of Finance, Ljubljana – Tax Department - International Issues (1995-1997)
- Senior Adviser – Ministry of Finance, Ljubljana – International Relations Department (1993-1995)
- Acting Head of the Cabinet – Ministry of Finance, Ljubljana (1992-1993)
- Lawyer – Entrepreneurship Innovation Centre, Ljubljana (1991-1992)

Other important positions and achievements:

- member of the Slovenian Insurance Agency, Key Functions Committee (since 2017)
- work and cooperation with IMF, WB, OECD, FATF, EBRD, EIB, ECB, UNO
- member of the EGMONT Group (1997-2006)
- member and evaluator of the CoE MONEYVAL Committee (1997-2006)
- in 1994 attended Postgraduate Trimester Individual Course on Legal Issues (part of LLM studies), British Council - Chevening Scholarship – Faculty of Law, University of Cambridge, United Kingdom (Gonville and Caius College; Jesus College)

Membership in the NLB Supervisory Board committees:

- Remuneration Committee (Chairwoman)
- Nomination Committee (Member)
- Audit Committee (Member)

Membership in management bodies of related or unrelated companies:

- none

Simona Kozjek, MSc
Member of the Supervisory Board
Term of office: 2017-2021

Education:

- Master of Science – Faculty of Economics, University of Ljubljana (2007)
- Graduated from the Faculty of Economics, University of Ljubljana (1999)

Career:

- President of the Management Board - Nama d. d. (since 1 February 2017)
- Director of Middle Office – Zavarovalnica Triglav d. d. (2013-2017)
- Asset Manager – coordination of subsidiary companies – Zavarovalnica Triglav d. d. (2010-2013)
- Asset Manager - Zavarovalnica Triglav d. d. (2004-2010)
- Analyst - Zavarovalnica Triglav d. d. (2000-2004)

Other important positions and achievements:

- in 2010 underwent training for the position of a member of a supervisory board and management board of companies appointed or to be appointed by the Government of the RS, representing the owner – Republic of Slovenia
- in 2014 became Certified Business Appraiser at the Slovenian Institute of Auditors

Membership in the NLB Supervisory Board committees:

- Remuneration Committee (Deputy Chairwoman)
- Risk Committee (Member)

Membership in management bodies of related or unrelated companies in the past:

- President of Supervisory Board at Avrigo, d.o.o.
- Supervisory Board member at Triglav naložbe, finančna družba d.d.
- Supervisory Board member at Triglav Skladi, družba za upravljanje, d.o.o.
- Supervisory Board member at Nama d.d.

Peter Groznik, Ph.D.
Member of the Supervisory Board
Term of office: 2017-2021

Education:

- Doctor of Science – Kelley School of Business, Indiana University Bloomington, USA (2003)
- Master of Business Sciences – Kelley School of Business, Indiana University Bloomington, USA (2001)
- Bachelor of Economics, Finance – Faculty of Economics, University of Ljubljana (1996)

Career:

- Owner and Director - NorthGrant, svetovanje d.o.o., Ljubljana (since 2017)
- Member of the Management Board – Gorenje d.d. (2012-2017)
- Owner and Director - NorthGrant, svetovanje d.o.o., Ljubljana (2010-2012)
- President of the Management Board – KD Skladi d.o.o., Ljubljana (2009-2010)
- Director of Investment Department - KD, NPD by 2008, KD Skladi and KD Holding from 2008 to 2009 (2005-2009)

Membership in the NLB Supervisory Board committees:

- Nomination Committee (Member)
- Risk Committee (Member)

Membership in management bodies of related or unrelated companies:

- none

Committees of the Bank's Supervisory Board

The Supervisory Board appoints committees that prepare proposals for resolutions passed by the Supervisory Board, ensures their implementation, and perform other expert tasks. At the end of 2017 the Bank's Supervisory Board had four operational committees.

The Audit Committee
monitors and prepares draft resolutions for the Supervisory Board on accounting reporting, internal control and risk management, internal audit, compliance, and external audit, and as well monitors the implementation of regulatory measures.

Composition of the Committee at the beginning of 2017 was as follows: Sergeja Slapničar (Chair), Uroš Ivanc (Deputy Chair), Primož Karpe, and Alexander Bayr (members).

Due to the resignation of one member in March and April 2017, and the expiration of the term of office of one member of the Supervisory Board in April 2017, on 7 April 2017 the Supervisory Board appointed David E. Simon as Chairman. On 11 May 2017, the Supervisory Board adopted the decision on the new composition of the Audit Committee, as follows: David E. Simon (Chairman), László Urbán (Deputy Chair), Primož Karpe, and Alexander Bayr (members).

At the 29th Shareholders' Meeting held on 8 September 2017 three new members of the Supervisory Board were elected. On 6 October 2017, the Supervisory Board adopted the decision on the new composition of the Audit Committee, as follows: David E. Simon (Chairman), Alexander Bayr (Deputy Chairman), Primož Karpe, and Vida Šeme Hočevar (members). There were five sessions of the Audit Committee in 2017.

The Risk Committee
monitors and drafts resolutions for the Supervisory Board in all risk areas relevant to the Bank's operations. It is consulted on the current and future risk appetite and the risk management strategy, and it helps carry out control over senior management concerning implementation of the risk management strategy.

Composition of the Committee at the beginning of 2017 was as follows: Andreas Klingen (Chair), László Urbán (Deputy Chair), Sergeja Slapničar, and David Simon (members).

Due to the resignation of one member in March 2017 the Supervisory Board on 7 April 2017 appointed Alexander Bayr as a new member. On 11 May 2017 adopted the decision on the new composition of the Risk Committee, as follows: Andreas Klingen (Chairman), László Urbán (Deputy Chair), Alexander Bayr, and David E. Simon (members).

At the 29th Shareholders' Meeting held on 8 September 2017 three new members of the Supervisory Board were elected. On 6 October 2017, the Supervisory Board adopted the decision on the new composition of the Risk Committee, as follows: Andreas Klingen (Chairman), László Urbán (Deputy Chairman), Simona Kozjek, Peter Groznik, and David E. Simon (members). There were five sessions of the Risk Committee in 2017.

The Nomination Committee
drafts proposed resolutions for the Supervisory Board concerning the appointment and dismissal of the Management Board members; recommends candidates for Supervisory Board members to the General Meeting of Shareholders; recommends to the Supervisory Board the dismissal of members of the Management Board and the Supervisory Board; prepares the content of executive employment contracts for the President and members of the Management Board; evaluates the performance of the Management Board and the Supervisory Board; and assesses the knowledge, skills, and experience of individual members of the Management Board and Supervisory Board and the bodies as a whole. The Committee proposes amendments to the Management Board's policy on the selection and appointment of suitable candidates for senior management positions in the Bank.

Composition of the Committee at the beginning of 2017 was as follows: Primož Karpe (Chair), David Kastelic (Deputy Chair), Anderas Klingen, and Matjaž Titan (members).

Due to the resignation of one member in April 2017 the Supervisory Board on 11 May 2017 adopted the decision on the new composition of the Nomination Committee, as follows: Primož Karpe (Chairman), David Kastelic (Deputy Chair), and Andreas Klingen (member).

One member of the Supervisory Board offered his resignation on 4 September 2017. At the 29th Shareholders Meeting held on 8 September 2017, three new members of the Supervisory Board were elected. On 6 October 2017, the Supervisory Board adopted the decision on the composition of the Nomination Committee, as follows: Primož Karpe (Chairman), Andreas Klingen (Deputy Chairman), Alexander Bayr, Vida Šeme Hočevar, and Peter Groznik (members). There were five sessions of the Nomination committee in 2017.

The Remuneration Committee
carries out expert and independent assessments of the remuneration policies and practices, and formulate initiatives for measures related to improving the management of the Bank's risks, capital, and liquidity; prepares proposals for remuneration-related decisions of the Supervisory Board; and supervises the remuneration of senior management performing the risk management and compliance functions.

Composition of the Committee at the beginning of 2017 was as follows: Uroš Ivanc (Chair), Matjaž Titan (Deputy Chair), David Kastelic, and David E. Simon (members).

Due to the resignation of one member in April 2017, and expiration of the term of office of one member of the Supervisory Board in April 2017, on 11 May 2017 the Supervisory Board adopted the decision on the new composition of the Remuneration Committee, as follows: Primož Karpe (Chairman), David Kastelic (Deputy Chair), and Andreas Klingen, and David E. Simon as members.

One member of the Supervisory Board offered his resignation on 7 September 2017. On 29th Shareholders Meeting held on 8 September 2017, three new members of the Supervisory Board were elected. On 6 October 2017, the Supervisory Board adopted the decision on the composition of the Remuneration Committee, as follows: Vida Šeme Hočevar (Chairwoman), Simona Kozjek (Deputy Chairwoman), Primož Karpe, and László Urbán (members). There were four sessions of the Remuneration Committee in 2017.

Management Board of the Bank

The Management Board of the Bank leads, represents, and acts on behalf of the Bank, independently and at its own discretion, as provided for by the law and the Bank's Articles of Association. The decisions within the scope of powers of the Management Board are adopted by members of the Management Board of the Bank as a rule unanimously or, failing that, unless otherwise provided in the Articles of Association, with a majority of votes cast. In the case of a tie, the President of the Management Board of the Bank has the decisive vote.

In accordance with the Articles of Association, the Management Board may have three to six members (a president and up to five members). The President and members of the Management Board of the Bank are appointed by the Supervisory Board for a five-year term of office and may be reappointed or dismissed early in accordance with the law and the Articles of Association. The selection is not based only on the legal conditions, but also the internal acts and the recommended national and European good practice guidelines. Every member has to fit the professional profile prepared before the selection procedure.

In 2017, the Management Board of the Bank consisted of Blaž Brodnjak, member since 1 December 2012, Deputy President since 5 February 2016, and president/ Chief Executive Officer (CEO) since 6 July 2016; and members Archibald Kremser, acting as Chief Financial Officer (CFO) since 31 July 2013; Andreas Burkhardt acting as Chief Risk Officer (CRO) since 18 September 2013; and László Pelle acting as Chief Operating Officer (COO) since 26 October 2016. The 5-year term of office of the President of the Management Board Blaž Brodnjak and the members of the Management Board Archibald Kremser and Andreas Burkhardt expire on 6 July 2021, and of the Management Board member László Pelle on 26 October 2021.

In 2017 the Bank actively worked to fulfill the commitments (as amended) given by the RoS to the EC in relation to the state aid granted to the Bank (hereinafter: the Commitments) in December 2013. With a support of the Bank's internal project team and external legal advisors the Management Board was actively involved in the privatisation process run under the leadership of SSH. In June 2017, RoS deemed that the recommended minimum price and price range for NLB share was too low and decided to suspend the activities relating to the privatisation of the Bank. According to the final report of the Monitoring Trustee for the period that ended 30 June 2017 the only major non-compliance with the Commitments was recorded with the commitment regarding the reduction of state shareholding in NLB. Thus, practically the only commitment that remained unfulfilled is aforementioned commitment, which is entirely within the competence and power of the RoS, and not the Bank.

As the RoS failed to reduce its shareholding in the Bank by at least 50% by 31 December 2017 in accordance with the aforementioned commitment, it was obliged to propose to the EC for approval a list of one or more persons whom it proposed to appoint as Divestiture Trustee (for the sale of the Bank's six foreign banking subsidiaries) by the end of November 2017. The RoS did not fulfill the mentioned requirements. On 21 December 2017 the RoS formally notified the EC of a request to amend the Commitments.

We are aware of our tasks in managing and representing the Bank. We direct its operations to make it even more successful and ready for the future. We are responsible to the company, its stakeholders, and clients.

Blaž Brodnjak
President & CEO
Term of office: 2016-2021

Education:

- MBA, IEDC Bled School of Management (2009)
- Faculty of Economics, University of Ljubljana (1998)

Career:

- President, CEO and CMO of NLB (July 2016-), Deputy President of the Management Board (2016), Member of the Management Board (2012-2016) in NLB
- Head of Group Corporate and Public Finance Division in the Hypo Alpe Adria Group in Klagenfurt (2010-2012)
- Proxy of the Management Board of Zavarovalnica Triglav (2009-2010)
- Member of the Management Board of Bawag banka (2005-2009)
- Head of Corporate Banking at Raiffeisen Krekova banka (2004-2005)

Other important functions and achievements:

- Was a chairman or member of the supervisory boards of 11 banking, three insurances, and one production company

Direct responsibility:

- Strategy and Business Development
- Legal and Secretariat
- Communication
- Human Resources and Organisation Development
- Group Steering
- Retail and Private Banking and Corporate Banking

Membership in management or supervisory bodies of related or unrelated companies:

- Chairman of the Supervisory Board:
  - NLB Banka, Sarajevo
  - NLB Banka, Banja Luka
  - NLB Banka, Skopje
- Member of the Supervisory Board:
  - NLB Skladi, Ljubljana (until 10 January 2017)
  - NLB Vita, Ljubljana
- President of the Association of Banks in Slovenia (from 1 November 2017)

Andreas Burkhardt
Member of the Managment Board
Term of office: 2016-2021

Education:

- MBA, University of Dayton (1999)
- University of Augsburg, School of Business Administration and Economics, graduation ('Diplom-Kaufmann') (1998)

Career:

- CRO of NLB (2013-)
- Head of risk management at Volksbank in Hungary, involved in the upgrade and rationalisation of collection and company restructuring procedures (until January 2013)
- Member of the Management Board of Volksbank, Romania, in charge of finance, restructuring, and collection (2010-2011)
- Member of the Management Board of Volksbank Bosnia and Herzegovina in Sarajevo, in charge of the financial part of operations and risks (2003-2009)
- Since 2000 he has occupied other functions in the aforementioned bank.

Other important functions and achievements:

- 16 years of experience in the area of banking, especially in the area of Central Europe

Direct responsibility:

- Internal Audit
- Compliance and Integrity
- Risk (CRO)

Membership in management or supervisory bodies of related or unrelated companies:

- Chairman of the Board of Directors:
  - NLB Banka, Podgorica
- Member of the Supervisory Board:
  - NLB Banka, Sarajevo
  - NLB Banka, Banja Luka

Archibald Kremser
Member of the Managment Board
Term of office: 2016-2021

Education:

- MBA (INSEAD, France), specialising in bank management and corporate finance (2004)
- MSc Engineering, University of Technology in Vienna (1997)

Career:

- CFO of NLB (2013-)
- Eight years in various senior management functions/directorships within Dexia/Kommunalkredit Group (previously owned by Dexia SA and Volksbanken Austria AG)
  - Supervised the establishment and operation of subsidiaries of Dexia Kommunalkredit Bank in Central Eastern Europe with total assets of approximately EUR 10 billion (2005–2008)
  - Leading efforts to restructure Kommunalkredit Group with establishment of a 'bad-bank' and winding-down/divestment of non-core assets and businesses (2008–2011)
  - Leading efforts to reposition Kommunalkredit Austria as an advisory-based specialised infrastructure bank in preparation for its subsequent privatisation (2011–2013)
- Worked in leading international consulting firms Ernst & Young / Cap Gemini (1997–2004), Bain & Company (2004–2005), leading strategic transformation projects in IT/Operations and performance improvement for various international financial institutions in Austria, Germany, Switzerland, and the entire Central Eastern Europe

Other important functions and achievements:

- More than 18 years of experience in the financial services industry in Austria, Central Eastern Europe, and SEE focusing on finance and asset management, strategy and corporate development, as well as performance improvement assignments

Direct responsibility:

- Financial Accounting
- Controlling
- Financial Markets
- Investment Banking and Custody
- Group Real Estate Asset Management
- Accounts Administration
- Payroll Management (until 31 December 2017)

Membership in management or supervisory bodies of related or unrelated companies:

- Chairman of the Board of Directors:
  - NLB Banka, Belgrade
  - NLB Banka, Prishtina
  - NLB Banka, Podgorica

László Pelle
Member of the Managment Board
Term of office: 2016-2021

Education and training:

- Master's degree in electrical engineering at the Budapest University of Technology (1991)
- Bachelor's degree in electrical engineering, Kandó Kálmán College of Electrical Engineering in Budapest (1988)

Career:

- COO of NLB (2016-)
- COO, responsible for IT, operations, premises, and procurement services in ERSTE Bank Zrt., Hungary (2009-2015)
- COO, HSBC CEE (PL, CZ, SK, HU), responsible for regional operations of HSBC Premier in Central and East Europe. Roll-out of regional platform for OneBank IT and Operations. HSBC CEE, Czech Republic (2007-2009)
- Operations and Technology Director, Corporate and Consumer Bank, responsible for the management of overall operations, IT processes, and client services. Started Citi Shared Service Centre in Budapest in Citibank Rt, Budapest, Hungary (2002-2007)
- Operations and Technology Director, Consumer Bank, responsible for operations and technology. Set up of the initial banking infrastructure for credit cards and consumer banking in Citibank Handlowy Warszawie, Poland (1997-2002)
- Regional Business Planning and Analysis Manager for Card Products, heading the business planning and analysis function (Pacific & CEEMEA countries) in Citibank N.A. Asia Pacific CEEMEA Regional Office, Singapore (1996-1997)
- Card Operations Manager, Systems Development and Application Support, start up the retail bank and card product platforms (Diners Club) in Citibank Budapest Rt, Global Consumer Bank, Hungary (1994-1996)
- Head of Card Department, Project leader of VISA implementation, initiated VISA card programme in Hungary. Rolled-out ATM and POS networks in branches of Postabank and Savings Bank Corporation, Hungary (1992-1994)

Other important functions and achievements:

- 23 years of experience in the management of banking operations and IT in various countries of Central and SEE

Direct responsibility:

- Innovation and Business Analysis
- Procurement and Corporate Real Estate Management
- Development of Information System, Data Management, IT infrastructure
- Payments Processing
- Cash Processing
- Treasury and Financial Markets Processing
- Corporate Banking Processing
- Retail Banking Processing

Further information about the work and powers of the Management Board is set out in the section ‘Corporate Governance Statement’.

Collective decision-making bodies

Different committees, commissions, boards, and working bodies may be appointed by the Management Board of the Bank for execution of individual tasks within powers of the Management Board of the Bank.

The Corporate Credit Committee
determines credit ratings and makes decisions on the reclassification of clients, and approves commercial banking investment transactions and limits that are beyond the competencies of the Credit Sub Committee. The Committee adopts decisions that are outside of the powers of the directors or subcommittee, as well as decisions on investment transactions in commercial banking within the statutory powers in the areas of corporate banking in the Bank (all companies, banks and financial institutions), operations with clients in intensive care and NPL, and operations with non-core clients.

As a rule, Committee meetings are convened once a week. The Committee has seven members. The Chairman of the Committee is the member of the Management Board responsible for the area of risk (CRO).

The Corporate Credit Sub Committee
determines credit ratings and makes decisions on the reclassification of clients and approves commercial banking investment transactions and limits that exceed the competences of B-1 level directors. The Sub Committee adopts decisions in the scope of the Bank’s investment policy and business plan, as well as statutory powers.

The Sub Committee meetings are convened once a week. The Sub Committee has four members. The Chairman of the Committee is the member of the Management Board responsible for the area of risk (CRO).

NLB Group Assets and Liabilities Committee
monitors conditions in the macroeconomic environment and analyses the balance, changes to, and trends in the assets and liabilities of NLB and the Group companies, drafts resolutions, and issues guidelines for achieving the structure of the Bank’s and the Group’s balance sheet. As a rule, Committee meetings are convened once a month. The Committee has four members. The Chairman of the Committee is the member of the Management Board responsible for the area of finance (CFO).

The Group Real Estate Asset Management Committee
is in charge of giving opinions on the acquisition/purchase price of real property and additional investments in real property provided as collateral for NPL, the selling price of own real property, and the acquisition/purchase price for the real property mortgaged in the sale of receivables. As a rule, Committee meetings are convened once a week. The Committee has three members. The Chairman of the Committee is the member of the Management Board responsible for the area of finance (CFO).

The Change the Bank Committee
is responsible for adopting decisions related to the development projects with the aim of transforming the Bank and decisions related to adopting the development guidelines. The Committee has four members. As a rule, the Committee meetings are convened once a month. The Chairman of the Committee is the President of the Management Board (CEO).

The Development Council
adopts decisions related to the portfolio of development with an IT element. As a rule, the meetings of the Committee are convened once a month. The Committee has six members. The Chairman is the member of the Management Board in charge of operations (COO).

The Sales Board
adopts decisions on the management of the range of products and services, and the relationships with clients in the area of sales. As a rule, Committee meetings are convened once a week. The Committee has 10 members. The Chairman of the Board is the member of the Management Board in charge of Retail and Private Banking and Corporate Banking (CMO).

NLB Operational Risk Committee
is responsible for monitoring, guiding, and supervising operational risk management in the Bank, and for transferring this methodology to the Group members. As a rule, the Committee meets once every two months. The Committee has 15 members. The Chairman of the Committee is the member of the Management Board responsible for the area of risk (CRO).

NLB Retail Credit Committee
decides on the approval of loans and other investment proposals, the conditions of which deviate from standard banking products and services, and which represent additional risks for the Bank. As a rule, meetings are convened when necessary. The Committee has five members. The Chairman of the Committee is the Director of Credit Risk – Corporate and Retail.

Advisory bodies of the Bank's Management Board

The Watch List Committee
is an advisory body which acknowledges the activities related to the clients on the Watch List. As a rule, Committee meetings are convened quarterly. The Committee has seven members. The Chairman of the Committee is the member of the Management Board responsible for the area of risk (CRO).

Risk Committee
monitors and periodically reviews matters related to risk and commercial risk and prepares materials for the Management Board to obtain decisions. The Committee has 12 members. The Chairman of the Committee is the member of the Management Board responsible for the area of risk (CRO).

The Management Board appointed working bodies that operate at a lower level:

- The Committee for New and Existing Products,
- The Group Real Estate Asset Management Sub Committee,
- The Anti-Money Laundering Commission.

Chapter 16

Compliance and Integrity

The Group is continuously strengthening the compliance function and diligence of its operations. The Group compliance policies are based on the framework of internationally recognised standards of compliance management. A key element of the Group's long-term success is to follow reasonably set rules and agreed values. This is the commitment of the entire Group.

The Bank constantly builds, strengthens, and supports the culture of business compliance and due diligence within the Bank and the Group. Banking, as well as other financial sector business activities are heavily regulated, making the business operations more and more demanding. The Group addresses these challenges by a systematic approach to mitigating compliance risks. It is important to ensure that employees and decision-makers know and understand the purpose and objectives of the regulations. Systematic monitoring of the legal and regulatory environment and assessment of its impact on the Bank is thus an important part of everyday life and work.

Managing regulatory compliance risks

In 2017, the Bank faced complex processes in adapting to the new regulatory environment and complex requirements in the field of personal data protection (GDPR), payment services (PSD2), the market of financial instruments (MiFIDII, MiFIR), and other relevant regulations.

Within the Group the constantly changing regulatory environment required several implementation activities, as well. To ensure the good flow of information and addressing matters, the Compliance function reports to the Management Board and the Supervisory Board of the Bank. The Compliance functions of the Group core members also provide quarterly reports to the Compliance and Integrity of the Bank. Managers and other employees were informed in a timely manner about issues of regulatory compliance via regular monthly compliance and integrity e-newsletters, including relevant information for raising awareness of ethics and integrity.

Preventing Money Laundering and Terrorism Financing

The Bank complies with the national regulations on Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF), including the Guidelines of the BoS. The RoS is a member of EU, and thus subject to the standards of the Financial Action Task Force (FATF) and the European legislation based on them, i.e. the Directive (EU) 2015/849 in the area of Money Laundering and Terrorist Financing Prevention (MLTFP).

Pursuant to the Slovenian MLTFP Act, the Bank is obliged to ensure that its branches and majority-owned subsidiaries with head offices in third countries apply the same measures. In 2017, a case from 2009 and 2010, including a client with Iranian origin was publicly disclosed. Bank and state authorities addressed this issue in 2010 and 2011. In subsequent years the MLTFP system was fundamentally reorganised and improved from HR, organisational, and informational perspectives. The MLTFP system is being constantly upgraded and enables the Bank to mitigate risks in the MLTFP area. According to the Bank's MLTFP Policy payments with restricted countries/legislations are not allowed, and clients with that kind of origin cannot open a relationship with the Bank. The Group members must fully comply with the Slovenian legislation on MLTFP, as well as with Group standards (the basis for establishing compliance in the Group are Standards for Compliance and Integrity which were revised in 2017). Coordination of the implementation of the MLTFP system in the Group also includes the control and review of the MLTFP system. With this approach and with the upgrade of the MLTFP system in recent years, the Bank and the Group are effectively managing MLTFP risks and implementing their obligations, and following international standards and other regulations.

Strengthening Group-wide ethics and integrity standards

Within the framework of the programme of ensuring business compliance, the Group also deals with the ethics and integrity of the organisation. Such a programme encourages employees and other stakeholders to conduct business, which is consistent with a strong, positive organisational culture. The NLB Group Code of Conduct, which was redesigned and amended in 2017 to ensure its uniform application cross-group, is based on the framework of good practices of international financial groups and applies to all employees in the Group in the same way. With this objective, the code was internally and publicly published in the form of an e-book. To provide clearer rules and guidelines for managing conflicts of interest

The Bank constantly builds, strengthens, and supports the culture of business compliance and due diligence within the Bank and the Group.

and preventing corruption, a new Policy on the Management of Conflicts of Interest and the Prevention of Corruption was adopted in 2017, which is currently being implemented by the Group members.

Focus on prevention activities

In 2017, the Compliance function prepared several workshops and mandatory e-education on ethics, the prevention of corruption, conflicts of interest, the protection of personal data, MLTFP, and other relevant topics related to everyday work. The Group also devotes a great deal of emphasis to preventing harmful conduct and incidents in the Bank. In 2017, employees at all levels received information and training about the prevention of harmful conduct, procedures, and whistleblowing channels. The Group launched the implementation of the Whistler, a special IT tool for whistle-blowers, whereas the process of internal investigations is in place and functioning. The Bank's staff is obliged to successfully complete yearly Compliance training and education.

Particular attention is paid to advising employees who have dilemmas regarding compliance issues. In 2017 Compliance and Integrity dedicated more than 1,300 hours for advisory activities, which is a significant increase compared to a 1,000 advisory hours in 2016.

A general assessment of compliance risks was carried out at the Group level for the first time in 2017, following the methodology which the Bank already prepared in 2016. The assessment allows the Group to reduce the compliance and integrity risks with already prepared risk-mitigation measures. As part of compliance programme, Compliance and Integrity is involved, inter alia, in risk assessments regarding new and changed products, fit and proper assessments for key function holders, and assessing risks related to outsourcing and vendors; these areas were also in focus during 2017.

Importance of business compliance and risk culture

Compliance in NLB is integrated into the daily business of the Bank to support its daily operations, to contribute to its strong internal control environment, and to ensure that compliance risks are mitigated.

Strong compliance and integrity supports future growth and development. We are therefore continuously strengthening the compliance function and diligence of its operations that are based on internationally recognised standards of compliance management.

Rok Praprotnik
General Manager,
Compliance and Integrity

1,300
more than 1,300 hours dedicated to advising on compliance issues

170
more than 170 regulatory changes relevant for the Bank were identified and monitored in 2017

20
more than 20 different types of trainings for various focus groups were organised in 2017 on different compliance and integrity topics in the Bank

Chapter 17

Internal Audit

Internal Audit monitors the decision-making process in all areas of the Group, reviews key risks in its operations, advises management at all levels, and deepens understanding of the Bank's operations. It provides independent and impartial assurance regarding the management of key risks, management of the Bank, operation of internal controls, and thereby strengthens and protects the value of the Bank.

Internal Audit is the independent, objective, and advisory control body responsible for a systematic and professional assessment of the effectiveness of risk management procedures, completeness, and functionality of internal control systems, and the management of the Group operations on an ongoing basis. It provides impartial assurance to the Management Board and Supervisory Board that risks in key areas of the Bank i.e. risk management, credit process, provisioning, NPL, information technology, cyber security, the ILAAP, divestment of non-core activities, compliance function, corporate governance, and others are managed properly.

Performed audits

Internal Audit performs its tasks and responsibilities on its own discretion and in compliance with the annual audit plan as approved by the Management Board and confirmed by the Supervisory Board. Based on its internal methodology and comprehensive risk analysis plan for 2017 Internal Audit in NLB intended to perform 35 audit reviews, out of which 32 were conducted and three were postponed due to objective reasons. Furthermore, five extraordinary audits and one cyber security consulting task were conducted.

Implementation of uniform rules

Internal Audit increases efficiency. It focuses on monitoring the implementation of audit recommendations, training and education, updating the internal audit manual, advising management, and ensuring high quality and professional operations of the internal audit function within the Group. Internal Audit also introduces uniform rules of operation of internal audit function and regularly monitors the compliance with these rules within the Group.

The highest standards were followed

Internal Audit and other internal audit services in the Group operate in accordance with the:

- International Standards for the Professional Practice of Internal Auditing,
- Banking Act or other relevant laws which regulate the operations of a Group member,
- Code of Ethics of an Internal Auditor, and
- Code of Internal Auditing Principles.

In 2017, one of the four biggest international audit companies confirmed that Internal Audit complies with the International Standards for the Professional Practice of Internal Auditing. The results were above the benchmark average.

Polona Kurtevski
General Manager,
Internal Audit

19,993
hours spent in reviews

662
hours spent on consulting services

21
Internal Audit experts

38
planned, extraordinary audit assignments, and consultations were conducted by Internal Audit of the Bank

Chapter 18

Human Resources

Human resources implements improvements and innovative practices to drive the best possible employee engagement and excellent business results. Focusing on the need for an organisational and cultural shift, the Bank started implementing new concepts, models, and processes, following modern HR trends. The focus was mainly on top talents, lean processes, social learning activities, and implementation of practices to enhance employee efficiency.

On a pervasive path toward a leaner and more efficient organisation

In the past few years, the Group has made substantial progress in improving its HR management function by introducing a system for: performance management, promotional schemes, remuneration schemes, an organisational culture and an active talent management programme, while all employees benefit from relevant and regular trainings. New and innovative practices are constantly being added with the goal of changing organisational culture.

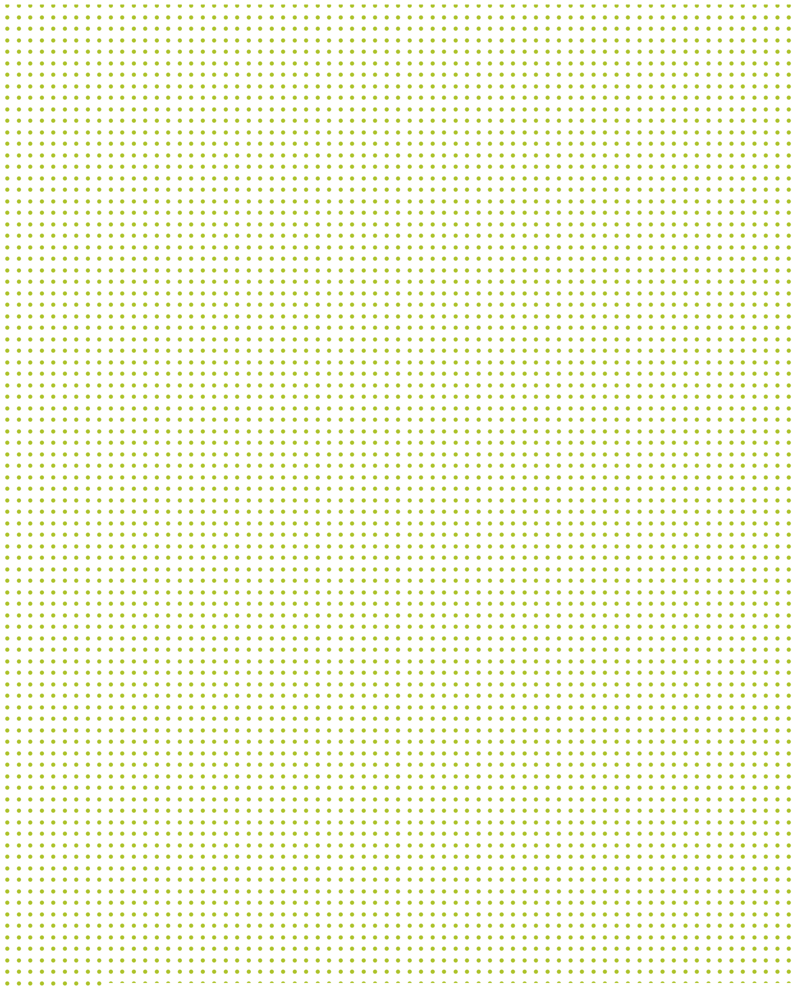
Since 2012, the Group undertook determined and complex efforts to gradually reduce its number of employees aligned with reorganisation of the current organisational structure. In the last five years the Group reduced the number of employees by 19.5% (1,175 employees), and the Bank alone by 21.9% (783 employees). This strategically important step was implemented with the highest responsibility towards employees, and in dialog with workers' representatives. The Group members developed comprehensive HR strategies as well.

The Bank maintains relationships and cooperates with Trade Unions, the Workers Council, and other stakeholders.

Enhancing employee engagement

Numerous changes in the business environment, deriving from accelerated development of digitalisation in banking, require constant employee adaptation and learning. The vision and the strategic goals set by the Group require a high level of employee engagement, as they represent a decisive factor for a successful implementation of the strategy. The Group is aware of the importance of employees and their impact on the organisational operations, and therefore launched a project, 'Enhance employee engagement for results' in order to:

- Foster a cooperative and engaging working environment to better motivate the employees and increase their participation in the Group's development.
- Promote initiatives to improve the skills and capabilities of the employees.
- Promote a culture of cooperation across the Group.



• = 1 employee

100% **6,029** employees in the Group

46.3% **2,789** employees in NLB

73.5% **73.5%** women

26.5% **26.5%** men

58.5% **58.5%** of employees with VI. level of education or higher.

51.6% **3,111** employees in the Group outside Slovenia.

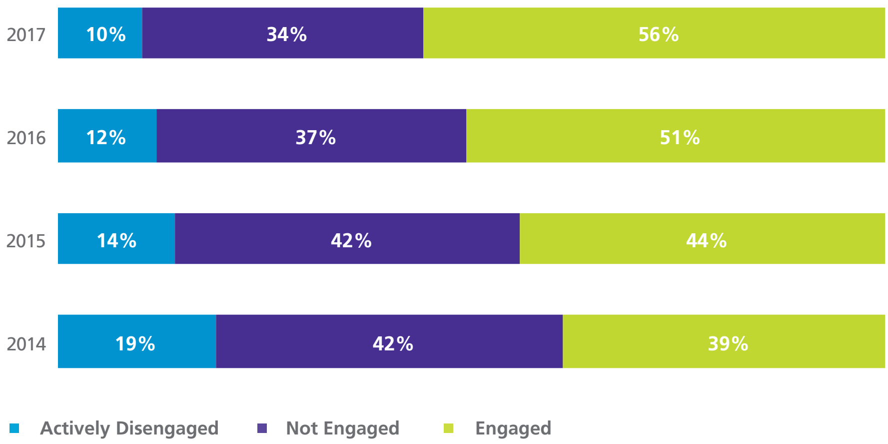
Table 19: NLB Group employees by countries

Country	Number of employees (on 31 December 2017)
Slovenija[1]	2,922 (NLB: 2,789, ostalo: 133)
Serbia	447
Bosnia and Herzegovina (Republic of Srpska, Federation of Bosnia and Herzegovina)	942
Montenegro	319
Macedonia	901
Kosovo	481
Germany	1
Switzerland	4
Croatia	12
Total (the Group)	**6,029**

1. Without Bankart, Prvi Faktor, NLB Vita, Skupna PD, and Sisbon.

Engaged and motivated employees represent a decisive factor for a successful implementation of the strategy and the Group's business growth.

Figure 62: NLB's Employee Engagement comparison from 2014 to 2017



The Bank is aware that good IT support is crucial to improve the decision-making process, upgrade current HR practices, enhance analytical capabilities to become even more transparent to all stakeholders, and allow employees to become more engaged. A new IT tool is being implemented in the Bank and at a later stage also throughout the Group.

Aiming to create a leaner organisation and to optimise processes, 'Lean Project' was launched to define the prioritisation of processes to be streamlined. Also the management governance was upgraded within the Bank, while the Group will follow.

Proud to be one of the few companies in Slovenia with international 'Top Employer' certificate

The Bank participated in the 'Top Employer' certification process. Over 60 relevant improvements in HR practices were implemented in the last year and the Bank is proud to gain the certification for the years 2016 and 2017. The 'Top Employer' recognises best employers all over the world that create optimal conditions for their employees to develop, both professionally and personally.
To retain the nomination, the process requires implementation of continuous improvements in HR practices. Major improvements in 2017 were made in talent management, onboarding, and learning.

Continuing a longstanding tradition of employee education

The Bank's Training Centre has been operating for over 40 years. To a great extent the Training Centre creates an organisational culture and assists establishing best business practices following the Group's strategy. It empowers employees to achieve the Group's business goals, to act socially responsibly towards stakeholders, and enables them to achieve their own ambitions and personal development. Special emphasis is on leadership, sales, employee coaching, mentoring, and peer groups in combination with E-Learning.

In 2017 the Bank developed and used systematic employees training programmes to encourage and motivate employees by developing relevant job specific skills and competencies. A total of 35,674 participants of the Bank (31,925 in 2016) participated in the internal programmes for employees that were conducted mostly with in-house and selected external experts.

Intensive talent development for future challenges

Within the Group, the talent development programme systematically supports career development of recognised potentials of employees. In 2017, special development frameworks were formed to enhance employees' leadership and other relevant professional skills and competences. Educational activities were combined of workshops and various training programmes for assertive communication and decision-making, creative thinking, strategic management, and improving foreign languages.

With diverse development activities, the Group will continue to provide intensive development of potentials in the future, striving to prepare top employees for future challenges.

Remuneration system as a motivation for engaged and committed employees

An employee's salary is composed of a fixed and a variable part. The fixed amount is determined by job position seniority while the variable amount depends on the employee's performance. Performance assessment is done by the head of the employee's organisational unit using a top-down approach to evaluate the employee's achievements in relation to goals set for a particular assessment period (quarter or half-year).

The goals are set according to the 'SMART' method, meaning that they have to be specific, measurable, challenging, realistic, and with a defined time frame.

Being a family-friendly company

The Bank emphasises the promotion of a healthy lifestyle and preventive medicine, an intergenerational know-how transfer cooperation programme, and finally, assuring that management and other employees are adequately informed about the family-friendly and healthy bank measures.

The Bank received a full Family-Friendly Company Certificate in December 2014 for a period of three years joining companies and organisations that are aware of the importance of striking the right balance between business and family life, and thus acting like a socially responsible company for its employees. The number of employees benefitting from measures increases each year.

In 2017, the Bank conducted activities for the extension of the Certificate:

- Additional workshops for a healthy lifestyle, and in line with the plan for the period 2015-2017.
- Implementation of the Intergenerational Cooperation Programme – senior mentoring in which older workers were involved. The Bank identified senior mentors in all organisational units and carried out education for effective mentoring. Finally 10 pairs of mentors and mentees were formed – two pairs with newly trained trainees, and eight pairs with new employees and those changing their workplace to other organisational units.

Improving the organisational climate and employee engagement

The organisational climate deals with individual perceptions and describes the current social environment. The Bank regularly conducts organisational climate and employee engagement surveys to assess the motivation levels of its employees, and their willingness to invest additional effort above regular expectations. The 2017 survey showed a continuation of positive trends, that the share of engaged employees grew by 5% compared to 2016 and 12% compared to 2015.

134,147
hours of education in 2017

105
programmes implemented in 2017

460
participants in the 'Healthy Bank' activities for health-related improvements in the workplace and quality of life

56%
engaged employees according to the employee engagement survey

over
60
relevant improvements in HR practices were implemented

The business success of the Group depends on organisational capability and its main building block – talent.

Vesna Vodopivec
General Manager, Human Resources and Organisation Development

Chapter 19

Corporate Governance Statements

Statement of Management's Responsibility

The Management Board hereby confirms the statements made in the business report, which are in accordance with the attached financial statements as at 31 December 2017, represent the actual and fair financial standing of the Bank and the NLB Group, as well as their operating results in the year that ended 31 December 2017.

The Management Board confirms that the business report includes a fair view of developments and operating results of the Bank and the Group and their financial standings, including a description of the key types of risks and the companies under consolidation are exposed as a whole.

Management Board of the NLB

László Pelle
Member of the Management Board

Archibald Kremser
Member of the Management Board

Andreas Burkhardt
Member of the Management Board

Blaž Brodnjak
President & CEO

Types of Services for which NLB Holds Authorisation

NLB has an authorisation to perform banking services pursuant to Article 5 of ZBan-2[21]. Banking services are the acceptance of deposits and other repayable funds from the public, and the granting of credits for its own account.

The bank has an authorisation to perform mutually recognised and additional financial services. It may perform the following mutually recognised financial services, pursuant to Article 5 of the ZBan-2:

1. Accepting deposits and other repayable funds from the public;
2. Lending, which also including:
- consumer loans,
- mortgage loans,
- factoring, with or without recourse,
- financing of commercial transactions, including export financing based on the purchase of non-current non-past-due receivables at a discount and without recourse, secured by financial instruments (forfeiting);
3. Payment services;
4. Issuing and managing other payment instruments (e.g. travellers cheques and bank bills of exchange), insofar as such services are not included in the services referred to in the previous point;
5. Issuing of guarantees and other sureties;
6. Trading for own account or for the account of customers in:
- Money-market instruments,
- Foreign legal tenders, including currency exchange transactions,
- Standard futures and options,
- Currency and interest-rate instruments,
- Transferable securities;
7. Participation in securities issues and the provision of associated services;
8. Offering advice to companies concerning capital structure, business strategy, and related matters, as well as advice and services related to M&A;
9. Monetary intermediation on interbank markets;
10. Advice on portfolio management;
11. Safekeeping of securities and other related services;
12. Rating services: collecting, analysis, and disseminating information regarding credit-worthiness;
13. Safe deposit services;
14. Investment services and transactions, and ancillary investment services in accordance with the ZTFI.

It may perform the following additional financial services, pursuant to Article 6 of the ZBan-2:

1. Insurance policy brokerage in accordance with the act governing the insurance industry,
2. Custodian services according to the act governing investment funds and management companies,
3. Credit brokerage for consumer and other credits.

Authorisation to perform banking services is published on the official webpage of the BoS (https://www.bsi.si/en/financial-stability/institutions-under-supervision/banks-in-slovenia/8/nova-ljubljanska-banka-dd-ljubljana).

21. Banking Act (ZBan-2), Official Gazette of the RS, no. 25/15, 44/16, 77/16 and 41/17.

Corporate Governance Statement of NLB

Pursuant to the fifth paragraph of Article 70 of the ZGD-1[22] NLB hereby gives the following Corporate Governance Statement as a part of the Business Report of the Annual Report.

1. REFERENCES TO THE CODES, THE RECOMMENDATIONS AND OTHER INTERNAL REGULATIONS ON CORPORATE GOVERNANCE

In view of the fact that in May 2016 a Corporate Governance Code for Unlisted Companies was adopted for the first time, unlisted companies[23] should endeavor to observe the recommendations of the code and disclose reasons for deviations in Corporate Governance Statement. Since NLB has been using the Corporate Governance Code for Listed Companies for the last decade, the Management Board and the Supervisory Board in December 2017 adopted a revised version of the Policy on Corporate Governance of the NLB, with which NLB adopted a decision to follow Corporate Governance Code for Listed Companies also in the future. The reasoning behind this adoption is that until mid-2017 NLB was a listed company (under the provisions of Article 99 of the Law on Trading of Securities) and will most probably also assume that status in the near future. By doing so NLB wants to ensure greater transparency and better comparability of compliance with the recommendations.

In further developing a transparent, clear, and successful corporate governance system, during 2017 NLB endeavored, as far as practicable, to comply with the regulatory provisions and the highest standards of responsible and refined corporate governance system as laid down by the aforementioned code, thus further increasing the confidence of investors, customers, creditors, and employees of the bank.

In addition, as a company in which the RoS holds an equity investment, NLB also complied with the Corporate Governance Code for Companies with a State Capital Investment.

The purpose of the code is to determine the standards of governance and supervision in state-owned companies and ensure that such companies a develop transparent and comprehensive corporate governance system, with the objective of ensuring the successful and long-term growth of their assets. The code was partially revised in May 2017, not only to reflect changes in the relevant regulation of the RoS, but also to take into consideration practical experience gained during the years.

In view of the need to regulate certain specific issues related to corporate governance that are not covered by the legal framework applicable to the management of state assets, SSH also issued Recommendations and Expectations of the SSH. The revised version of the document was adopted by the SSH in May 2017.

In 2017 NLB abided by the following recommended standards in conduct of its business activities, namely:

- Corporate Governance Code for Listed Companies (currently applicable code was adopted on 27 October 2016 and came in force on 1 January 2017; the code is published on the Ljubljana Stock Exchange's website http://www.ljse.si);
- Corporate Governance Code for Companies with a State Capital Investment (adopted in May 2017; is available on the website http://www.sdh.si), and
- Recommendations and Expectations of the SSH (adopted in May 2017, available on the website http://www.sdh.si).

Furthermore, NLB complied in its governance system with the commitments made by the RoS to the EC with respect to the state aid given to NLB in December 2013, in part relating to corporate governance. The public version of the entire Catalogue of Commitments dated 18 December 2013 is available on the website of the EC's website http://ec.europa.eu/competition/state_aid/cases/245268/245268_1518816_267_7.pdf) and the amendment to the restructuring decision of NLB dated 11 May 2017 is available on the http://ec.europa.eu/competition/state_aid/cases/269184/269184_1911771_145_2.pdf.

Corporate governance of NLB is also defined by the Articles of Association of NLB (adopted by the General Meeting on 7 April 2017) and Corporate Governance Policy of NLB (adopted in version 3, November 2017). Corporate governance of the NLB Group in 2017 NLB and NLB Group members is regulated by the Corporate Governance Policy of the NLB Group (revised in November 2017). In subsidiaries of the Group, the principles and recommendations of both mentioned codes are followed through the Corporate Governance Policy of the NLB Group (minimum standards by particular

22. The Companies Law (ZGD- 1; Official Gazette of the RS, No. 65/09 – official consolidated text, 33/11, 91/11, 32/12, 57/12, 44/13 – decision of the Constitutional Court, 82/13, 55/15 and 15/17).

23. A company whose shares are not admitted to trading on a regulated market, i.e. a company not listed on the stock exchange.

business area), also respecting the local legislation and regulatory requirements as well as the principle of proportionality (e.g. the organisational possibilities in the companies).

The Corporate Governance system is explained on the NLB website (http://www.nlb.si/corporate-governance). The documents referred to in this paragraph are published there.

2. THE CORPORATE GOVERNANCE OF NLB DEVIATES FROM THE FOLLOWING PROVISIONS:

Particular deviations from the aforementioned codes and recommendations, and the underlying reasoning for them are disclosed below.

A) Corporate Governance Code for Listed Companies

Recommendation no. 4.3: The Diversity Policy does not set out the ways of implementation of set objectives, as well as the effects on the human resources procedures and other processes of the company.

Recommendation no. 8.5: In the reasoning of the proposals for the General Meeting, NLB does not cite the past membership in other management or control bodies, nor eventual conflicts of interest (because they are included into Fit & Proper procedure).

Recommendation no. 8.7: The remuneration of the Management Board members complies with the Act Regulating the Incomes of Managers of Companies owned by the RoS and its Municipalities, the Regulation on Setting the Highest Correlation of Basic Payments and the Rate of Variable Remuneration of Directors. The remuneration of Management Board members has been subject to restriction arising from Decision of the EC on State Aid No. SA.33229 (2012/C) (ex 2011/N) – Restructuring of NLB – Slovenia (which Slovenia is planning to implement for NLB), and has been regulated in accordance with the mentioned commitments.

The management Remuneration Policy follows the ZGD-1 and the provisions of this Code. Regarding specification of the highest share of remuneration given as shares, stock options and other types of financial instruments (last indent of this recommendation), along with any restrictions of such remuneration the Remuneration Policy also follows the Guidelines of the BoS dated 22 November 2016 concerning the application of the principle of proportionality in the implementation of remuneration policies. In our opinion, restrictions on executive payments are unjustifiable.

Recommendation no. 10.1: In assessing a candidate's eligibility for a Supervisory Board member, statutory criteria are applied, however candidates don't have a certificate evidencing their specialized professional competence for membership on a Supervisory Board, such as the Certificate of the Slovenian Directors' Association, or any other relevant certificate.

Recommendation no. 12.2: The Rules of procedure of the Supervisory Board to the NLB (April 2016) do not include the list of all types of transactions for which the Management Board needs prior approval of the Supervisory Board based on a Supervisory Board resolution and the company's Articles of Association, as well as the system of outsourcing for purposes of the Supervisory Board and the Supervisory Board evaluation, education and training of the members of the Supervisory Board. The mentioned provisions are part of other internal documents or decisions of the governing bodies.

Recommendation no. 12.3: The rules of procedure of the Supervisory Board do not include the scope of topics and timeframes to be respected by the Management Board in its periodic reporting of the Supervisory Board. However, professional services of the bank take care that timely information is provided to the Supervisory Board.

Recommendation no 12.4: The Supervisory Board will discuss and take a position on the workers' council's report on the status of workers' participation in management at one of the next session.

Recommendation no. 12.5: Material for regular sessions of the Supervisory Board is not provided through information technology, but via mail.

Recommendation no. 12.11: The Supervisory Board's Report presented to the General Meeting does not include the information to what extent the board's self-assessment has contributed to the improvement of Supervisory Board's performance.

Recommendation no. 14: Evaluation of the Supervisory Board will be performed in the following months. Recommendations No. 14.1. to 14.3 for the year 2017 are to be fulfilled in 2018.

Recommendation no. 15.3: NLB deviates from this recommendation because the President of the Supervisory Board is at the same time President of the Nominations Committee.

Recommendation no. 16.2: The secretary of the Supervisory Board did not sign a separate statement in which she makes a commitment to protect the confidentiality of information on the same level as the members of the Supervisory Board. She has provisions on confidentiality included in her employment contract.

Recommendation no. 17: In our opinion, the Bank is not providing payment to the Supervisory Board members that would correspond to their responsibilities and the fines set by the ZBan-2.

Recommendation no. 20.1: Drafting a proposal on the Management Board succession plan in 2017 was not necessary.

Recommendations no. 21 and 21.1.: NLB deviates from the proposed provision in the Code because the Act Regulating the Incomes of Managers of Companies Owned by the RoS and its Municipalities ("ZPPOGD") restricts executive pay, which has posed a severe impediment to the winning over, and retaining of suitable staff. It results in a high level of operational risk and poses, in the Bank's opinion, one of the main obstacles to a suitable restructuring of Slovenian businesses (and state-owned enterprises). The Bank will continue to promote public discussion and the abolishment of the restrictions.

Recommendations no. 21.4 to 21.6: NLB does not have a variable part of remuneration given as shares, nor do stock option plans and comparable financial instruments stand for the majority of the members of NLB. The Bank follows the Guidelines of the BoS dated 22 November 2016 concerning the application of the principle of proportionality in the implementation of remuneration policies.

Recommendation no. 27.4: NLB draws up its financial calendar which is published on banks' website, however it doesn't provide information on the expected dates of General Meetings, announcements of the record date for dividend payments, or the dividend payment date.

Recommendation no. 29.7: NLB discloses the remuneration of each member of the Management Board and of the Supervisory Board broken down to all items that are contained in the Appendices C.3 and C.4 of Corporate Governance Code for Listed Companies (see Tables 22 and 23) (except for Appendix C.3 of Corporate Governance Code for Listed Companies, where NLB does not disclose the gross variable income of the members of the Management Board on the basis of quantity and quality criteria, but only as a total).

Recommendation no. 29.9: NLB does not publish the rules of procedure of its bodies (management and supervisory bodies and General Meeting) on its website.

B) Corporate Governance Code for Companies with a State Capital Investment

Recommendation no. 5.1.1: The recommendation is implemented in full in the part relating to operations. Nevertheless, we wish to point out the anomaly and the deprivileged position of NLB, since we believe that the Code recommendation on the arm's length conditions for NLB, as for the other non-state-owned companies, has not been met, since NLB is subject to numerous limitations or additional obligations that do not apply to privately-owned companies (limited receipts of the management bodies and the obligation to report certain confidential information in accordance with the provisions of the ZDIJZ-1).

Recommendation no. 6.3.1: As a system-relevant bank, NLB has adapted the reporting of the Supervisory Board to the complex applicable legislation, also taking into account the Recommendations of the Slovenian's Directors' Association for reporting to the supervisory boards.

Recommendation no. 6.4.1: The Supervisory Board's competence profile was not published on bank's website. The sectorial composition envisaged by Article 21, Paragraph 2 of the ZSDH-1 was probably envisaged by SSH.

Recommendation no. 6.6: In 2017, none of the members of the Supervisory Board of NLB in the previous composition (first part of the year 2017) declared themselves dependent. In statements of independence for the new composition of the Supervisory Board (elected on 8 September 2017), all members of the Supervisory Board NLB declared themselves independent. Eventual conflicts of interest for two members of the Supervisory Board could arise due to their prior employments, but will be managed accordingly.

Recommendations no. 6.7 and 6.7.1: At the last election of the Supervisory Board members for the Bank's General Meeting (08/09/2017), the Supervisory Board of NLB explained that the bank, as a regulated credit institution, was subject to stricter requirements and rules for the proposal of candidates for the members of the Supervisory Board, in view of the fact that Article 35 of the ZBan-2 prescribed the Fit & Proper assessment of the candidates. Thus, in accordance with the banking legislation, the Nomination Committee of the Supervisory Board of NLB issued positive Fit & Proper assessments of the candidates, which comprises the assessment of all key candidate suitability criteria, and separately also a statement of potential conflict of interests and independence of the candidates, as confirmed by the Supervisory Board of NLB. In line with this, the Supervisory Board of NLB only included the data required by Article 297 a) of the ZGD-1 in the grounds of its proposals.

Recommendation no. 6.8.4: The Nomination Committee does not adopt a formal resolution to set the profiles of the sought members of the Supervisory Board; nevertheless, it takes into account the substance, using the criteria from the Code.

Recommendation no. 6.8.5: Also taking into account the explanation from the previous point, the Nomination Committee also strives to follow this recommendation, while at the same time taking into account the selection path and the proposals submitted by SDH as the representative of the sole shareholder of NLB.

Recommendation no. 6.9: Also taking into account the explanation from the previous point, the Nomination Committee also strives to follow this recommendation, while at the same time taking into account the selection path and the proposals submitted by SSH as the representative of the sole shareholder of NLB.

Recommendations no. 6.12 to 6.12.3: Due to the fact that in 2017 considerable changes were made to the composition of the Supervisory Board, the assessment of the new composition of the Supervisory Board in the year 2017 was not done. The evaluation procedure of the Supervisory Board for 2017 is to be executed in 2018.

Recommendation no. 6.15.1: In 2017, the Chairman of the Supervisory Board is not the Chair of the Audit Committee, but is the Chair of the Nomination Committee.

Recommendation no. 7.2.1: NLB complies with the Recommendations for Reporting to Supervisory Boards (Slovenian Directors' Association, 25/10/2011 and 10/03/2014) with some deviations from certain recommendations.

Recommendation no. 8.3: In 2017, in the NLB Group Annual Report, NLB disclosed the receipts and other rights of the members of the Supervisory Board in accordance with Appendix 6 to the Corporate Governance Code for Listed Companies (see Table 22). When disclosing the income of the members of the Management Board, the gross variable income is not disclosed on the basis of quantity and quality criteria, but only as a total. The remunerations of the members of the Group are not published in the NLB Group's Annual Report.

Recommendation no. 8.5: NLB publishes the financial calendar on its public website that includes the publication of annual unaudited financial statements, the publication of the annual and semi-annual reports and two interim reports. The Financial Calendar does not include the dates of the General Meetings and the dates of dividend payment, since these are set in line with the orientations issued by the owner (SSH): The financial calendar is published on: https://www.nlb.si/financial-calendar.

Recommendation no. 9.2.7: As a rule, recommendations are being implemented in line with the set deadlines. The Management Board and the Supervisory Board monitor the status of audit recommendations and the reasons for late implementation quarterly.

Recommendation no. 9.3.1: SSH is regularly informed of the risks and all open issues and proposals for their elimination via quarterly meetings of the Management Boards.

C) Recommendations and Expectations of the SSH

NLB also takes a position on the adopted Recommendations and Expectations of the SSH.

Recommendation no. 1.1: NLB will try to meet the expectations of this recommendation in due time, taking into account the applicable legislation and staying in line with the planning process of the Group, which is based on the last possible available data on the operations of NLB and the Group. NLB submits a draft plan of all necessary indicators of a company/group in accordance with the agreement with the SSH, as well as in line with the timetable of SSH regarding the framework of their expectations.

Recommendation no. 1.2: NLB tries to meet expectations in this recommendation in due time, taking into account the applicable legislation. In line with the agreement and the guidelines of SSH, NLB submits a draft plan of indicators of a company/group in accordance with the applicable Criteria for measuring performance of companies with the state capital investment.

Recommendation no. 1.3: NLB tries to meet expectations in this recommendation in due time, taking into account the applicable legislation.

Recommendation no. 3.7: NLB has signed some flat-rate agreements with the outsourced contractors for various needs, following the agreed cost optimisation and continuous reduction of the costs of outsourced providers.

NLB has eight such contracts for lawyer services, and one for medical services. A flat-rate contract is a contract signed with a lawyer setting a monthly payment for an unspecified scope of services; nevertheless, the lawyer is obliged to issue a monthly invoice (or a different period, if so agreed) together with a specification of services provided in such a month or period, and potential surplus hours in line with the signed contract. The lawyers provide the services of legal consultancy in the area of operations with the Bank.

The Bank has also several contracts for the supply of hardware or software for which the main object of the contract is the supply of such equipment. In addition to payment for the equipment, monthly flat-rate payments for the maintenance of supplied equipment are agreed (e.g. payment includes work, all spare parts, bug fixes in the software, etc.) and, in certain cases, also for a smaller amount of additional development of the supplied software, according to the needs of the bank.

Recommendation no. 4.4: A reporting system has been set up for the Group about the implemented payments from Point 4.3.2 in the COGNOS system. Data on implemented payments has not been published on the NLB intranet site yet.

Recommendation no. 4.5: The Bank does not publish the text of collective agreements on its website because the two applicable collective agreements are available on the website of the NLB Trade Union representing the Bank's employees. NLB does not publish the binding collective agreements or agreements with the workers' representatives for the subsidiaries.

Recommendations no. 5.1 to 5.4: Due to the activity of refreshing the business and IT/digital strategy, the self-assessment using the recognised European excellence model was not yet carried out. With the aim of improving the quality, the new strategy introduces the new initiatives in the area of lean organisation and processes. The Bank first started introducing process ownership and achievement of the KPI objectives in the sense of optimisation and quality improvement.

There are dozens of projects in the bank; one of them is the introduction of E2E ownership of processes and the maturity pf processes. On the basis of the analysis, the project and phase 2 will be carried out on the basis of i.e. 'Lean process optimization'. The first 5 to 7 processes will be selected, and later on, all of them will be renewed.

Recommendation no. 6.2: In recent years, General Meetings have been convened in agreement with SSH.

Recommendation no. 6.3: At the moment, only the convocation is published on the Bank's website, while the grounds of proposals are sent to the shareholder first by e-mail, and also by a courier. Such a specific method of informing the shareholder is possible because SSH is the sole shareholder.

Recommendation no. 6.4: If the sole shareholder had any questions, NLB would not publish them, but the management would provide answers at the General Meeting.

Recommendation no. 6.6: NLB obtained a counterproposal at the April General Meeting, but it was received on the day of the meeting and it was, therefore not published.

3. MAIN FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO FINANCIAL REPORTING

NLB is governed by the ZGD-1 and the ZBan-2 regulating, among other, the Bank's obligation to set up and maintain appropriate internal control and risk management systems. Concerning this subject, the BoS as the supervising authority of banks issues specific regulations by which the NLB abides as applicable. The Bank also complies with the commitments made to the EC, in accordance with the Commission Decision of 18/12/2013 on state aid SA.33229(2012/C) – NLB Restructuring – Slovenia and amendment to the restructuring decision of NLB dated 11/05/2017.

Due to the above, the NLB maintains a steady and reliable corporate governance system encompassing the following:

- Well-defined organization with clear-cut, transparent, and consistent internal relations in the area of responsibility on the level of NLB and the Group.
- Efficient and comprehensive risk management process, including procedures to determine, measure or assess, control, and manage risks to which the Group is exposed or could be exposed in its operations.
- Immediate action of the competent departments towards eliminating any established irregularities.
- An appropriate system of internal controls comprising exact accounting procedures (reporting, work procedures, responsibilities, and automatic and manual controls in all stages of the accounting process).

The risk management function represents an important part of overall management and governance system in the Group. The Group pays great attention and importance to the risk culture, and awareness of all relevant risks within the entire Group. The key goal of Risk Management is to manage, assess, and monitor risks within the Group in line with the Group's Risk Appetite and Risk Strategy, which are its fundamental risk management documents. A Robust Risk Management framework is comprehensively integrated into decision-making, steering and mitigation processes within the Group in order to proactively support its business operations. Nevertheless, the Group is constantly enhancing its risk management system.

NLB is, as a systemic bank, involved in the SSM, under the supervision of the ECB and its Joint Supervisory Team, and the BoS. Group-wide ECB and other relevant regulatory requirements are followed by all Group members, whereby the Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators. Across the Group, assessments are made and risks managed in the Group uniform manner, taking into account the specifics of the markets in which individual Group members are operating in line with the Group's risk management standards.

The Group plans a prudent risk appetite and optimally profitable operations in the long run, including fulfillment of all the regulatory requirements. The key strategic risk documents and other risk policies of the Group are approved by the Management Board and the Supervisory Board of NLB. The Group regularly monitors its Target Risk Appetite profile, representing the key component of risk mitigation process. The Risk profile enables detailed monitoring and proactive management, where the limits usage and potential deviations are regularly reported to the respective committees and/or the Management Board of the Bank, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank.

Additionally, the Group has set up early warning systems in different risk areas with the intention to strengthen the existing internal controls and timely responding when necessary.

In accordance with the two-tier governance system, the Bank's Supervisory Board, among other issues, approves organisation of the internal control system and the 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). It also supervises the work of the Internal Audit. At the level of the Supervisory Board, the Audit Committee monitors and prepares resolutions for the Supervisory Board.

In accordance with the law, NLB also has a special internal audit department, which conducts audits, issues recommendations, and draws up reports in line with its authorisations, in addition to reporting to the General Meeting of Shareholders about its work. The Internal Audit monitors the decision-making process in all segments of the the Group, examines the key risks to which the Bank is exposed, advises management at all levels, and enables a deeper understanding of the Bank's operations. In addition, it provides independent and impartial assurances as to the management of key risks, corporate governance of the Bank, and functioning of internal controls, thus strengthening and protecting the Bank's values. The Internal Audit is responsible for systematic and professional assessment of the efficiency of the risk management procedures, completeness, and functionality of the internal control systems. It provides assurances to the Management and Supervisory Boards that the risks in the key areas of the Bank, i.e. risk management, lending, restructuring, NPLs, IT, and IT security, divestment of non-core activities, compliance, corporate governance, and other areas, are managed appropriately.

NLB pays special attention to the system of internal controls and risk management in the the Group, and continuously upgrades the internal control system in the Group in line with the Corporate Governance Policy of the Group. Corporate governance of the Group is presented in the chapter NLB Corporate Governance, subchapter Corporate Governance of the Group. The risk profile of the Group in conjunction with the business strategy is presented under the Risk Management section in the financial report of the Annual Report.

3.1. Financial reporting

With the aim of ensuring appropriate financial reporting procedures, NLB pursues the adopted Policy on Accounting Controls. The accounting controls are provided through the operation of the complete accounting function with the purpose of ensuring quality and reliable accounting information, and thereby accurate and timely financial reporting. The principal identified risks in this area are managed with an appropriate system of authorisations, a segregation of duties, compliance with accounting rules, documenting of all business events, a custody system, posting on the day of a business event, in-built control mechanisms in source applications, and archiving pursuant to the laws and internal regulations. Furthermore, the policy precisely defines primary accounting controls, performed in the scope of analytical bookkeeping, and secondary accounting controls, i.e. checking the efficiency of implementation of primary accounting controls. With an efficient mechanism of controls in the area of accounting reporting, NLB ensures:

- A reliable decision-making and operation support system.
- Accurate, complete, and timely accounting data and the resulting accounting and other reports of the Bank.
- Compliance with legal and other requirements.

4. INFORMATION ON POINT 4, PARAGRAPH 5, OF THE ARTICLE 70 OF THE ZGD-1 regarding points 3, 4, 6, 8, and 9 of the paragraph 6 of the same article

Explanation regarding significant direct and indirect ownership of the company's securities in the sense of achieving a qualified stake as determined by the act regulating acquisitions (Point 3 of the sixth paragraph of Article 70 of the ZGD-1)

As of 31 December 2017, NLB's share capital totaled EUR 200 million and was divided into 20 million no-par value shares. NLB has issued only one class of shares, which are all freely transferable and bear the same rights. The rights of holders of ordinary shares are set out in the relevant legislation. The RoS has been a 100% shareholder of NLB since 18 December 2013.

Explanation regarding the holders of securities that carry special control rights (Point 4 of the sixth paragraph of Article 70 of the ZGD-1)

No special controlling rights are attached to NLB shares.

Explanation regarding restrictions related to voting rights, in particular: (i) restrictions of voting rights to a certain stake or certain number of votes, (ii) deadlines for executing voting rights, and (iii) agreements in which, on the basis of the company's cooperation, the financial rights arising from securities are separated from the rights of ownership of such securities (Point 6 of the sixth paragraph of Article 70 of the ZGD-1)

In accordance with Article 5.a of the NLB's Articles of Association (dated 7 April 2017), any transfer of the Bank's shares with which the acquirer together with the shares held prior to such an acquisition and the shares held by third parties on behalf of such acquirer exceeds 25% of the voting shares, shall require the

Bank's authorisation. The authorisation to transfer the shares shall be granted by the Supervisory Board.

The bank may refuse to grant authorisation to transfer shares, if the acquirer together with its shares held prior to the acquisition and the shares held by third parties on behalf of such an acquirer exceeds 25% of the Bank's voting shares plus one share.

Notwithstanding the provision above, the authorisation to transfer shares shall not be required if the acquirer acquires the shares on behalf of third parties, and as such it is not authorised to exercise their voting rights at its own discretion, while committing to the Bank that it shall not exercise the voting rights attached to these shares as instructed by a relevant third party on behalf of which these shares are held, if the acquirer fails to receive from this party, together with instructions, a written undertaking stipulating that this party holds the shares for its own account and that at the same time it does not, directly or indirectly, hold more than 25% of the Bank's voting shares.

Without having applied for authorisation to transfer shares, or without having received the Bank's authorisation, the acquirer that exceeds 25% of the Bank's voting shares shall be able to exercise the voting rights of 25% of its voting shares.

Explanation regarding the (i) company's rules on appointment or replacement of members of the management of supervisory bodies, and (ii) changes to company's Articles of Association (Point 8 of the sixth paragraph of Article 70 of the ZGD-1)

Management Board
In accordance with NLB's Articles of Association, the Supervisory Board appoints and recalls the President and other members of the Management Board. The President of the Management Board may appoint one of the members of the Management Board as his/her Deputy subject to a prior approval of the Supervisory Board.

The President and other members of the Management Board of the Bank shall be appointed for a period of five years, and may be re-appointed for another term of office.

The President and members of the Management Board of the Bank may be recalled prior to the expiry of their term of office in accordance with applicable laws and NLB's Articles of Association.

Each member of the Management Board of the Bank may prematurely resign her/his term of office with a period of notice of three months.

Supervisory Board
The Supervisory Board members are elected by the Shareholders' Meeting for a period of four years, in accordance with NLB's Articles of Association. The Supervisory Board of the Bank shall, at its first meeting after the appointment, elect from among its members a Chair and at least one Deputy Chair of the Supervisory Board of the Bank.

Membership of the Supervisory Board members shall be terminated after the expiry of their terms of office or based on a resolution on removal adopted by the Shareholders Meeting. Supervisory Board members may resign at any time with a period of notice of three months.

Changes to the company's Articles of Association
In accordance with provisions of the ZGD-1 and Article 18 of the NLB's Articles of Association, a qualified majority of at least 75% of the votes cast by shareholders is required for adoption and any amendments to the Bank's Articles of Association.

Explanation regarding the authorisation of the members of the management, particularly authorisations to issue or purchase own shares (Point 9 of the sixth paragraph of Article 70 of the ZGD-1)

According to the ZGD-1, authorisation by the General Meeting for the purchase of bank's own shares has not been adopted.

5. INFORMATION ON THE WORK AND KEY POWERS OF THE SHAREHOLDERS' MEETING AND OF ITS KEY POWERS, AND A DESCRIPTION OF SHAREHOLDERS' RIGHTS AND THE METHOD OF THEIR EXERCISING

The General Meeting has the powers as laid down by the applicable legislation. The General Meeting of the bank also adopts resolutions on all other matters brought within its powers by applicable regulations and the banks' Articles of Association.

The General Meeting is convened by the Management Board. The General Meeting may be convened by the Supervisory Board, in particular in cases where the Management Board fails to convene the General Meeting, or where when a convocation is necessary to ensure unhindered operations of the Bank. The Supervisory Board may amend the agenda of the General Meeting convened in line with the bylaws.

As a rule, the General Meeting of the Bank shall be convened at the registered office of the bank, yet it may also be convened at another venue specified by the convenor.

The Shareholders' Meeting shall adopt resolutions by simple majority of the votes cast, unless the applicable laws or the Bank's Articles of Association stipulate a larger majority or other conditions.

6. INFORMATION ABOUT THE COMPOSITION AND WORK OF THE MANAGEMENT AND SUPERVISORY BODIES AND THEIR COMMITTEES

A detailed description of the composition of the Management and Supervisory Bodies and their committees is in Appendices C.1 and C.2 of the Corporate Governance Code for Listed Companies (see Tables 20 and 21) of this statement.

The Supervisory Board

The Supervisory Board shall perform its tasks in accordance with the provisions of the applicable legislation governing the operations of banks and companies, the Bank's Articles of Association, and its Rules of Procedure. The Supervisory Board may engage legal and other consultants and institutions required by itself or its committees to perform their tasks.

The Supervisory Board shall give its consent to decisions of the Management Board in cases required by the law and, additionally, in cases, set out in Article 24 of the Bank's Articles of Association. As a rule, the Management Board shall obtain consent from the Supervisory Board before adopting mentioned decisions, or before performing certain transactions or acts requiring consent under current legislation or resolutions of the Supervisory Board.

The Supervisory Board shall elect from among its members a Chair and at least one Deputy Chair who shall in the event the Chair is absent hold all his/hers powers. The Chair or Deputy Chair of the Supervisory Board may resign from his/her function; however, his/her membership on the Supervisory Board shall not terminate as a result.

Management Board

The Management Board is the decision-making and representation body of the Bank. It manages the company, makes business decisions autonomously and independently, adopts the development strategy, ensures sound and effective risk management, acts with the highest professional integrity, protects business secrets and is held accountable for the legality of the bank's operations within the limits set by the relevant regulations.

In accordance with the Articles of Association of the NLB, the Management Board consists of three to six members, one of whom is appointed President of the Management Board of the Bank.

The President and other members of the Management Board of the Bank shall be appointed and recalled by the Supervisory Board of the Bank; the President of the Management Board of the Bank may propose to the Chair of the Supervisory Board of the Bank to appoint or recall an individual member or the remaining members of the Management Board of the Bank.

The President and members of the Management Board of the Bank shall be appointed for a period of five years and may be re-appointed for another term of office. The president and members of the Management Board of the Bank may be recalled prior to the expiry of their term of office in accordance with applicable laws and these Articles of Association.

Each member of the Management Board of the Bank may prematurely resign her/his term of office with a period of notice of three months.

A member of the Bank's Management Board may only be a person who fulfils the legally prescribed conditions for a Management Board member under the law on banking, and who has obtained a licence from the BoS or the ECB, in accordance with Articles of Association.

Resolutions within the scope of powers of the Management Board shall be adopted by the members of the Management Board of the Bank as a rule unanimously, or, failing that, unless otherwise provided in Articles of Association, with a majority of the votes cast. In the case of a tie, the President of the Management Board of the Bank shall cast the decisive vote. The Bank shall be represented by two members of the Management Board jointly.

More detailed provisions on the method of work of the Management are set out by the Rules of procedure governing the work of the Management Board adopted by the Supervisory Board of the Bank.

The Supervisory Board Committees

All four working Committees for the Supervisory Board (the Strategy and Development Committee was not operational in 2017) function as consulting bodies of the Supervisory Board of NLB, and discuss the material and proposals of Management Board of NLB for the Supervisory Board meetings related to a particular area.

All four Committees are composed of at least three members of the Supervisory Board. The Chair of the Committee may only be appointed from among the members of the Supervisory Board.

The Chair, Deputy Chair, and members of the Committee are appointed by a resolution of the Supervisory Board. The term of office of the Chair, the Deputy Chair, and the members of the Committee should not exceed their term of office as Supervisory Board members. The Supervisory Board may terminate the appointment of the chair, deputy chair, or a member of the Committee early without giving a reason.

The Audit Committee of the Supervisory Board of NLB

Composition of the Audit Committee of the Supervisory Board of NLB in 2017 is described in detail in the Appendix C.2 of the Corporate Governance Code for Listed Companies (see Table 21).

The Audit Committee's tasks are defined by law, the Bank's Articles of Association, Rules of Procedure of the Audit Committee of the Supervisory Board of NLB (Version 6, April 2016), resolutions of the Supervisory Board and other regulations, from which the Committee especially monitors and prepares proposals of resolutions for the Supervisory Board for the area:

- Financial reporting,
- Internal control and risk management,
- Internal audit,
- Compliance of operations,
- External audit.

The Risk Committee of the Supervisory Board of NLB
Composition of the Risk Committee of the Supervisory Board of NLB in 2017 is described in detail in the Appendix C.2 of the Corporate Governance Code for Listed Companies (see Table 21).

According to Rules of Procedure of the Risk Committee of the Supervisory Board of NLB (Version 6, April 2016) the Committee shall monitors and prepares draft resolutions for the Supervisory Board for all risk segments relevant for the Bank's business, in particular:

- Advice on the Bank's general present and future risk appetite and on the risk management strategy.
- Assists in the supervision over the senior management regarding the implementation of the risk management strategy.
- Without interfering with the duties of the Remuneration Committee, check whether the stimulations provided by the remuneration system take into account the risk, capital, liquidity and probability, and schedule of the bank's revenues, in order to design prudential remuneration policies and practices.
- Check whether the prices of the Bank's products are fully compatible with the business model and risk management strategy of the Bank and, in case of identified discrepancies, prepare a proposal for the measures for their elimination and submit it to the bank's Management and Supervisory Boards.

The Nomination Committee of the Supervisory Board of NLB
Composition of the Nomination Committee of the Supervisory Board of NLB in 2017 is described in detail in the Appendix C.2 of the Corporate Governance Code for Listed Companies (see Table 21).

According to Rules of Procedure of the Nomination Committee of the Supervisory Board of NLB (Version 6, April 2016) the Committee has the duty to:

- Identify and recommend to the Supervisory Board the candidates for the members of the Management Board and identify and recommend to the Bank's General Meeting the candidates for members of the Supervisory Board, taking into account the policies on the selection of suitable candidates.
- Identify and recommend to the Supervisory Board the dismissal of the members of the Management and the Supervisory Boards.
- Determine the duties and the required conditions for certain appointment, including the assessment of the time expectedly required for the performance of the function.
- Lay down the method of searching for and selecting candidates for the President and the Members of the Management Board.
- Determine the profile of the new candidates for a member of the Supervisory Board and compile a list of suitable candidates for members of the Supervisory Board.
- Draft the contents of service contracts made with the President and members of the Management Board.
- Define the goal of representation by gender in the Management and Supervisory Boards, prepare the policy on how to increase the number of representatives of the gender not sufficiently represented on the Management and Supervisory Boards.
- At least once annually, assess the structure, size, composition, and performance of the Management and Supervisory Boards, and prepare reports in relation to any changes.
- At least once annually, assess the knowledge, skills, and experience of individual members of the Management and Supervisory Boards, and of the board as a whole, and accordingly report to the Supervisory and Management Boards.
- Regularly review the Management Board's policy on the selection and appointment of suitable candidates for the senior management of the Bank and prepare reports on potential amendments.
- Actively contributes to the fulfilment of the Bank's responsibility to adopt adequate policies on the assessment of suitability of the members of the Management and Supervisory Board of the Bank.

The Remuneration Committee of the Supervisory Board of NLB
Composition of the Remuneration Committee of the Supervisory Board of NLB in 2017 is described in detail in the Appendix C.2 of the Corporate Governance Code for Listed Companies (see Table 21).

According to Rules of Procedure of the Remuneration Committee of the Supervisory Board of NLB (Version 6, April 2016) the Committee is, among other, responsible for the following as regards remuneration policies:

- Preparing proposals of general principles of remuneration policies, including the formulating of opinions on individual aspects of remuneration policies.

- Assessing the adequacy of established methodologies, based on which the remuneration system promotes adequate risk, capital, and liquidity management.
- Preparing recommendations for the Supervisory Board on implementation of remuneration policies.
- Preparing draft decisions about remuneration of employees, including those affecting the Bank's risks and their management.
- Assessing the appropriateness of the outsourced adviser whose services the Supervisory Board commissioned to determine the remuneration policy of the Bank.
- Examining the adequacy of general principles of the remuneration policies and their implementation.
- Examining the compliance of remuneration policies with the business policy of the Bank over a long period.
- Direct supervision over remuneration of the categories of employees performing special work within the internal control system and other control functions.

7. DESCRIPTION OF DIVERSITY POLICY

Supervisory Board

Policy on the provision of diversity of the Supervisory Board was adopted on 27th General Meeting of Shareholders on 4 August 2016. By the mentioned policy, NLB acting in accordance with Article 34 of the ZBan-2, sets up a framework enabling and promoting a composition of the Supervisory Board of the Bank resulting in the latter having collectively the appropriate knowledge, skills, and experience deemed necessary for in-depth understanding of the Bank's activities and the risks to which it is exposed and for realising the goals of its strategy.

The goal of the diversity policy is aimed at selection of Supervisory Board members who primarily meet the highest ethical and professional standards, and profess the highest level of diligence while collectively constituting the most appropriate group in terms of diversity. With due consideration of this Policy, the Supervisory Board should be composed of individuals having diverse knowledge and experience so that the Supervisory Board as a whole shall possess an appropriate range of knowledge, skills, and experience by its members, which is necessary with regard to the Bank's size, complexity, and risk profile. The policy also promotes achieving variety in the composition of the Supervisory Board, including an appropriate target representation of both genders in its membership. A diverse composition of the Supervisory Board is hereby recognised as a key business advantage of the Bank.

As described in detail in the chapter Corporate Governance, at the General Meeting dated 8 September 2017, three new members to the Supervisory Board were elected. In accordance with the aforementioned policy two members were females. On 31 December 2017 the Supervisory Board was composed of: Primož Karpe - Chairman; Andreas Klingen - Deputy Chairman; and the following members: Alexander Bayr, David Eric Simon, László Urbán, Vida Šeme Hočevar, Simona Kozjek and Peter Groznik (members).

Management Board

The policy for selecting suitable candidates for the member of the Bank's Management Board was adopted by the Supervisory Board of the NLB on 28 August 2015. Pursuant to the Article 34 of the ZBan-2, with the mentioned policy the Supervisory Board lays down the framework enabling that the Management Board of the Bank as a whole shall possess an appropriate range of knowledge, skills, and experience of its members. The policy sets out professional criteria of selection and expertly managed procedures of candidate selection enabling the Supervisory Board to lay the grounds for selection and perform due diligence in accordance with the highest ethical standards and care in the selection of Management Board members.

The goal of above mentioned policy is to ensure that the Bank's Management Board is composed of individuals having a balanced range of skills, knowledge, and experience who will possess appropriate qualifications as a team considering the size, complexity, and risk profile of the Bank. Expertly managed processes are not only in the Bank's interest, but also in the interest of the selected candidates because they dispel doubt about their expertise and references, and whether they were the right choice. The Policy also promotes achieving variety in the composition of the Management Board, including an appropriate target representation of both genders in its membership.

The Supervisory and Management Boards as a whole have a broad range of knowledge, skills, and experience from Slovenian and international banking environments, and the recommendation for the representation of both genders in governing bodies is taken into account, as well.

No changes in the composition of the Management Board were made in 2017. On 31 December 2017 the Management Board of the Bank was composed of Blaž Brodnjak, President, CEO and CMO; Archibald Kremser, CFO; Andreas Burkhardt, CRO; and László Pelle, COO.

8. CORPORATE INTEGRITY

In accordance with the provisions of recommendation no. 3.4.1 of the Corporate Governance Code for Companies with a State Capital Investment, NLB included a description of the company's corporate integrity in the Corporate Governance Statement.

Following the Slovenian corporate integrity guidelines from January 2014, the Bank continued with enhancing its compliance and integrity program. In 2017, we implemented the system of identifying, monitoring, and assessing the compliance and integrity risks within the NLB and the Group. We implemented the new Compliance and Integrity Policy within NLB and the core banking members of the Group, adopted the new NLB Group Code of Conduct, which applies to the Group. This is also available in e-book format, which is also publicly available. We also successfully implemented the Enterprise Compliance Risk Assessment within the Group core banking members, and renewed the policies in the area of managing conflicts of interests and preventing corruption. We held several live and e-trainings addressing the compliance and integrity area, and risks within the Bank and with representatives from the Group members (through dedicated Business Line Compliance and Integrity), and also organised several activities to contribute to further raising of risk awareness within NLB and the Group. Therefore, the NLB can identify itself with all statements in the preamble and can adopt the general commitment about the corporate integrity and zero tolerance to illegal and non-ethical conduct by appropriately handling the perceived violations, and taking the necessary measures.

In the framework of the preventive and development pillar of the compliance function, we consolidated the: (i) management of regulatory compliance, (ii) the procedure of preventive reviews of processes, (iii) continued with yearly reassessment of the general assessment of integrity and compliance risk system (SOTIS), (iv) implemented the SOTIS methodology within the core banking members of the Group, and for the third year organised (v) the survey of compliance and ethics. We continued with the activities of investigations and other preventive activities in the fraud management area, information and personal data protection, and money laundering and terrorist financing prevention.

The Bank compiles an annual self-assessment of corporate integrity, which contains a comparison, a progress report, and a description of the current situation.

This Corporate Governance Statement of the NLB is publicly available also on NLB's webpage: https://www.nlb.si/corporate-governance.

Ljubljana, 13 April 2018

The Supervisory Board

Primož Karpe
Chairman of the Supervisory Board

The Management Board

László Pelle
Member of the Management Board

Archibald Kremser
Member of the Management Board

Andreas Burkhardt
Member of the Management Board

Blaž Brodnjak
President & CEO

Table 20: Composition of Management in financial year 2017 (C.1)

Name and Surname	Position held (president, member)	Area of work covered within the Management Board	First appointment to the position	Conclusion of the position /term of office	Citizenship	Year of birth	Qualification	Professional profile	Membership in supervisory bodies in companies not related to the company
Blaž Brodnjak	President	CEO	6 July 2016	5 July 2021	Slovene	1974	MBA	Banking / Finance	Banks' Association of Slovenia (from 1 November 2017)
Andreas P. Burkhardt	Member	CRO	13 September 2013	5 July 2021	Germany	1971	MBA	Banking / Finance	
Archibald Kremser	Member	CFO	31 July 2013	5 July 2021	Austrian	1971	MBA	Banking / Finance	
László Pelle	Member	COO	26 October 2016	26 October 2021	Hungary	1966	MSc	Banking Operations and IT Management	

Table 21: Composition of Supervisory Board and Committees in financial year 2017 (C.2)

Name and Surname	Position held (president, deputy, member)	First appointment to the position	Conclusion of the position/ term of office	Representative of the company's capital structure / employees	Attendance at SB session in regard to the total number of SB session (for example 5/7) applicable on his/her mandate	Gender
David Kastelic	Member	4 August 2016	8 September 2017	No	5/6	male
Sergeja Slapničar	Deputy President	11 June 2013	20 March 2017	No	2/6	female
Uroš Ivanc	Member	11 June 2013	7 April 2017	No	2/6	male
Matjaž Titan	Member	4 August 2016	21 April 2017	No	3/6	male
Primož Karpe	President	10 February 2016	2020	No	6/6	male
Andreas Klingen	Deputy President (from 7 Aprli 2017)	22 June 2015	2019	No	5/6	male
Alexander Bayr	Member	4 August 2016	2020	No	6/6	male
David E. Simon	Member	4 August 2016	2020	No	6/6	male
László Urbán	Member	10 February 2016	2020	No	6/6	male
Vida Šeme Hočevar	Member	8 September 2017	2021	No	1/6	female
Simona Kozjek	Member	8 September 2017	2021	No	1/6	female
Peter Groznik	Member	8 September 2017	2021	No	1/6	male

Citizenship	Year of birth	Qualification	Professional profile	Independence under Article 23 of the Code (YES/NO)	Existence of conflict of interest, in the business year (YES/NO)	Membership in supervisory bodies in other companies or institutions
Slovene	1966	University Degree	Finance / Insurance	YES	YES	Jedrski pool
Slovene	1971	PhD	Banking / Finance	YES	YES	
Slovene	1975	MSc	Finance / Insurance	YES	YES	Adriatic Fund B.V., Amsterdam, Netherlands
Slovene	1980	University Degree	Legal	YES	NO	
Slovene	1970	MSc	Banking / Finance	YES	NO	
Germany	1964	MBA	Banking / Finance	YES	YES	Kyrgyz Investment and Credit Bank, Credit Bank of Moscow, Komercialna banka Beograd a.d., Banks in Central and Eastern Europe and Russia
Austrian	1960	University Degree	Banking / Finance	YES	NO	WKBG Bank, Vienna
Britisch	1948	University Degree	Banking / Finance	YES	NO	Jihlavan a.s., Central Europe Industry Partners a.s.
Hungary	1959	PhD	Banking / Finance	YES	NO	
Slovene	1967	PhD	Finance / Insurance	YES	YES	
Slovene	1975	MSc	Finance / Insurance	YES	YES	Triglav Skladi, Ljubljana
Slovene	1971	PhD	Finance, industry, investment banking	YES	NO	

Name and Surname	Membership in committees (audit, nominal, income committee , etc.)	First appointment to the position	Conclusion of the position/ term of office	President /Member	Attendance at sessions of SB's Committees in regard to the total number of SB's session (for example 5/7) applicable on his/ her mandate
Uroš Ivanc	Remuneration Committee	26 August 2016	7 April 2017	President	3/4
Matjaž Titan	Remuneration Committee	26 August 2016	21 April 2017	Deputy President	3/4
David Kastelic	Remuneration Committee	26 August 2016	8 September 2017	Member	3/4
David E. Simon	Remuneration Committee	26 August 2016	5 October 2017	Member	3/4
Vida Šeme Hočevar	Remuneration Committee	6 October 2017	2021	President	1/4
Simona Kozjek	Remuneration Committee	6 October 2017	2021	Deputy President	1/4
Primož Karpe	Remuneration Committee	15 April 2017	2020	Member	1/4
László Urbán	Remuneration Committee	6 October 2017	2020	Member	1/4
Primož Karpe	Nominaton Committee	15 April 2016		President	5/5
David Kastelic	Nominaton Committee	26 August 2016	8 September 2017	Deputy President	4/5
Matjaž Titan	Nominaton Committee	26 August 2016	21 April 2017	Member	3/5
Andreas Klingen	Nominaton Committee	19 February 2016		Member/ Deputy President (from 6 October 2017)	4/5
Alexander Bayr	Nominaton Committee	6 October 2017		Member	1/5
Vida Šeme Hočevar	Nominaton Committee	6 October 2017		Member	1/5
Peter Groznik	Nominaton Committee	6 October 2017		Member	1/5
David E. Simon	Audit Committee	7 April 2017		President	3/5
Uroš Ivanc	Audit Committee	25 June 2013	7 April 2017	Deputy President (from 4 March 2016)	2/5
Sergeja Slapničar	Audit Committee	25 June 2013	20 March 2017	President	1/5
Alexander Bayr	Audit Committee	26 August 2016		Deputy President	5/5
Primož Karpe	Audit Committee	19 February 2016		Member	4/5
Vida Šeme Hočevar	Audit Committee	6 October 2017		Member	1/5
Uroš Ivanc	Risk Committee	25 June 2013	7 April 2017	President	0/5
Andreas Klingen	Risk Committee	19 February 2016		President	4/5
László Urbán	Risk Committee	26 August 2016		Member /Deputy President (from 6 October 2017)	5/5
Alexander Bayr	Risk Committee	7 April 2017	5 October 2017	Member	2/5
Simona Kozjek	Risk Committee	6 October 2017		Member	1/5
Peter Groznik	Risk Committee	6 October 2017		Member	1/5
David E. Simon	Risk Committee	26 August 2016		Member	5/5

External member in committees (audit, nominal, income committee , etc.) - The Banking Act (ZBan-2) that came into effect on 13 May 2015 contains provision stipulating that, irrespective of provision of Companies Act (ZGD-1) only members of the Supervisory Board can be appointed to Supervisory committees.

Name and Surname	Attendance at sessions of SB's Committees in regard to the total number of SB's session (for example 5/7)	Gender	Qualification	Year of birth	Professional profile	Membership in supervisory bodies in companies not related to the company
none						

Table 22: Composition and amount of remuneration[1] of the Management Board members in the financial year 2017 (C.3)

Name and Surname	Position held (president, member)	Fixed income -gross (1)	Variable income - gross: on the basis of quantity criteria	on the basis of quality criteria	Total (2)	Deferred income (3)	Severance pay (4)	Bonuses (5)	Draw-back (6)	Total gross (1+2+3+4+5-6)	Total net
Blaž Brodnjak	president	140,564.64			20,446.57	0.00	0.00	2,349.19	0.00	163,360.40	76,386.25
Archibald Kremser	member	140,564.64			20,446.57	0.00	0.00	18,753.31	0.00	179,764.52	71,131.06
Andreas P. Burkhardt	member	140,564.64			20,446.57	0.00	0.00	20,372.25	0.00	181,383.46	70,132.01
László Pelle	member	140,564.64			2,035.56	0.00	0.00	29,379.39	0.00	171,979.59	53,366.66

1. This table does not include other benefits and cost refunds.

Table 23: Composition and amount of remuneration of members of the Supervisory Board and committee members in the financial year 2017 (in EUR) (C.4)

Name and Surname	Position held (president deputy, member, external member of a Committee)	Payment for the performance of services - gross per year (1)	Attendance fees for SB and committees - gross per year (2)	Total gross (1+2)	Total net[1]	Travel expenses
Primož Karpe	President	37,661.29	6,270.00	43,931.29	43,931.29	5,795.50
László Urbán	Member	21,149.19	5,610.00	26,759.19	17,501.79	6,276.11
Uroš Ivanc	Member	7,072.92	2,310.00	9,382.92	6,824.17	44.00
Sergeja Slapničar	Member	6,116.94	1,430.00	7,546.94	5,488.89	345.11
Andreas Klingen	Deputy President	28,857.93	5,335.00	34,192.93	22,398.84	10,356.24
Alexander Bayr	Member	21,489.58	5,830.00	27,319.58	17.870.94	10,206.35
David Eric Simon	Member	27,092.07	6,490.00	33,582.07	21,996.40	16,916.09
Matjaž Titan	Member	6,937.50	2,805.00	9,742.50	7,085.72	44.00
David Kastelic	Member	15,500.00	4,015.00	19,515.00	14,184.08	0.00
Simona Kozjek	Member	6,482.52	1,155.00	7,637.52	5,463.58	0.00
Vida Šeme Hočevar	Member	8,256.72	1,595.00	9,851.72	7,073.98	151.36
Peter Groznik	Member	6,482.52	1,375.00	7,857.52	5,623.59	90.14

1. After the prepayment of income taxes which is not taken into account in potential subsequent balancing payments of personal income taxes.

Statement of Management of Risk

NLB's Management Board and Supervisory Board provide herewith a concise statement of the risk management according to Article 17 of the Regulation on Internal Governance Arrangements, the Management body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks (Official Gazette of the RS, no. 73/2015, 49/2016 and 68/2017), and Regulation (EU) 575/2013 (date of publication 27 June 2013 and later supplements (2 August 2013, 30 November 2013, 25 January 2017)), article 435 (Risk management objectives and policies), point (e) and (f), as well as EBA Guidelines on Disclosure requirements (EBA GL/2016/11).

Risk management at NLB and in the Group is implemented in accordance with the established internal policies and procedures which take into account European banking regulations, the regulations adopted by the BoS, the current EBA guidelines, and relevant good banking practices. The Group pays great attention and importance to the risk culture and awareness of all relevant risks within the entire Group.

The risk management function represents an important part of the overall management and governance system in the Group. The Group's risk management framework is defined and organised with regard to the Group's business and risk profile, based on forward looking perspective to meet internal objectives and all external requirements. The proactive risk management and control system is based on risk strategy, which is consistent with the Group's risk appetite and business strategy, and is focused on early identification and efficient risk management. Set governance and different risk management tools enable adequate oversight of the Group's risk profile, and proactively support its business operations and its management by incorporating escalation procedures and using different mitigation measures when necessary. Nevertheless, the Group is constantly enhancing and complementing the existing methods and processes in all risk management segments.

The Group plans a prudent risk profile, optimal capital usage, and profitable operations in the long run, considering the risks assumed. The business strategy, the risk appetite, the risk strategy, and the key internal risk policies of the Group, approved by the Management Board and the Supervisory Board of NLB, specify the strategic objectives and guidelines concerning risk assumption, the approaches and methodologies of monitoring, measuring, mitigating, and managing all types of risk. Moreover, main strategic risk guidelines are integrated into the annual business plan review and budgeting process. The Group regularly monitors its target risk appetite profile, representing the key component of risk mitigation process. The risk profile enables detailed monitoring and proactive management. The usage of risk profile limits and potential deviations from limits and target values are reported regularly to the respective committees and/or the Management Board of the Bank, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank.

Additionally, the Group established a comprehensive stress testing framework and other early warning systems in different risk areas with the intention of strengthening the existing internal controls and timely responding when necessary. The robust and uniform stress testing framework includes all material types of risk and several relevant stress scenarios, according to the vulnerability of the Group's business model. It is integrated into Risk appetite, ICAAP, ILAAP, and Recovery plan to support proactive management of the Group's overall risk profile, namely the capital and liquidity position on a forward looking perspective. Additionally, other partial risk assessments are covered by sensitivity analysis based on relevant stressed risk parameters.

In accordance with the Risk Appetite Statement, the Group, as the largest Slovenian banking and financial group, intends to be a sustainably profitable banking group, predominantly working with clients in those core markets. The Group's Risk Appetite Statement is further deployed to the core subsidiaries within the Group under consideration of the approved proportionality orientations. Based on the Group's business strategy the key risks are credit risk, interest rate risk in the banking book, liquidity risk, operational risk, market risk, and other non-financial risks. Regular risk identification and their assessment is performed within ICAAP with the aim of assuring their overall control and proactive risk management.

Management of credit risk, which is the most important risk in the the Group, focuses on the taking of moderate risks – diversified credit portfolio, adequate credit portfolio quality, sustainable cost of risk, and ensuring an optimal return considering the risks assumed. The liquidity risk tolerance is low. The the Group must maintain an appropriate level of liquidity at all times to meet its short-term liabilities, even if a specific stress scenario is realised. Further, with the aim of minimising this risk, the Group pursues an appropriate structure of sources of financing. In the area of currency risk, the Group thus pursues the goals of low-to-moderate exposure. The Group's basic orientation in the management of interest rate risk is to prevent negative effects on revenues that would arise from changed market interest rates and, therefore, a low tolerance for this risk is stated. The conclusion of transactions in derivative financial instruments at NLB is primarily limited to servicing customers and hedging NLB's own positions. When assuming operational risks, the Group pursues the orientation that such risk must not significantly impact its operations and, therefore, the risk appetite for operational risks is low-to-moderate. The tolerance for all other risk types (for example, reputation risk, profitability risk, and others) is low with a focus on minimising their possible impacts on the Group's operations. These also include non-financial risks.

The main risk appetite objectives of the Group are following:

- Preservation of a prudent level of capital adequacy including regulatory requirements and capital buffers.
- Maintenance of a solid level and structure of liquidity minimising potential shortfalls.
- Customers' deposits as the main funding base.
- Adequate quality of the credit portfolio, sustainable cost of risk, ensuring sustainable, limited credit risk volatility, and limited exposure to project financing.
- Diversification of risk in exposures to banks and sovereigns.
- Limited exposure to interest rate risk in the banking book and to consolidated FX risk (from transactional risk).
- Ensuring sustainable profitability in terms of risk-return.
- Ensuring the sustainable and limited size of subsidiary banks.

The values of the most important risk appetite indicators of the Group as at the end of 2017, reflecting interconnection between strategic business goals, risk strategy, and targeted risk appetite profile, were as follows:

- CET1 15.9%,
- cost of risk < – 62 bps,
- the share of NPE by EBA 6.7%,
- LTD 70.8%,
- LCR 276%,
- NSFR 149%,
- BPV sensitivity (of 200 bps) 5.7% of capital.

Consequently, the Group concluded the year 2017 within its target risk appetite, with a strong capital and liquidity position.

The Condensed Statement of the management of risk is also published on the NLB intranet, to foster strict adherence of the Banks' employees in daily operations of the Bank, concerning the definition and importance of a consistent tendency of the adopted risks, and ways to take into account when adopting its daily business decisions.

Ljubljana, 13 April 2018

The Supervisory Board

Primož Karpe
Chairman of the
Supervisory Board

The Management Board

László Pelle
Member of the
Management Board

Archibald Kremser
Member of the
Management Board

Andreas Burkhardt
Member of the
Management Board

Blaž Brodnjak
President & CEO

Statement of the Arrangement of Internal Governance

NLB pursues internal governance, including corporate governance, according to the legislation applicable in the RoS, and also adheres to its internal acts.

NLB fully complies with the acts referred to in Article 9, paragraph two of the ZBan-2[24].

With the aim of strengthening internal governance, the Bank operates especially in compliance with:

1. The provisions of the ZBan-2 defining the internal governance arrangements, especially the provisions of Chapter 3.4 (Governance system of a bank) and Chapter 6 (Internal governance arrangements and internal capital adequacy), in the part referring to bank/savings bank or members of a management body;

2. Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks[25] and;

3. EBA Guidelines on internal governance, on the assessment of the suitability of members of the management body and key function holders and remuneration policies and practices, based on the relevant regulations of the BoS on the application of these Guidelines[26].

By signing this statement we undertake to continue with proactive activities to strengthen and promote further internal governance arrangement and corporate integrity in wider professional, financial, corporate, and other publics.

Ljubljana, 13 April 2018

The Supervisory Board

Primož Karpe
Chairman of the
Supervisory Board

The Management Board

László Pelle
Member of the
Management Board

Archibald Kremser
Member of the
Management Board

Andreas Burkhardt
Member of the
Management Board

Blaž Brodnjak
President & CEO

24. Banking Act (ZBan-2), Official Gazette of the RS, no. 25/15, 44/16, 77/16 and 41/17.

25. Regulation of the Bank of Slovenia on internal management arrangements, management body and the internal capital adequacy assessment process for banks and savings banks, Official Gazette of the RS, no. 73/15 49/16 and 68/17.

26. https://www.bsi.si/financna-stabilnost/predpisi/seznam-predpisov/ureditev-notranjega-upravljanja

Statement of Non-financial information

In line with Article 70.c of the ZGD-1[27], the Bank included its Non-financial information statement in the Corporate social responsibility report 2017 which is published separately from the 2017Annual Report of NLB Group.

27. Official Gazette of the RS, No. 65/09 – official consolidated text, 33/11, 91/11, 32/12, 57/12, 44/13 – decision of the Constitutional Court, 82/13, 55/15 and 15/17).


László Pelle
Member of the Management Board


Andreja Opec
General Manager, Corporate Banking Processing

Nina Kerčmar
General Manager, Information System Development

Mitja Učakar
General Manager, Innovation Management and Business Analysis

Dražen Bundalo
General Manager, Financial Markets Processing

Andraž Kramer
General Manager, Procurement and CREM

Alenka Korče
General Manager, Cash Processing


Sonja Kostevc
General Manager, Retail Banking Processing


Goran Golubović
General Manager, Data Management

Irena Dolinar
General Manager, Payments Processing

Pavel Car
General Manager, IT Infrastructure

Chapter 20

Corporate and Social Responsibility

The Group as a dedicated mentor and sponsor:

- **Supporting business environment.**
- **Improving financial literacy.**
- **Encouraging young people to be active.**
- **Financial support to maternity hospitals.**

The Bank has an important social responsibility mission to create solid financial results and contribute to a higher quality of life for all residents. The Bank and the Group are responsible to customers, employees, and the social environment, with the aim of becoming a dedicated mentor. Special attention is paid to knowledge and lifelong learning. The key CSR pillars in the Bank are: promoting entrepreneurship, financial literacy, supporting sports for young people, preserving art and cultural heritage, and taking good care of the Bank's employees.

Promoting Entrepreneurship

The Bank is very active in promoting entrepreneurship. The establishment of IEC in 2015 has actively contributed to the business climate and financial mentoring in Slovenia. The Bank IEC became an example of good banking practice and a meeting point in a supportive business environment. The Bank contributes and gives back to society with free renting of the Bank's empty premises to small business, and by organising of events for the public.

In 2017, the Bank IEC hosted 243 training and business events covering various business topics that were attended by 7,754 participants. The most significant projects were: the Summer School of Cultural Management, SEI Summer School of the US Embassy, Bytes of Banking, the Financial Literacy Programme for young people, and the Bank's participation in the 'Start-up' Slovenia project, a springboard for young Slovenian entrepreneurs and their business brands.

Financial Literacy Programme for a better future

By organising financial literacy events the Bank helps young people to understand finances, to achieve financial independence, and to act responsibly. Moreover, it is very important that this kind of learning begins at a young age. The Bank introduced a holistic Financial Literacy Programme for children and teenagers, for which it received the Slovenian Horus Award for Social Responsibility for 2017. The Horus Award is a part of a national awareness initiative meant to enhance the overall CSR and sustainable development.

The Financial Literacy Programme is aimed at pre-school children, elementary school students, secondary school students, university students and secondary school teachers. Experienced bankers introduce the world of finance to young people with tailor-made programmes. The programmes were attended by more than 6,000 children, students and secondary school teachers.

A similar initiative was introduced in NLB Banka Podgorica, which complemented donations for school equipment by educating young people on the path toward financial independence.

Taking Good Care of Employees

The 'Healthy Bank' Project was established years ago to promote health awareness and encourage a healthy lifestyle among employees. Its emphasis is on prevention, identification of potential disease symptoms, and lifestyle changes.

The Bank offers employees a wide range of educational programmes, and is committed to high quality standards as an ever-learning organisation.

The Bank was awarded a full 'Family-Friendly Company' Certificate for the third straight year. The Bank also ensures that its employees can improve work-family balance by offering its employees a number of benefits.

Additional information on these topics is available in the chapter on Human Resources.

Supporting professional athletes and encouraging sports for young people

The Bank continues to support top Slovenian athletes, who are the greatest ambassadors for Slovenia. As a Golden Sponsor of the Slovenian Alpine Ski Team for the twentieth year now, the Bank was their reliable supporter and enabled success stories like skiing World Champion Ilka Štuhec's. In the past four years, the Bank provided sponsorships to other important sport federations. In 2017, the Bank became a sponsor of Slovenian Football Team and the official sponsor of the Handball Federation of Slovenia. The Bank has also supported the Table Tennis Association of Slovenia and Sailing Association of Slovenia for several years.

The Bank's long-lasting support of sports, with a great emphasis on sports for young people, expanded in 2017 with the initiative 'NLB Sports for Young People' promoting responsible sports education of young people at the regional level. The Bank financially supported 35 sport clubs for young athletes in various disciplines and regions in Slovenia. In the 'NLB Sports for Young People' project, the Bank sponsored 13 sports in 26 different municipalities, including: handball, football, volleyball, basketball, ice hockey, alpine skiing, ski jumping, alpinism, swimming, badminton, dancing, karate, and rafting.

With the cooperation of local sport clubs, the Bank makes sure that it works well with local communities. This initiative supports the idea of fair play education, promotes responsible behaviour, and emphasises the importance of working out in general. The programme was also established to connect various local communities in Slovenia and increase the number of people taking up sports, as well as to promote socially responsible practices.

The subsidiary banks joined this initiative. NLB Banka Sarajevo collected funds for the project 'Children and Sports' as a partner in the 'Federal League – Mikasa NLB Banka – Sloboda' project.

Humanitarian projects

The Bank takes special pride in supporting a traditionally high number of humanitarian projects in cooperation with customers and employees.

In 2017, the Bank continued with the project 'With small steps, we will change the world for the better'. With the help of the Bank customers, all seven Slovenian maternity hospitals received funds to purchase urgently needed medical equipment, or to renovate their delivery rooms. By connecting the clients with the humanitarian aspect, the Bank made a donation for each housing loan sold in June, which amounted to EUR 67,095 in total. The Bank also donated EUR 20,000 to the Help Centre for small children with cancer in Slovenia and the project 'First Steps'.

The Bank employees helped by taking phone calls in the NLB Call Centre for the Red Cross campaigns 'Let's take them to the sea' and 'It's nice to share'.

The Bank is proud of its employees who have taken part in socially responsible activities, such as overhauling the external and internal premises of local sports facilities and making a garden for children in Moravske Toplice. The participants of the NLB Leadership meeting also bought and decorated New Year's gifts for unprivileged children in Macedonia.

In the 'NLB Sports for Young People' project, the Bank sponsored 13 sports in 26 different municipalities: handball, football, volleyball, basketball, ice hockey, alpine skiing, ski jumping, alpinism, swimming, badminton, dancing, karate, and rafting.

By organising such events, the Bank helps young people understand the financial world, become financially independent, and act in a responsible manner.

The subsidiary banks have joined an integrated project to support children's health care with similar projects as well. The most prominent were:

- NLB Banka Sarajevo made a donation to the Family Home for children with cancer in Tuzla, and a donation to the University Pediatric Medical Centre in Tuzla.
- NLB Banka Beograd donated medical equipment to the maternity hospital in Kruševac.
- NLB Banka Prishtina carried out a fundraising project 'Care for Kosovo Kids' for children with cancer, which was supported by EBRD's Community Initiative. They also donated funds to the Pediatric and Gynecology Clinics in Prishtina.
- NLB Banka Banja Luka made a donation to Gynecology University Clinical Centre. The Bank also raised funds for medical equipment for the Pediatric Clinics for the 'Crumbs' Association for parents with premature children.
- NLB Banka Podgorica joined the campaign 'With small steps, we will change the world for the better' with a donation for Maternity Hospitals in Podgorica.

Art and Cultural Heritage

In 2017, four well-visited exhibitions were organised and displayed in the NLB Avla Gallery (Gallery). At the 50th anniversary of the author's death, a Retrospective of Photos by Božo Štajer was organised. In cooperation with the Higher Vocational College in Sežana and the Vilenica International Literary Festival, a Threads of Vilenica exhibition was shown in the Gallery. At the opening of the 58th Jazz Festival, the Accompanying Exhibition of Slavimir Stojanović's poster entitled 'Continuing Simply' was presented. The Bank also manages the NLB Art Collection. The Gallery hosted an exhibition of Achievements by Slovenian Female Architecture and Design Pioneers.

7,754
participants attended various education and business events hosted by the NLB IEC

The Group continuously makes positive contributions for the well-being of our stakeholders and society with a strong commitment to responsible and sustainable development.

Andrej Krajner
General Manager,
Communications

Chapter 21

2017 GRI Standards Disclosure for NLB

Economic

GRI Topic	GRI Disclosure	Value	Comment
GRI 201 – Economic Performance	**201-1: Direct economic value generated and distributed**		In the NLB Group Annual Report for 2017.
	a. Direct economic value generated and distributed (EVG&D) on an accruals basis, including the basic components for the organisation's global operations as listed below. If data are presented on a cash basis, report the justification for this decision in addition to reporting the following basic components:		
	i. Direct economic value generated: revenues;		
	ii. Economic value distributed: operating costs, employee wages and benefits, payments to providers of capital, payments to government by country, and community investments;		
	iii. Economic value retained: 'direct economic value generated' less 'economic value distributed'.		
	b. Where significant, report EVG&D separately at country, regional, or market levels, and the criteria used for defining significance.		
GRI 202 – Market Presence	**202-2: Proportion of senior management hired from the local community**		The recruitment procedure: In the event that the Bank evaluates that the pool of talents does not provide a suitable candidate for the vacant senior management position, the Bank prepares a tender invitation. The invitation is published on the Bank's website and on the premises of the National Employment Office. Among the registered candidates, there are several selection interviews and selection tests carried out. A Fit & Proper rating is also involved. The selected candidates are employed at the Bank for an indefinite period with a six month probationary period.
	a. Percentage of senior management at significant locations of operation that are hired from the local community.	99%	
	b. The definition used for 'senior management'.		Senior management: General Managers directly subordinated to the Management Board (B-1), the directors that are subordinated to B-2 level General Managers, other employees, who have an individual contract of employment (Advisor, Deputy Director, Head of Unit).
	c. The organization's geographical definition of 'local'.		RoS
	d. The definition used for 'significant locations of operation'.		RoS and locations of the Group members.

GRI Topic	GRI Disclosure	Value	Comment
GRI 205 – Anti-corruption	**205-2: Communication and training about anti-corruption policies and procedures**		
	a. Total number and percentage of governance body members that the organization's anti-corruption policies and procedures have been communicated to, broken down by region.	NLB Management Board: 4 members (100%). NLB Supervisory Board: 8 members (100%).	Members of the NLB Supervisory Board were acquainted with this topic in the context of specialised education in the field of risk of compliance and integrity, within which the risks of corruption and internal regulation of the area were presented on 18 September 2017.
	b. Total number and percentage of employees that the organization's anti-corruption policies and procedures have been communicated to, broken down by employee category and region.	2,789 (100%) of current employees.	
	d. Total number and percentage of governance body members that have received training on anti-corruption, broken down by region.	NLB Management Board: 4 members (100%). NLB Supervisory Board: 8 members (100%).	Members of the NLB Supervisory Board were acquainted with this topic in the context of specialised education in the field of risk of compliance and integrity, within which the risks of corruption and internal regulation of the area were presented in September 2017.
	e. Total number and percentage of employees that have received training on anti-corruption, broken down by employee category and region.	In 2017 Successfully finished training: 2,087 employees, which is 76% of all employees or 80% of employees present at work (i.e. excluding long sick leave, maternity leave etc.).	Anticorruption training is obligatory for all employees.
	205-3: Confirmed incidents of corruption and actions taken	.	This means incidents of corruption (which is meant to include bribery, fraud, or money laundering) and actions taken.
	a. Total number and nature of confirmed incidents of corruption.	6 total number of incidents of corruption reviewed: 1 confirmed incident of corruption; bribery for granting a loan 2 unconfirmed incidents of corruption 3 ongoing cases, not yet finished	
	b. Total number of confirmed incidents in which employees were dismissed or disciplined for corruption.	1	
	c. Total number of confirmed incidents when contracts with business partners were terminated or not renewed due to violations related to corruption.	0	
	d. Public legal cases regarding corruption brought against the organisation or its employees during the reporting period and the outcomes of such cases.	0	

Environmental

GRI Topic	GRI Disclosure	Value	Comment
GRI 301 – Materials	**301-1: Materials used by weight or volume**		
	a. Total weight or volume of materials that are used to produce and package the organisation's primary products and services during the reporting period, by:		
	ii. renewable materials used.	34.38 A4 pages per employee per working day	Data is related to used A4 paper per employee per working day. The number of pages has been constantly reduced since 2014 (42). Compared to 2016, the amount of paper used decreased again (from 39.6 pages to 34.4 pages in 2017).
GRI 302 – Energy	**302-1: Energy consumption within the organisation**		
	i. electricity consumption in kWh	12,912.381.00	In 2017 we continued with the reduction of electricity consumption, which is 5.2% lower than in the year 2016.
GRI 306 – Effluents and Waste	**306-2: Waste by type and disposal method**		The waste is being treated by an outsourced waste company.
GRI 307 – Environmental Compliance	**307-1: Non-compliance with environmental laws and regulations**		NLB received no fines or penalties regarding failure to comply with environmental laws.

Social

GRI Topic	GRI Disclosure	Value	Comment
GRI 401 – Employment	**401-1: New employee hires and employee turnover**		
	a. Total number and rate of new employee hires during the reporting period, by age group, gender and region.	In total 104 new employees in 2017. 34 were younger than 30 years, 69 were between 30 and, 50 and one employee was older than 50. All were employed by the RoS.	See more into the section Employees in CSR Report 2017, Employee hires structure by gender, page 20 (https://www.nlb.si/corporate-social-responsibility-report-2017).
	b. Total number and rate of employee turnover during the reporting period, by age group, gender and region.	In total 200 employees departed from NLB in 2017. Eight were younger than 30, 81 were in the age between 30 and 50, and 111 employees were older than 50 years old.	See the section Employees in CSR Report 2017, Employee turnover structure by gender, page 21 (https://www.nlb.si/corporate-social-responsibility-report-2017)
	401-2: Benefits provided to full-time employees that are not provided to temporary or part-time employees		Promote and protect the rights, obligations and responsibilities arising from the employment relationship are regulated by laws, collective agreements, and internal regulations. All employees have rights as they are determined by law, collective agreements, and internal regulations.
	401-3: Parental leave		
	a. Total number of employees that were entitled to parental leave.	83 employees	
	b. Total number of employees that took parental leave.	83 employees	
	c. Total number of employees that returned to work in the reporting period after parental leave ended, by gender.	83 employees (100%)	
	d. Total number of employees that returned to work after parental leave ended that were still employed 12 months after their return to work.	83 employees (100%)	
	e. Return to work and retention rates of employees that took parental leave.	100%	
GRI 402 - Labor/Management Relations	**402-1: Minimum notice periods regarding operational changes**		The way of cooperation with the Labor unions and the Worker's council is fixed by collective agreements, the Act of Workers and Management and the Agreement on cooperation between the Worker's Council and the employer. Deadlines for informing the Unions and the Worker's Council is within a minimum of 30 days.
GRI 403 - Occupational Health and Safety	**403-1: Workers representation in formal joint management–worker health and safety committees**		
	a. Minimum number of weeks' notice typically provided to employees and their representatives prior to the implementation of significant operational changes that could substantially affect them.	Four weeks in minimum prior to implementation of new operational changes with significant impact.	
	403-4: Health and safety topics covered in formal agreements with trade unions		
	a. Whether formal agreements (either local or global) with trade unions cover health and safety.	Global agreement with trade union.	
	b. If so, the extent, as a percentage, to which various health and safety topics are covered by these agreements.	100%	

GRI Topic	GRI Disclosure	Value	Comment
GRI 404 – Training and Education	**404-1: Average hours of training per year per employee**		
	a. Average hours of training that the organisation's employees have undertaken during the reporting period.	21.6 hours per employee in the 2017.	In 2017 8,960 employees participated in internal lectures and workshops and 1,096 employees participated on external training courses.
	404-2: Programs for upgrading employee skills and transition assistance programs		
	a. Type and scope of programs implemented and assistance provided to upgrade employee skills.	Internal education (lectures and workshops), e-trainings, external training courses, courses for new employees.	Every 3-month, the Human Resources department publishes the list of all trainings and education programs for the next period. It includes 30 different education programs on average.
	b. Transition assistance programs provided to facilitate continued employability and the management of career endings resulting from retirement or termination of employment.	Provided for all employees in the case of termination of employment in the case of structural downsizing.	
	404-3: Percentage of employees receiving regular performance and career development reviews		
	a. Percentage of the total employees by gender and by employee category who received a regular performance and career development review during the reporting period.	100% of employees present at work (i.e. excluding long sick leave, maternity leave etc.).	The aim of the organisation was for all employees to receive a regular performance and career development review.
GRI 405 – Diversity and Equal Opportunity	**405-1: Diversity of governance bodies and employees**		
	a. Percentage of individuals within the organisation's governance bodies in each of the following diversity categories:		As organisation's governance bodies we consider NLB Management Board and NLB Supervisory Board.
	Gender;	16.7% female 83.3% male	NLB Management Board has 4 members, all male; NLB Supervisory Board has 8 members, 6 male and 2 female members.
	Age group: under 30 years old, 30-50 years old, over 51 years old;	Under 30 years 0% 30-50 years old 58.3% Over 50 years old 41.7%	Under 30 years 0 members 30-50 years old seven members Over 50 years old five members.
	b. Percentage of employees per employee category in each of the following diversity categories:		See the section Employees in CSR Report 2017, pages from 16 to 21(https://www.nlb.si/corporate-social-responsibility-report-2017).
	Gender;		
	Age group: under 30 years old, 30-50 years old, over 51 years old;		
GRI 406 – Non-discrimination	**406-1: Incidents of discrimination and corrective actions taken**		The Bank has a policy of zero tolerance to any form of discrimination and violence.
	a. Total number of incidents of discrimination during the reporting period.	0	

Chapter 22

Events after the End of the 2017 financial year

In relation to the state aid proceedings before the EC (please see Corporate Governance for further details), on 26 January 2018 the EC notified the RoS that it had decided to initiate the formal investigation procedure into the amendments of the Commitments as proposed by RoS (EC decision 'SA.33229 (2018/C) (ex 2017/N-3) – Slovenia – Amendment of the restructuring commitments of Nova Ljubljanska banka d.d.'; the 'Decision'). The RoS was requested to submit its comments to EC's findings in the Decision, which were provided in the beginning of March 2018. On 6 April 2018, the non-confidential version of the Decision was published and all interested parties were invited to submit their comments.

On 1 February 2018 the Bank for the third year in a row obtained the 'Top Employer' certificate, awarded by an independent Dutch institute (Top Employers Institute), for innovations and improvements in the field of human resources processes.

On 23 February 2018 the employment contract with Executive Director of NLB Banka Montenegro Robert Kleindienst was terminated.

On 26 February 2018 the Macedonian Agency for Supervision of Fully Funded Pension Insurance approved the sale of 100% of shares of the company NLB Nov penziski fond, Skopje by NLB and NLB Banka Skopje as sellers to Pozavarovalnica Sava as purchaser. The sales process of NLB Nov penziski fond, Skopje was concluded on 14 March 2018.

On 5 March 2018, NLB received a letter from ECB on ECB's intention to adopt the decision to restrict distributions by NLB to its shareholders and to require a Contingent Capital Plan specifying the planned measures to increase the capital ratios of NLB in case that provision recognition criteria are met for the lawsuits against NLB pending in the courts of the Republic of Croatia. Details on legal issues are disclosed in the note 5.17 to the Audited Annual Financial Statements.

Nova Ljubljanska banka d.d., Ljubljana

Financial Statements

Audited Financial Statements of NLB Group and NLB d.d. pursuant to the International Financial Reporting Standards as adopted by the European Union

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Building a better working world

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Nova Ljubljanska Banka, d.d.

Opinion

We have audited the separate financial statements of Nova Ljubljanska Banka, d.d. ("the Bank") and the consolidated financial statements of NLB Group ("the Group"), which comprise the statement of financial position and consolidated statement of financial position as at December 31 2017, the income statement and consolidated income statement, the statement of other comprehensive income and consolidated statement of other comprehensive income, the statement of changes in equity and consolidated statement of changes in equity, the statement of cash flows and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2017 and its separate and consolidated financial performance and its separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report. We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate and consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 5.17. to the separate and consolidated financial statements, which describe the uncertainty related to the outcome of the lawsuits filed against NLB d.d. by two Croatian banks which have not yet been decided. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

Building a better working world

Contingent liabilities relating to legal matters

The Bank/Group is involved in various legal matters as defendant. We focused on this area because of the potential significance of these commitments and contingencies (in particular as they relate to the asserted claim from the Privredna banka Zagreb (PBZ) and Zagrebačka banka (ZaBa) against the Bank). The assessment as to whether or not a liability should be recognized and whether amounts can be reliably estimated includes, to a certain extent, judgment from management. We determined this to be a significant item for our audit and a key auditing matter. Note 5.17. to the separate and consolidated financial statements describes the uncertainty related to the outcome of the lawsuits filed against the Bank/Group by two Croatian banks in detail.

Our procedures included, amongst others, an assessment of the legal advice obtained by the Bank/Group as well as periodic meetings with management and review of board minutes to discuss developments in legal proceedings and asserted claims. We also obtained confirmations from the Bank/Group's external legal counsels in order to compare their expert opinions to management's position on measurement and/or disclosures in relation to the legal case.
We assessed the adequacy of the disclosures included in Note 5.17. of the separate and consolidated financial statements and added emphasis of matter in our audit opinion in respect of this matter.

Credit risk and individual impairment of loans and advances to customers

The carrying amount of loans given to customers is 6,9 billion EUR or 57% of total assets at the Group and 4,6 billion EUR or 53% of total assets at the Bank. Impairment of loans and advances to customers is a highly subjective area due to the level of judgment applied by management in determining credit impairments. Experience from previous years has shown that banks can face serious problems and capital shortfalls in periods of recession and financial crisis, which can have material impact on the separate and consolidated financial statements and pose threat to the going concern assumption. Mainly, the highest risk is related to assessment of individual impairments for loans. For further information, refer to Note 6.1. of the separate and consolidated financial statements.

We understood and evaluated the processes for identifying impairment events within the loan portfolios, as well as the impairment assessment processes for loans within the restructuring unit and run-off portfolio.
We assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate impairment. We tested a sample of performing loans with characteristics that might imply an impairment event had occurred (for example a customer experiencing financial difficulty or approaching a refinancing deadline) to assess whether impairment events had been identified by management.
For a sample of individually impaired loans, we understood the latest developments at the borrower and the basis of measuring value of impairment and considered whether key judgments were appropriate given the borrowers' circumstances. We also re-performed management's impairment calculation. In addition, we tested key inputs to the impairment calculation including the expected future cash flows and valuation of collateral held, and discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower and appropriate for the purpose.
We assessed the adequacy of the Bank's/Group's disclosures included in Note 6.1. of the separate and consolidated financial statements.

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Information technology (IT) systems and controls over financial reporting

We identified IT systems, and controls over financial reporting as an area of focus as the Bank/Group's financial accounting and reporting systems are heavily dependent on complex systems and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively. Therefore, we have identified IT systems and controls over the financial reporting as a key audit matter.	We involved internal experts in assessing and testing the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to the financial reporting. We examined the framework of governance over the Bank/Group's IT organization and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. Where necessary we also carried out direct tests of certain aspects of the security of the Bank/Group's IT systems including access management and segregation of duties.

Other information

Other information comprises the information included in the separate and consolidated Annual Report other than the separate and consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the separate and consolidated financial statements is, in all material respects, consistent with the separate and consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Bank and the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management, supervisory board and the audit committee for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of the separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Building a better working world

In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and Group or to cease operations, or has no realistic alternative but to do so.

The audit committee and supervisory board are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee and the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee and the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee and the supervisory board, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as the statutory auditor by the statutory body of the Bank and the Group on 8.9.2015 based on our approval by the General Meeting of Shareholders of the Bank and the Group on 22.6.2015. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 5 years.

Consistence with Additional Report to Audit Committee

Our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Bank, which we issued on the same date as the issue date of this report.

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Bank and we remain independent from the Group in conducting the audit.

In addition to statutory audit services and services disclosed in the separate and consolidated annual report and in the separate and consolidated financial statements, no other services were provided by us to the Bank and its controlled undertakings.

Ljubljana, 27. March 2018

Janez Uranič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

Nena Cvetkovska
Certified auditor

Statement of management's responsibility

The Management Board hereby confirms its responsibility for preparing the consolidated financial statements of NLB Group and the financial statements of NLB for the year ending on 31.12.2017, and for the accompanying accounting policies and notes to the financial statements.

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and with the requirements of the Slovenian Companies Act and Banking Act so as to give a true and fair view of the financial position of NLB Group and NLB as at 31.12.2017, and their financial results and cash flows for the year then ended.

The Management Board also confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were prepared according to the principles of prudence and good management. The Management Board further confirms that the financial statements of NLB Group and NLB, together with the accompanying notes, have been prepared on a going-concern basis for NLB Group and NLB, and in line with valid legislation and the International Financial Reporting Standards as adopted by the European Union.

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

The Management Board

László Pelle
Member of the
Management Board

Archibald Kremser
Member of the
Management Board

Andreas Burkhardt
Member of the
Management Board

Blaž Brodnjak
President & CEO

Income Statement

in EUR thousand

	Notes	NLB Group 2017	NLB Group 2016	NLB 2017	NLB 2016
Interest and similar income	4.1.	363,733	388,494	188,255	215,550
Interest and similar expense	4.1.	(54,417)	(71,189)	(29,466)	(40,672)
Net interest income		**309,316**	**317,305**	**158,789**	**174,878**
Dividend income	4.2.	179	1,238	50	1,144
Fee and commission income	4.3.	207,908	194,371	127,749	123,014
Fee and commission expense	4.3.	(52,490)	(48,706)	(29,240)	(27,728)
Net fee and commission income		**155,418**	**145,665**	**98,509**	**95,286**
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	4.4.	12,242	14,788	11,711	14,639
Gains less losses from financial assets and liabilities held for trading	4.5.	13,067	6,921	7,065	336
Gains less losses from financial assets and liabilities designated at fair value through profit or loss		75	235	-	-
Fair value adjustments in hedge accounting	5.5.a)	(813)	(3,239)	(813)	(2,437)
Foreign exchange translation gains less losses	4.6.	2,149	1,158	(1,007)	738
Gains less losses on derecognition of assets		1,748	867	249	252
Other operating income	4.7.	26,424	24,442	12,172	12,267
Other operating expenses	4.8.	(29,411)	(33,204)	(15,249)	(13,176)
Administrative expenses	4.9.	(256,907)	(261,160)	(157,877)	(162,083)
Depreciation and amortisation	4.10.	(27,802)	(28,345)	(18,010)	(18,880)
Provisions for other liabilities and charges	4.11.	(5,251)	(4,357)	(7,344)	482
Impairment charge	4.12.	34,781	(56,288)	38,008	(64,433)
Gains less losses from capital investments in subsidiaries, associates, and joint ventures	4.13.	3,852	5,006	58,171	28,915
Net gains or losses from non-current assets held for sale		(1,756)	(432)	451	(220)
PROFIT BEFORE INCOME TAX		**237,311**	**130,600**	**184,875**	**67,708**
Income tax	4.14.	(3,997)	(14,975)	4,219	(3,925)
PROFIT FOR THE YEAR		**233,314**	**115,625**	**189,094**	**63,783**
Attributable to owners of the parent		225,069	110,017	189,094	63,783
Attributable to non-controlling interests		8,245	5,608	-	-
Earnings per share/diluted earnings per share (in EUR per share)	4.15.	11.3	5.5	9.5	3.2

The notes are an integral part of these financial statements.

Statement of comprehensive income

in EUR thousand

		NLB Group		NLB	
	Notes	2017	2016	2017	2016
Net profit for the year after tax		**233,314**	**115,625**	**189,094**	**63,783**
Other comprehensive income after tax		**(3,100)**	**6,331**	**(8,882)**	**2,740**
Items that will not be reclassified to income statement					
Actuarial gains/(losses) on defined benefit pensions plans		**(810)**	**1,515**	**(950)**	**1,466**
Share of other comprehensive income/(losses) of entities accounted for using the equity method		**(11)**	**(6)**	**-**	**-**
Income tax relating to components of other comprehensive income	**5.19.**	**89**	**(191)**	**90**	**(191)**
Items that may be reclassified subsequently to income statement					
Foreign currency translation		**3,035**	**(1,910)**	**-**	**-**
Translation gains/(losses) taken to equity		3,035	(1,910)	-	-
Cash flow hedges (effective portion)		**-**	**2,703**	**-**	**2,703**
Net valuation gains/(losses) taken to equity	5.5.c)	-	(343)	-	(343)
Transferred to profit or loss	5.5.c)	-	3,046	-	3,046
Available-for-sale financial assets		**(7,261)**	**3,899**	**(9,904)**	**171**
Valuation gains/(losses) taken to equity	5.4.c)	4,955	18,529	1,781	14,652
Transferred to profit or loss	4.4. and 4.12.	(12,216)	(14,630)	(11,685)	(14,481)
Share of other comprehensive income/(losses) of entities accounted for using the equity method		**236**	**2,731**	**-**	**-**
Income tax relating to components of other comprehensive income	**5.19.**	**1,622**	**(2,410)**	**1,882**	**(1,409)**
Total comprehensive income for the year after tax		**230,214**	**121,956**	**180,212**	**66,523**
Attributable to owners of the parent		221,852	116,383	180,212	66,523
Attributable to non-controlling interests		8,362	5,573	-	-

The notes are an integral part of these financial statements.

Statement of financial position

in EUR thousand

		NLB Group		NLB	
	Notes	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	1,256,481	1,299,014	570,010	617,039
Trading assets	5.2.	72,189	87,699	72,180	87,693
Financial assets designated at fair value through profit or loss	5.3.a)	5,003	6,694	634	2,011
Available-for-sale financial assets	5.4.a)	2,276,493	2,072,153	1,777,762	1,594,094
Derivatives - hedge accounting	5.5.b)	1,188	217	1,188	217
Loans and advances					
- debt securities		82,133	85,315	82,133	85,315
- loans and advances to banks	5.6.a)	510,107	435,537	462,322	408,056
- loans and advances to customers	5.6.b)	6,912,333	6,912,067	4,587,477	4,843,594
- other financial assets	5.6.c)	66,077	61,014	38,389	36,151
Held-to-maturity financial assets	5.7.	609,712	611,449	609,712	611,449
Fair value changes of the hedged items in portfolio hedge of interest rate risk		719	678	719	678
Non-current assets and disposal group classified as held for sale	5.8.	11,631	4,263	2,564	1,788
Property and equipment	5.9.	188,355	196,849	87,051	90,496
Investment property	5.10.	51,838	83,663	9,257	8,151
Intangible assets	5.11.	34,974	33,970	23,911	23,345
Investments in subsidiaries	5.12.a)	-	-	349,945	339,693
Investments in associates and joint ventures	5.12.b)	43,765	43,248	6,932	7,031
Current income tax assets		2,795	2,888	2,196	2,124
Deferred income tax assets	5.18.	18,603	7,735	19,758	10,622
Other assets	5.13.	93,349	94,558	8,692	8,419
Total assets		**12,237,745**	**12,039,011**	**8,712,832**	**8,777,966**
Trading liabilities	5.15.	9,502	18,791	9,398	18,787
Financial liabilities designated at fair value through profit or loss	5.3.b)	635	2,011	635	2,011
Derivatives - hedge accounting	5.5.b)	25,529	29,024	25,529	29,024
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	5.16.a)	40,602	42,334	72,072	74,977
- borrowings from banks and central banks	5.16.b)	279,616	371,769	260,747	338,467
- due to customers	5.16.a)	9,878,378	9,437,147	6,810,967	6,615,390
- borrowings from other customers	5.16.b)	74,286	83,619	5,726	4,274
- debt securities in issue	5.16.c)	-	277,726	-	277,726
- subordinated liabilities	5.16.d)	27,350	27,145	-	-
- other financial liabilities	5.16.e)	111,019	110,295	71,534	68,784
Liabilities of disposal group classified as held for sale	5.8. b)	440	-	-	-
Provisions	5.17.	88,639	100,914	70,817	79,546
Current income tax liabilities		2,894	3,146	-	-
Deferred income tax liabilities	5.18.	1,096	727	-	-
Other liabilities	5.20.	9,596	8,703	4,181	4,186
Total liabilities		**10,549,582**	**10,513,351**	**7,331,606**	**7,513,172**
Equity and reserves attributable to owners of the parent					
Share capital	5.21.	200,000	200,000	200,000	200,000
Share premium	5.22.	871,378	871,378	871,378	871,378
Accumulated other comprehensive income	5.22.	26,752	29,969	25,699	34,581
Profit reserves	5.22.	13,522	13,522	13,522	13,522
Retained earnings		541,901	380,444	270,627	145,313
		1,653,553	**1,495,313**	**1,381,226**	**1,264,794**
Non-controlling interests		34,610	30,347	-	-
Total equity		**1,688,163**	**1,525,660**	**1,381,226**	**1,264,794**
Total liabilities and equity		**12,237,745**	**12,039,011**	**8,712,832**	**8,777,966**

The notes are an integral part of these financial statements.

The Management Board has approved the release of the financial statements and the accompanying notes.

László Pelle
Member of the
Management Board

Archibald Kremser
Member of the
Management Board

Andreas Burkhardt
Member of the
Management Board

Blaž Brodnjak
President & CEO

Ljubljana, 27 March 2018

Statement of changes in equity

in EUR thousand

NLB Group	Share capital	Share premium	Accumulated other comprehensive income reserve	Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance as at 1.1.2016	200,000	871,378	23,603	13,522	314,307	1,422,810	27,573	1,450,383
- Net profit for the year	-	-	-	-	110,017	110,017	5,608	115,625
- Other comprehensive income	-	-	6,366	-	-	6,366	(35)	6,331
Total comprehensive income after tax	-	-	6,366	-	110,017	116,383	5,573	121,956
Dividends paid	-	-	-	-	(43,880)	(43,880)	(2,799)	(46,679)
Balance as at 31.12.2016	**200,000**	**871,378**	**29,969**	**13,522**	**380,444**	**1,495,313**	**30,347**	**1,525,660**
- Net profit for the year	-	-	-	-	225,069	225,069	8,245	233,314
- Other comprehensive income	-	-	(3,217)	-	-	(3,217)	117	(3,100)
Total comprehensive income after tax	-	-	(3,217)	-	225,069	221,852	8,362	230,214
Dividends paid	-	-	-	-	(63,780)	(63,780)	(3,752)	(67,532)
Other	-	-	-	-	168	168	(347)	(179)
Balance as at 31.12.2017	**200,000**	**871,378**	**26,752**	**13,522**	**541,901**	**1,653,553**	**34,610**	**1,688,163**

In 2017 the item 'Other' relates to transactions with non-controlling interests and costs attributable to an increase of equity investment of a subsidiary.

in EUR thousand

NLB	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Total equity
Balance as at 1.1.2016	200,000	871,378	31,841	13,522	125,410	1,242,151
- Net profit for the year	-	-	-	-	63,783	63,783
- Other comprehensive income	-	-	2,740	-	-	2,740
Total comprehensive income after tax	-	-	2,740	-	63,783	66,523
Dividends paid	-	-	-	-	(43,880)	(43,880)
Balance as at 31.12.2016	**200,000**	**871,378**	**34,581**	**13,522**	**145,313**	**1,264,794**
- Net profit for the year	-	-	-	-	189,094	189,094
- Other comprehensive income	-	-	(8,882)	-	-	(8,882)
Total comprehensive income after tax	-	-	(8,882)	-	189,094	180,212
Dividends paid	-	-	-	-	(63,780)	(63,780)
Balance as at 31.12.2017	**200,000**	**871,378**	**25,699**	**13,522**	**270,627**	**1,381,226**

The notes are an integral part of these financial statements.

Statement of cash flows

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	383,615	413,337	210,292	240,789
Interest paid	(60,165)	(78,401)	(33,714)	(44,510)
Dividends received	179	1,233	50	1,139
Fee and commission receipts	206,100	192,295	125,760	119,296
Fee and commission payments	(56,855)	(51,996)	(29,385)	(27,056)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	12,455	13,296	11,883	13,147
Realised losses from financial assets and financial liabilities not at fair value through profit or loss	-	(40)	-	(40)
Net gains/(losses) from financial assets and liabilities held for trading	9,421	3,246	3,646	(2,785)
Payments to employees and suppliers	(254,877)	(262,202)	(160,484)	(165,579)
Other income	27,135	26,352	12,391	13,256
Other expenses	(28,775)	(26,132)	(15,075)	(14,857)
Income tax paid	(10,557)	(19,991)	(509)	(14,489)
Cash flows from operating activities before changes in operating assets and liabilities	**227,676**	**210,997**	**124,855**	**118,311**
(Increases)/decreases in operating assets	**(227,829)**	**(139,839)**	**45,391**	**30,540**
Net (increase)/decrease in trading assets	9,001	163,609	9,001	164,609
Net (increase)/decrease in financial assets designated at fair value through profit or loss	1,801	1,026	1,487	2,795
Net (increase)/decrease in available-for-sale financial assets	(228,936)	(344,588)	(216,235)	(353,677)
Net (increase)/decrease in loans and advances	(18,524)	37,715	250,062	214,615
Net (increase)/decrease in other assets	8,829	2,399	1,076	2,198
Increases/(decreases) in operating liabilities	**86,953**	**197,351**	**(130,582)**	**101,342**
Net increase/(decrease) in financial liabilities designated at fair value through profit or loss	(1,487)	(2,801)	(1,487)	(2,801)
Net increase/(decrease) in deposits and borrowings measured at amortised cost	361,928	227,842	145,241	130,815
Net increase/(decrease) in securities measured at amortised cost	(274,200)	(26,913)	(274,200)	(26,913)
Net increase/(decrease) in other liabilities	712	(777)	(136)	241
Net cash used in operating activities	**86,800**	**268,509**	**39,664**	**250,193**
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts from investing activities	**112,661**	**77,903**	**129,259**	**98,095**
Proceeds from sale of property, equipment, and investment property	37,274	5,536	75	400
Proceeds from sale of subsidiaries	38	-	38	-
Proceeds from dividends from subsidiaries and associates	4,215	3,587	58,012	28,915
Proceeds from sale of associates and joint ventures	238	-	238	-
Proceeds from non-current assets held for sale	493	128	493	128
Proceeds from disposals of held-to-maturity financial assets	70,403	68,652	70,403	68,652
Payments from investing activities	**(96,991)**	**(153,178)**	**(99,762)**	**(161,064)**
Purchase of property, equipment, and investment property	(10,793)	(17,896)	(5,776)	(10,990)
Purchase of intangible assets	(10,801)	(6,981)	(7,605)	(4,466)
Purchase of subsidiaries and increase in subsidiaries' equity	(1,596)	-	(12,580)	(17,307)
Increase in associates and joint ventures' equity	-	(12,250)	-	(12,250)
Purchase of held-to-maturity financial assets	(73,801)	(116,051)	(73,801)	(116,051)
Net cash flows used in investing activities	**15,670**	**(75,275)**	**29,497**	**(62,969)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments from financing activities	**(67,557)**	**(46,655)**	**(63,780)**	**(43,880)**
Dividends paid	(67,512)	(46,655)	(63,780)	(43,880)
Other payments related to financing activities	(45)	-	-	-
Net cash from financing activities	**(67,557)**	**(46,655)**	**(63,780)**	**(43,880)**
Effects of exchange rate changes on cash and cash equivalents	(8,474)	693	(13,644)	1,507
Net increase/(decrease) in cash and cash equivalents	**34,913**	**146,579**	**5,381**	**143,344**
Cash and cash equivalents at beginning of year	**1,449,275**	**1,302,003**	**670,682**	**525,831**
Cash and cash equivalents at end of year	**1,475,714**	**1,449,275**	**662,419**	**670,682**

The notes are an integral part of these financial statements.

Statement of cash flows

in EUR thousand

		NLB Group		NLB	
	Notes	2017	2016	2017	2016
Cash and cash equivalents comprise:					
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	1,256,481	1,299,014	570,010	617,039
Loans and advances to banks with original maturity up to 3 months		148,784	85,103	92,409	53,643
Available for sale financial assets with original maturity up to 3 months		70,449	65,158	-	-
Total		**1,475,714**	**1,449,275**	**662,419**	**670,682**

Notes to financial statements

1. General information

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

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

The ultimate controlling party of NLB is the Republic of Slovenia, which was the sole shareholder as at 31.12.2017 and 31.12.2016.

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

The principal accounting policies adopted for the preparation of the separate and consolidated financial statements are set out below. The policies have been consistently applied to all the years presented.

2.1. Statement of compliance

The principal accounting policies applied in the preparation of the separate and consolidated financial statements were prepared in accordance with the International Financial Accounting Standards (hereinafter: 'the IFRS') as adopted by the European Union (hereinafter: 'EU'). Additional requirements under the national legislation are included where appropriate.

The separate and consolidated financial statements are comprised of: the income statement and statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, significant accounting policies, and the notes.

2.2. Basis for presenting the financial statements

The financial statements have been prepared on a going-concern basis, under the historical cost convention as modified by the revaluation of available-for-sale financial assets and financial assets, and the financial liabilities at fair value through profit or loss, including all derivative contracts and investment property.

The preparation of financial statements in accordance with the IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and activities, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised. Critical accounting estimates and judgements in applying accounting policies are disclosed in note 2.33.

2.3. Comparative amounts

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed in comparative amounts. Where IAS 8 applies, comparative figures have been adjusted to conform to the changes in presentation in the current year.

Compared to 2016, in 2017 NLB Group changed the approach for recognition of deferred tax assets namely, in previous periods, NLB Group presented deferred tax assets on all temporary differences and deducted them to the amount that, given future profit estimates, is expected to be reversed in the foreseeable future (i.e. within five years). In 2017 NLB Group recognised deferred tax assets on all temporary differences, except for impairments of non-strategic capital investments where deferred tax assets are recognised in the amount that, taking into account other recognised deferred tax assets, reaches the total amount of deferred tax assets, for which a reversal is expected within five years. Deferred tax assets arising from tax losses is not recognised.

2.4. Consolidation

In the consolidated financial statements, subsidiaries which are directly or indirectly controlled by NLB have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to NLB Group.

NLB controls an entity when all three elements of control are met:

- it has power over the entity;
- it is exposed or has rights to variable returns from its involvement with the entity; and
- it has the ability to use its power over the entity to affect the amount of the entity's returns.

NLB reassesses whether it controls an entity if facts and circumstances indicate there are changes to one or more of the three elements of control. If the loss of control of a subsidiary occurs, the subsidiary is no longer consolidated from the date that control ceases.

Where necessary, the accounting policies of subsidiaries have been amended to ensure consistency with the policies adopted by NLB. The financial statements of consolidated subsidiaries are prepared as at the parent entity's reporting date. Non-controlling interests are disclosed in the consolidated statement of changes in equity. Non-controlling interest is that part of the net results, and of the equity of a subsidiary, attributable to interests which NLB does not own, directly or indirectly. NLB Group measures non-controlling interest on a transaction-by-transaction basis, either at fair value, or by the non-controlling interest's proportionate share of net assets of the acquiree.

Inter-company transactions, balances, and unrealised gains on transactions between NLB Group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

NLB Group treats transactions with non-controlling interests as transactions with equity owners of NLB Group. For purchases of subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from the equity. Gains or losses on sales to non-controlling interests are recorded in the equity. For sales to non-controlling interests, the differences between any proceeds received and the relevant share of non-controlling interests are also recorded in the equity. All effects are presented in the item 'Equity Attributable to Non-controlling Interest.'

2.5. Investments in subsidiaries, associates, and joint ventures

In the separate financial statements, investments in subsidiaries, associates, and joint ventures are accounted for with the cost method. Dividends from subsidiaries, joint ventures, or associates are recognised in the income statement when NLB's right to receive the dividend has been established.

In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting. These are generally undertakings in which NLB Group holds between 20% and 50% of the voting rights, and over which NLB Group exercises significant influence, but does not have control.

Joint ventures are those entities over whose activities NLB Group has joint control, as established by contractual agreement. In the consolidated financial statements, investments in joint ventures are accounted for using the equity method of accounting.

NLB Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When NLB Group's share of losses in an associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other unsecured receivables, NLB Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate and joint venture. NLB Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised (note 5.12.b).

NLB Group's subsidiaries, associates, and joint ventures are presented in note 5.12.

2.6. Goodwill and bargain purchases

Goodwill is measured as the excess of the aggregate of the consideration measured at fair value and transferred to the acquiree, the amount of any non-controlling interest in the acquiree, and the fair value of an interest in the acquiree held immediately before the acquisition date over the net amounts of the identifiable assets acquired as well as the liabilities assumed. Any negative amount, a gain on a bargain purchase, is recognised in profit or loss after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews the appropriateness of their measurement.

The consideration transferred is measured at the fair value of the assets transferred, equity interest issued, and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements. However, this excludes acquisition-related costs such as advisory, legal, valuation, and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from the equity and all other transaction costs associated with the acquisition are expensed.

The goodwill of associates and joint ventures is included in the carrying value of investments.

2.7. A combination of entities or businesses under common control

A merger of entities within NLB Group is a business combination involving entities under common control. For such mergers, members of NLB Group apply merger accounting principles and use the carrying amounts of merged entities as reported in the consolidated financial statements. No goodwill is recognised on mergers of NLB Group entities.

Mergers of entities within NLB Group do not affect the consolidated financial statements.

2.8. Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of NLB Group's entities are measured using the currency of the primary economic environment in which the entity operates (i.e. the functional currency). The financial statements are presented in euros, which is NLB Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Translation differences resulting from changes in the amortised cost of monetary items denominated in foreign currency and classified as available-for-sale financial assets are recognised in the income statement.

Translation differences on non-monetary items, such as equities at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Translation differences on non-monetary items, such as equities classified as available for sale, are included together with valuation reserves in the valuation (losses)/gains taken to other comprehensive income and accumulated in the equity.

Gains and losses resulting from foreign currency purchases and sales for trading purposes are included in the income statement as gains less losses from financial assets and liabilities held for trading.

NLB Group entities

The financial statements of all NLB Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate on the reporting date;
- income and expenses for each income statement are translated at average exchange rates; and
- components of equity are translated at the historical rate.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

In the consolidated financial statements, exchange differences arising from the translation of the net investment in foreign operations are recognised in other comprehensive income. When control over a foreign operation is lost, the previously recognised exchange differences on translations to a different presentation currency are reclassified from other comprehensive income to profit and loss for the year. On the partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified as a non-controlling interest within the equity.

2.9. Interest income and expenses

Interest income and expenses are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest rate method. The effective interest rate method is used to calculate the amortised cost of a financial asset or financial liability, and to allocate the interest income or interest expense over the relevant period. The effective interest rate is the rate that precisely discounts estimated future cash payments or receipts over the expected life of the financial instrument, or a shorter period (when appropriate) on the net carrying amount of the financial asset or financial liability. Interest income includes coupons earned on fixed-yield investments and trading securities, and accrued discounts and premiums on securities. The calculation of the effective interest rate includes all fees and points paid or received by parties to the contract and all transaction costs, but excludes future credit risk losses. Once a financial asset or a group of similar financial assets has been impaired, interest income is recognised by the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

2.10. Fee and commission income

Fees and commissions are generally recognised when the service has been provided. Fees and commissions mainly consist of fees received from credit cards and ATMs, customer transaction accounts, payment services, investment funds, and commissions from guarantees. Fees and commissions that are integral to the effective interest rate of financial assets and liabilities are presented within interest income or expenses.

2.11. Dividend income

Dividends are recognised in the income statement when NLB Group's right to receive payment has been established and an inflow of economic benefits is probable. Dividend income from subsidiaries, associates, and joint ventures is included in the item 'Gains Less Losses from Capital Investments in Subsidiaries, Associates, and Joint Ventures,' while other dividend income is included in the item 'Dividend Income.' In the consolidated financial statement, dividends received from associates and joint ventures reduce the carrying value of the investment.

2.12. Financial instruments

a) Classification

The classification of financial instruments upon initial recognition depends on the instrument's characteristics and management's intention. In general, the following criteria are taken into account:

Financial instruments at fair value through profit or loss

This category has two sub-categories: financial instruments held for trading and financial instruments designated at fair value through profit or loss at inception. A financial instrument is classified in this group if acquired principally for the purpose of selling it in the short term, or if so designated by management.

NLB Group designates financial instruments at fair value through profit or loss if:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise

from measuring assets or liabilities on a different basis;
- a group of financial assets, financial liabilities, or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to NLB Group's key management; or
- a financial instrument contains one or more embedded derivatives that could significantly modify the cash flows otherwise required by the contract.

Derivatives are categorised as held for trading unless they are designated as hedging instruments.

Loans and advances
Loans and advances are non-derivative financial instruments with fixed or determinable payments that are not quoted on an active market, other than: (a) those that NLB Group intends to sell immediately or in the short term and which are classified as held for trading, and those that NLB Group, upon initial recognition, classifies at fair value through profit or loss; (b) those that NLB Group, upon initial recognition, classifies as available for sale; or (c) those for which NLB Group may not recover substantially all of its initial investment for reasons other than a deterioration in creditworthiness.

Held-to-maturity financial assets
Held-to-maturity financial assets are non-derivative financial instruments that are traded on an active market with fixed or determinable payments and a fixed maturity that NLB Group has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity financial asset if NLB Group has the right to require the issuer to repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity.

Available-for-sale financial assets
Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in interest rates, exchange rates, or prices.

b) Measurement and recognition
Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

Regular way purchases and sales of financial assets at fair value through profit or loss, and assets held-to-maturity and available-for-sale, are recognised on the trade date. Loans and advances are recognised when cash is advanced to the borrowers.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Gains and losses from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative amount previously included in other comprehensive income is recycled in the income statement. Interest calculated using the effective interest rate method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement.

Loans and held-to-maturity financial assets are carried at an amortised cost.

c) Day one gains or losses
The best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by a comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or based on a valuation technique whose variables only include data from observable markets.

If the transaction price on a non-active market is different than the fair value from other observable current market transactions in the same instrument, or is based on a valuation technique whose variables only include data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement ('day one gains or losses').

In cases where the data used for valuation are not fully observable in financial markets, day one gains or losses are not recognised immediately in the income statement. The timing of recognition of deferred day one gains or losses is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

d) Reclassification
Financial assets that are eligible for classification as loans and advances can be reclassified out of the held-for-trading category if they are no longer held for the purpose of selling or repurchasing them in the near term. Financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category only in rare circumstances. In addition, instruments designated at fair value through profit and loss cannot be reclassified.

e) Derecognition
A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset is transferred and the transfer qualifies for derecognition. A financial liability is

derecognised only when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled, or expires.

f) Fair value measurement principles

The fair value of financial instruments traded on active markets is based on the price that would be received to sell the assets or transfer liability (exit price) being measured at the reporting date, excluding transaction costs. If there is no active market, the fair value of the instruments is estimated using discounted cash flow techniques or pricing models.

If discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates; and the discount rate is a market-based rate at the reporting date for an instrument with similar terms and conditions. If pricing models are used, inputs are based on market-based measurements at the reporting date.

g) Derivative financial instruments and hedge accounting

Derivative financial instruments - including forward and futures contracts, swaps, and options - are initially recognised in the statement of financial position at fair value. Derivative financial instruments are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, or pricing models, as appropriate. All derivatives are carried at their fair value within assets when the derivative position is favourable to NLB Group, and as well within liabilities when the derivative position is unfavourable to NLB Group.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. NLB Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge);
- hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction (cash flow hedge); or
- hedges of a net investment in a foreign operation (net investment hedge).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the transaction, NLB Group documents the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. NLB Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The actual results of a hedge must always fall within a range of 80-125%.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in the fair value of hedging instruments and related hedged items are reflected in 'Fair value adjustments in Hedge Accounting' in the income statement. Any ineffectiveness from derivatives is recorded in 'Gains Less Losses on Financial Assets and Liabilities Held for Trading.'

If a hedge no longer meets the hedge accounting criteria, the adjustment to the carrying amount of the hedged item for which the effective interest rate method is used is amortised to profit or loss over the remaining period to maturity. The adjustment to the carrying amount of a hedged equity security is included in the income statement upon disposal of the equity security.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is immediately recognised in the income statement in 'Gains Less Losses on Financial Assets and Liabilities Held for Trading.'

Amounts accumulated in equity are recycled as a reclassification from other comprehensive income to the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets hedge accounting criteria, any cumulative gain or loss existing in other comprehensive income and previously accumulated in equity at that time remains in other comprehensive income and in equity, and is recognised in profit or loss only when the forecasted transaction is ultimately recognised in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement in line with fair value adjustments in hedge accounting.

Hedge of a net investment in a foreign operation

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement in 'Gains Less Losses on Financial Assets and Liabilities Held for Trading.' Gains and losses accumulated in other comprehensive income are included in the consolidated income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

In the separate financial statements, the hedge of the net investment in a foreign operation is accounted for as a fair value hedge.

2.13. Impairment of financial assets

a) Assets carried at an amortised cost

NLB Group assesses impairments of financial assets separately for all individually significant assets where there is objective evidence of impairment. All other financial assets are impaired collectively. According to the Regulation on credit risk loss assessment of the Bank of Slovenia, a financial asset or off-balance sheet liability is individually significant if the total exposure to a customer exceeds 0.5% of a bank's equity. In 2017, all exposures to banks, all exposures to other legal entities exceeding EUR 500 thousand, and all exposures to individuals exceeding EUR 100 thousand were deemed individually significant assets requiring individual assessment. If NLB Group determines that no objective evidence exists for an individually assessed financial asset, the asset is included in a group of related financial assets with similar credit risk characteristics and collectively assessed for impairment.

At each reporting date NLB Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that event has an impact on the future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria NLB Group uses to determine whether objective evidence of an impairment loss exists include:

- delays in the payment of contractual interest or principal;
- a breach of other contractual covenants or conditions;
- difficulties in the financial condition of the borrower;
- restructuring of a borrower's financial liabilities, whereby a material loss is recognised;
- initiation of bankruptcy or insolvency proceedings; and
- other arrangements having an adverse effect on the bank's or company's position.

If there is objective evidence that an impairment loss on loans and advances or held-to-maturity financial assets has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through an allowance account and the loss is recognised in the income statement. With regard to impairments for customers in default, where the payment of existing liabilities is only possible through the redemption of collateral, the expected payment from the collateral is taken into account. This value is calculated from the appraised market value of the collateral, and the discount used as defined in the Collateral Manual. Off-balance sheet liabilities are also assessed individually and, where necessary, related provisions are recognised as liabilities.

For the purpose of the collective assessment of impairment, NLB Group uses transition matrices which illustrate the expected transition of customers between internal rating categories. The probability of transition is assessed on the basis of the past years' experience, i.e. the annual transition matrices for different types or segments of customers. This data may be adopted for projected future trends, as historical experience does not necessarily reflect actual economic movements. Exposures to individuals are further analysed with regard to the type of product. Based on the expected transition of customers to D and E credit-rating categories, and an assessment of the average repayment rate for D- and E-rated customers (treated as customers in default), NLB Group recognises collective impairments.

If the amount of impairment decreases subsequently due to an event occurring after the impairment was recognised (e.g. repayment in the collection process exceeds the assessed expected payment from collateral), the reversal of the loss is recognised as a reduction in the allowance for loan impairment.

NLB Group writes off financial assets measured at amortised cost if during the collection process it assesses that the assets in question will not be repaid and that the conditions for derecognition have been met.

b) Assets classified as available for sale

NLB Group assesses at each reporting date whether there is objective evidence that available-for-sale financial assets are impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of an investment below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is reclassified from other comprehensive income and recognised in the income statement as an impairment loss. Impairment losses recognised in the income statement on equity investments are not reversed through the income statement; subsequent increases in their fair value after impairment are recognised in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

The following factors are considered in determining impairment losses on debt instruments:

- default or delinquency in interest or principal payments;
- liquidity difficulties of the issuer;
- a breach of contract covenants or conditions;
- bankruptcy of the issuer;
- deterioration of economic and market conditions; and
- deterioration in the credit rating of the issuer below an acceptable level.

Impairment losses recognised in the income statement are measured as the difference between the carrying amount of the financial asset and its current fair value. The current fair value of the instrument is its market price or discounted future cash flows when the market price is not obtainable.

2.14. Forborne loans

A forborne loan (or restructured financial asset) arises as a result of a debtor's inability to repay a debt under the originally agreed terms, either by modifying the terms of the original contract (via an annex) or by signing a new contract (refinancing) under which the contracting parties agree the partial or total repayment of the original debt. If receivables due from the client have the status of restructuring, the debtor must be classified in the rating group C, D, or E.

The definitions of forborne loans closely follow definitions that were developed by the European Banking Authority (EBA). These definitions aim to achieve comprehensive coverage of exposures to which forbearance measures have been extended.

Accounting treatment of forborne loans depends on the type of restructuring. When NLB Group is embarking on a forborne loan via modified terms of repayment proceeding from extending the deadline for the repayment of the principal and/or interest, and/or a forbearance of the repayment of the principal, and/or interest or a reduction in the interest rate, and/or other expenses, it adjusts the carrying amount of the forborne loan on the basis of the discounted value of the estimated future cash flows under the modified terms, and recognises the resulting effect in profit or loss as an impairment. In the event of the reduction of a claim against the debtor via the reduction in the amount of the claims as a result of a contractually agreed debt waiver and ownership restructuring or debt to equity swap, NLB Group derecognises the claim in the part relating to the write-down or the contractually agreed debt waiver. The new estimate of the future cash flows for the residual claim, not yet written down, is based on an updated estimate of the probability of loss. NLB Group takes into account the debtor's modified position, the economic expectations and the collateral of the forborne loan. When NLB Group is embarking on the forborne loan by taking possession of other assets (property, plant and equipment, securities, and other financial assets), including investments in the equity of debtors obtained via debt-to-equity swaps, it recognises the acquired assets in the statement of financial position at fair value, recognising the difference between the disclosed fair value of the asset and the carrying amount of the eliminated claim in profit or loss.

Forborne exposures may be identified in both the performing and non-performing parts of the portfolio. Where the forborne loan is classified in the non-performing part of the portfolio, it can be reclassified to the performing part if forbearance does not lead to a recognition of impairment or non-performance, if one year has passed since the forbearance has been introduced and after the introduction of forbearance there have been no overdue amounts or doubts concerning the repayment of the entire exposure, under the terms and conditions after the forbearance. The absence of doubt is confirmed by analysis of the financial situation of the debtor.

The forborne status is withdrawn when:

- an analysis of the debtor's financial position shows that the conditions to deem the exposure a non-performing exposure are no longer met;
- at least a 2-year probation period has passed since the forborne exposure was deemed performing;
- regular payments of the principal or interest were made, in a substantial total amount, during at least half the probation period; and
- no exposure to the debtor is more than 30 days in default at the end of the probation period.

2.15. Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are initially recognised in the financial statements at their fair value and classified in the appropriate category according to their purpose and are sold as soon as is practical in order to reduce exposure (note 6.1.o). After initial recognition, repossessed assets are measured and accounted for in accordance with the policies applicable to the relevant asset categories. Repossessed assets mainly represent items of real estate that NLB Group classifies within investment properties measured in accordance with IAS 40 Investment property (note 2.20), and other assets measured in accordance with IAS 2 Inventories.

Real estate obtained from the foreclosure of loans and receivables within other assets are initially recognised at fair value less costs to sell (realisable value), wherein only the direct costs of sales can be taken into account. At subsequent measurement, the realisable value is verified at least annually. Valuations of the fair value of real estate are performed by certified real estate appraisers. The real estate is impaired when the carrying value exceeds the realisable value. The effect of impairment is presented as the impairment of other assets and the reversal of impairment as income from the reversal of the impairment of other assets.

2.16. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.17. Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements, and the counterparty liability is included in financial liabilities associated with the transferred assets. Securities sold subject to sale and repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate.

The difference between the sale and repurchase price is in the financial statements treated as interest and accrued over the life of the repo agreements using the effective interest rate method.

2.18. Property and equipment

All items of property and equipment are initially recognised at cost. They are subsequently measured at cost less accumulated depreciation and any accumulated impairment loss.

Each year, NLB Group assesses whether there are indications that property and equipment may be impaired. If any such indication exists, the recoverable amounts are estimated. The recoverable amount is the higher of the fair value less costs to sell and value in use. If the recoverable amount exceeds the carrying value, the assets are not impaired. If the carrying amount exceeds the recoverable amount, the difference is recognised as a loss in the income statement.

Items of largely independent property and equipment which do not generate cash flows are included in the cash-generating unit and later tested for possible impairment.

Depreciation is calculated on a straight-line basis over the assets' estimated useful lives. The following annual depreciation rates were applied:

NLB Group and NLB	in %
Buildings	2 - 5
Leasehold improvements	5 - 25
Computers	14.3 - 50
Furniture and equipment	10 - 33.3
Motor vehicles	12.5 - 25

Depreciation does not begin until the assets are available for use.

The assets' residual values and useful lives are reviewed and adjusted if appropriate on each reporting date. Gains and losses on the disposal of items of property and equipment are determined as the difference between the sale proceeds and their carrying amount, and are recognised in the income statement.

Maintenance and repairs are charged to the income statement during the financial period in which they are incurred. Subsequent costs that increase future economic benefits are recognised in the carrying amount of an asset, and the replaced part, if any, is derecognised.

2.19. Intangible assets

Intangible assets include software licenses and goodwill (note 2.6.). Intangible assets are stated at cost, less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis at rates designed to write down the cost of an intangible asset over its estimated useful life. The core banking system is amortised over a period of 10 years, and other software over a period of three to five years. Amortisation does not begin until the assets are available for use.

2.20. Investment properties

Investment properties include buildings held for leasing and not occupied by NLB Group, or to increase the value of a long-term investment. Investment properties are stated at fair value determined by a certified appraiser. Fair value is based on current market prices. Any gain or loss arising from a change in the fair value is recognised in the income statement.

2.21. Non-current assets and disposal groups classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is deemed to be met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets and disposal groups classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

During subsequent measurement, certain assets and liabilities of a disposal group that are outside the scope of IFRS 5 measurement requirements are measured in accordance with the applicable standards (e.g. deferred tax assets, assets arising from employee benefits, financial instruments, investment property measured at fair value, and contractual rights under insurance contracts). Tangible and intangible assets are not depreciated. The effects of sale and valuation are included in the income statement as a gain or loss from non-current assets held for sale.

Liabilities directly associated with disposal groups are reclassified and presented separately in the statement of financial position.

2.22. Accounting for leases

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Lease agreements are accounted for in accordance with their classification as finance leases or operating leases at the inception of the lease. The key classification factor is the extent to which the risks and rewards incidental to ownership of a leased asset lie with the lessor or lessee.

NLB Group as a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

Finance leases are recognised as an asset and liability in amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Leased assets are depreciated in accordance with NLB Group's policy over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that NLB Group will obtain ownership by the end of the lease term. Lease payments are apportioned between interest expenses and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability.

NLB Group as a lessor

Payments under operating leases are recognised as income on a straight-line basis over the period of the lease. Assets leased under operating leases are presented in the statement of financial position as investment property or as property and equipment.

NLB Group classifies a lease as a finance lease when the risks and rewards incidental to ownership of a leased asset lie with the lessee. When assets are leased under a finance lease, the present value of the lease payments is recognised as a receivable. Income from finance lease transactions is amortised over the lifetime of the lease using the effective interest rate method. Finance lease receivables are recognised at an amount equal to the net investment in the lease, including the unguaranteed residual value.

Sale-and-leaseback transactions

NLB Group also enters into sale-and-leaseback transactions (in which NLB Group is primarily a lessor) under which the leased assets are purchased from and then leased back to the lessee. These contracts are classified as finance leases or operating leases, depending on the contractual terms of the leaseback agreement.

2.23. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with central banks and other demand deposits at banks, debt securities held for trading, loans to banks, and debt securities not held for trading with an original maturity of up to 90 days. Cash and cash equivalents are disclosed under the cash flow statement.

2.24. Borrowings with characteristics of debt

Loans and deposits received and issued debt securities are initially recognised at fair value, which is typically equal to historical cost less transaction costs. Borrowings are subsequently measured at the amortised cost. The difference between the value at initial recognition and the final value is recognised in the income statement as interest expense, applying the effective interest rate.

Repurchased own debt is disclosed as a reduction in liabilities in the statement of financial position. The difference between the book value and the price at which own debt was repurchased is disclosed in the income statement.

2.25. Other issued financial instruments with characteristics of equity

Upon initial recognition, other issued financial instruments are classified in part or in full as equity instruments if the contractual characteristics of the instruments are such that NLB Group must classify them as equity instruments in accordance with IAS 32 Financial Instruments: Disclosure and Presentation. An issued financial instrument is only considered an equity instrument if that instrument does not represent a contractual obligation for payment.

Issued financial instruments with characteristics of equity are recognised in equity in the statement of financial position. Transaction costs incurred for issuing such instruments are deducted from equity reserves. The corresponding interest is recognised directly in profit reserves.

The carrying value of an issued financial instrument with characteristics of equity is presented in the statement of changes in equity in the item 'Other Equity Instruments.'

2.26. Provisions

Provisions are recognised when NLB Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.27. Contingent liabilities and commitments

Financial and non-financial guarantees

Financial guarantees are contracts that require the issuer to make specific payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payments when due, in accordance with the terms of debt instruments. Such financial guarantees are given to banks, financial institutions, and other bodies on behalf of the customer to secure loans, overdrafts, and other banking facilities.

The issued guarantees covering non-financial obligations of the clients represent the obligation of the Bank (guarantor) to pay if the client fails to perform certain works in accordance with the terms of the commercial contract. Financial and non-financial guarantees are initially recognised at fair value, which is normally evidenced by the fees received. The fees are amortised to the income statement over the contract term using the straight-line method. NLB Group's liabilities under guarantees are subsequently measured at the greater of:

- the initial measurement, less amortisation calculated to recognise fee income over the period of guarantee; or
- the best estimate of the expenditure required to settle the obligation.

Documentary letters of credit

Documentary (and standby) letters of credit constitute a written and irrevocable commitment of the issuing (opening) bank on behalf of the issuer (importer) to pay the beneficiary (exporter) the value set out in the documents by a defined deadline:

- if the letter of credit is payable on sight; and
- if the letter of credit is payable for deferred payment, the bank will pay according to the contractual agreement when and if the beneficiary (exporter) presents the bank with documents that are in line with the conditions and deadlines set out in the letter of credit.

A commitment may also take the form of a letter of credit confirmation, which is usually done at the request or authorisation of the issuing (opening) bank and constitutes a firm commitment by the confirming bank, in addition to that of the issuing bank, which independently assumes a commitment to the beneficiary under certain conditions.

Other contingent liabilities and commitments

Other contingent liabilities and commitments represent commitments to extend credit, uncovered letters of credit, and other commitments.

2.28. Taxes

Income tax expense comprises current and deferred income tax.

Current corporate income tax in NLB Group is calculated on taxable profits at the applicable tax rate in the respective jurisdiction. The corporate income tax rate for 2017 in Slovenia was 19% (2016: 17%).

Deferred income tax is calculated using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised if it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

Deferred tax related to the fair value re-measurement of available-for-sale investments, cash flow hedges, and actuarial gains and losses on defined benefit pension plans is charged or credited directly to other comprehensive income.

Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period that are expected to apply to the period when the asset is realised or the liability is settled. At each reporting date, NLB Group reviews the carrying amount of deferred tax assets and assesses future taxable profits against which temporary taxable differences can be utilised.

Deferred tax assets for temporary differences arising from investments in subsidiaries, associates, and joint ventures are recognised only to the extent that it is probable that:

- the temporary differences will be reversed in the foreseeable future; and
- taxable profit will be available.

Slovenian law does not set limits or deadlines by which uncovered tax losses must be utilised.

A tax on financial services, which imposes a tax on fees paid for prescribed financial services rendered, is paid in Slovenia. The tax rate is 8.5% (2016: 8.5%) and the tax is paid monthly. Given that the tax on financial services is classified as a sales tax, it reduces accrued revenues in the financial statements.

2.29. Fiduciary activities

NLB Group provides asset management services to its clients. Assets held in a fiduciary capacity are not reported in NLB Group's financial statements as they do not represent assets of NLB Group. Fee and commission income charged for this type of service is broken down by items in note 4.3.b. Further details on transactions managed on behalf of third parties are disclosed in note 5.25.

Based on the requirements of Slovenian legislation, NLB Group has additionally disclosed in note 5.25. assets and liabilities on accounts used to manage financial assets from fiduciary activities, i.e. information related to the receipt, processing, and execution of orders and related custody activities.

2.30. Employee benefits

Employee benefits include jubilee long-service benefits and retirement indemnity bonuses. Provisions for employee benefits are calculated by an independent actuary.

The main assumptions included in the actuarial calculation are as follows:

	NLB Group		NLB	
	2017	2016	2017	2016
Actuarial assumptions				
Discount factor	0.8% - 3.1%	0.8% - 6.0%	1.0%	0.8%
Wage growth based on inflation, promotions, and wage growth based on past years of service	1.6% - 4.0%	1.6% - 4.0%	2.5%	2.5%
Other assumptions				
Number of employees eligible for benefits	5,442	5,584	2,779	2,876

Sensitivity analysis of significant actuarial assumptions

	NLB Group				NLB			
31.12.2017	Discount rate		Future salary increases		Discount rate		Future salary increases	
	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.
Impact on employee benefits provisions - post-employment benefits (in %)	(5.7)	6.2	6.1	(5.7)	(5.8)	6.3	6.2	(5.7)

According to legislation, employees retire after 35-40 years of service when, if they fulfil certain conditions, they are entitled to a lump-sum severance payment. Employees are also entitled to a long-service bonus for every 10 years of service in NLB.

These obligations are measured at the present value of future cash outflows considering future salary increases and other conditions, and then apportioned to past and future employee service based on benefit plan terms and conditions.

Service costs are included in the income statement in the item administrative expenses as defined benefit costs, while interest expenses on the defined benefit liability are recognised in the item interest and similar expenses. These interest expenses represent the change during the period in the defined benefit liability that arises from the passage of time. Actuarial gains and losses from the effect of changes in actuarial assumptions and experience adjustments (differences between the realised and expected payments) are recognised in other comprehensive income under the item 'Actuarial Gains/(Losses) on Defined Benefit Pensions Plans' and will not be recycled to the income statement.

NLB Group pays contributions to the state pension schemes according to the local legislation. NLB contributes 8.85% of gross salaries. Once contributions have been paid, NLB Group has no further obligation. Contributions constitute costs in the period to which they relate and are disclosed in employee costs in the income statement.

2.31. Share capital

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by NLB's shareholders.

Treasury shares

If NLB or another member of NLB Group purchases NLB's shares, the consideration paid is deducted from total shareholders' equity as treasury shares. If such shares are subsequently sold, any consideration received is included in equity. If NLB's shares are purchased by NLB itself or other NLB Group entities, NLB creates reserves for treasury shares in equity.

Share issue costs

Costs directly attributable to the issue of new shares are recognised in equity as a reduction in the share premium account.

2.32. Segment reporting

Operating segments are reported in a manner consistent with internal reporting to the Management Board, which is the executive body that makes decisions regarding the allocation of resources and assesses the performance of a specific segment.

Transactions between organisational units (OU) are managed under normal operating conditions. Interest income among individual OU in the parent bank (NLB) is allocated using a multiple transfer pricing method and shown within the net interest income of each OU. Net non-interest income is allocated to the OU that actually provide the service that generates income. Direct costs are attributed to the segment that is directly related to the provided service and indirect costs (costs which service centres provide for profit centres) are attributed to the segment for which the service is provided, whereas overhead costs are allocated according to general keys. External net income is the net income of NLB Group from the consolidated income statement. Income tax is not allocated between segments (note 7.a).

In accordance with IFRS 8, NLB Group has the following reportable segments: Corporate Banking in Slovenia, Retail Banking in Slovenia, Financial Markets in Slovenia, Foreign Strategic markets, Non-core Markets and Activities, and Other Activities.

2.33. Critical accounting estimates and judgments in applying accounting policies

NLB Group's financial statements are influenced by accounting policies, assumptions, estimates, and management's judgment. NLB Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with the IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuing basis, and are based on past experience and other factors, including expectations with regard to future events.

a) Impairment losses on loans and advances

NLB Group monitors and checks the quality of the loan portfolio at the individual and portfolio levels to continuously estimate the necessary impairments. NLB Group creates individual impairments for individually significant financial assets where objective evidence of an impairment exists. Such evidence is based on information regarding the fulfilment of contractual obligations or other financial difficulties of the debtor, and other important facts defined in note 2.13. Individual assessments are based on the expected discounted cash flows from operations and/or the assessed expected payment from collateral, as verified by the Credit Analyses and Control Division.

Impairments are assessed collectively for financial assets for which no objective evidence of impairment exists, or for financial assets with lower exposure amounts. The future cash flows in this group of assets are estimated on the basis of past experience and losses from assets with a similar credit risk as the assets in the group. The methodology and assumptions used to estimate future cash flows are reviewed regularly in order to make loss estimations as realistic as possible.

Stress testing for credit risk predicts the impact of unfavourable macroeconomic conditions on default and loss rates

The stress scenario predicts a slowdown of economic conditions, which results in an increase of the default rate (DR), as well as the loss rate (LR). Based on the historic experience the connection between the macroeconomic factors and the risk factors is assessed and benchmarks are applied to the existing exposures to assess the additional default flow and impairments and provisions required to cover the risk. The assumption in these scenarios is that exposure does not change over one year.

The results of the stress scenario for NLB Group shows an increase of impairments by EUR 70.4 million (2016: EUR 84.2 million), and an increase in the coverage of the credit portfolio by impairments by 0.63 percentage points (2016: 0.73 percentage points).

b) Fair value of financial instruments

The fair values of financial investments traded on the active market are based on current bid prices (financial assets) or offer prices (financial liabilities).

The fair values of financial instruments that are not traded on the active market are determined by using valuation models. These include a comparison with recent transaction prices, the use of a discounted cash flow model, valuation based on comparable entities, and other frequently used valuation models. These valuation models pretty much reflect current market conditions at the measurement date, which may not be representative of market conditions either before or after the measurement date. Management reviewed all applied models as at the reporting date to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and applied credit spread. Changes in assumptions regarding these factors could affect the reported fair values of financial instruments held for trading and available-for-sale financial assets.

The fair values of derivative financial instruments are determined on the basis of market data (mark-to-market), in accordance with NLB Group's methodology for the valuation of derivative financial instruments. The market exchange rates, interest rates, yield, and volatility curves used in valuation are based on the market snapshot principle. Market data are saved daily at 4 p.m., and later used for the calculation of the fair values (market value, NPV) of financial instruments. NLB Group applies market yield curves for valuation, and fair values are additionally adjusted for credit risk of the counterparty.

The fair value hierarchy of financial instruments is disclosed in note 6.5.

c) Available-for-sale equity instruments

Available-for-sale equity instruments are impaired if there has been a significant or prolonged decline in their fair value below historical cost. The determination of what is significant or prolonged is based on assessments. In making these assessments, NLB Group takes several factors into account, including share price volatility. Impairment may also be indicated by evidence regarding deterioration in the financial position of the instrument issuer, deterioration in sector performance, changes in technology, and a decline in cash flows from operating and financing activities.

If all the declines in fair value below cost had been considered significant or prolonged, NLB Group would have incurred additional impairment losses of EUR 119 thousand (2016: EUR 257 thousand) from the reclassification of the negative valuation from the statement of comprehensive income to the income statement for the current year, while NLB would have additional impairment losses of EUR 18 thousand in 2017 (2016: EUR 0).

d) Held-to-maturity financial assets

NLB Group classifies non-derivative financial assets with fixed or determinable payments, and a fixed maturity as held-to-maturity financial assets. Before making this classification, NLB Group assesses its intention and ability to hold such investments to maturity. If NLB Group is unable to hold these investments until maturity, it must reclassify the entire group as available-for-sale financial assets. The investments would therefore be measured at fair value, resulting in an increase in the value of investments of EUR 48,317 thousand (31.12.2016: an increase by EUR 59,895 thousand) and corresponding other comprehensive income.

e) Impairment of investments in subsidiaries, associates, and joint ventures

The process of identifying and assessing the impairment of goodwill and other intangible assets is inherently uncertain, as the forecasting of cash flows requires the significant use of estimates, which themselves are sensitive to the assumptions used. The review of impairment represents management's best estimate of the facts and assumptions such as:

- Future cash flows from individual investments present the estimated cash flow for periods for which adopted plans are available. For core members, estimated cash flows are based on a five-year business plan. For non-core members, estimated cash flows are based on a period in line with the strategy of divestment. The business plans of individual entities are based on an assessment of future economic conditions that will impact an individual member's business and the quality of the credit portfolio.
- The growth rate in cash flows for the period following the adopted business plan is between 1 and 1.5%.
- The target capital adequacy ratio of an individual bank is between 13 and 17%.
- The discount rate derived from the capital asset pricing model that is used to discount future cash flows is based on the cost of equity allocated to an individual investment. The discount rate reflects the impact of a range of financial and economic variables, including the risk-free rate and risk premium. The value of variables used is subject to fluctuations outside management's control. The pre-tax discount rate is between 9.66 and 19.07% (31.12.2016: between 9.52 and 18.78%).

For strategic NLB Group members in 2017 and 2016 there were no indications of impairment for equity investments.

In 2017, NLB impaired equity investments in non-core members in the amount of EUR 731 thousand.

f) Goodwill

In the consolidated financial statements goodwill is allocated to cash-generating units (hereinafter: 'CGUs'), which represent the lowest level within NLB Group at which these assets are monitored by management. Each NLB Group entity presents a separate CGU. The recoverable amount of each CGU was determined based on value-in-use calculations.

NLB Group performed a test of the impairment of goodwill at the end of the year for all subsidiaries. The review of the impairment of goodwill is based on the same facts and assumptions as the review of impairment of investments in subsidiaries, associates, and joint ventures (note 2.33.e).

g) Taxes

NLB Group operates in countries governed by different laws. The deferred tax assets recognised as at 31.12.2017 are based on profit forecasts and take the expected manner of recovery of the assets into account, i.e. whether the value will be recovered through use, sale, or liquidation. Changes in assumptions regarding the likely manner of recovering assets can lead to the recognition of currently unrecognised deferred tax assets or derecognition of previously created deferred tax assets. NLB Group will adjust deferred tax assets accordingly in the event of changes to assumptions regarding future operations (notes 4.14. and 5.18.).

h) Classification of issued financial instruments as debt or equity

NLB Group issues non-derivative financial instruments where a specific judgment is required to determine whether these instruments are classified as a liability or as equity. When the delivery of cash depends on the outcome of uncertain future events that are beyond the control of NLB Group, and management anticipates that these future events are extremely rare, highly abnormal, and unlikely to occur, these instruments are classified as equity.

2.34. Implementation of the new and revised International Financial Reporting Standards

During the current year, NLB Group adopted all new and revised standards and interpretations issued by the International Accounting Standards Board (hereinafter: 'the IASB') and the International Financial Reporting Interpretations Committee (hereinafter: 'the IFRIC'), and that are endorsed by the EU that are effective for annual accounting periods beginning on 1 January 2017.

Accounting standards and amendments to existing standards effective for annual periods beginning on 1 January 2017 that were endorsed by the EU and adopted by NLB Group

- IAS 12 (amendment) – Recognition of Deferred Tax Assets for Unrealised Losses is effective for annual periods beginning on or after 1 January 2017. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. There is no impact on NLB Group's consolidated financial statements, because NLB already recognised deferred tax assets accrued on the basis of temporary differences in an amount that, given future estimates, is expected to be reversed in the foreseeable future within five years.
  - IAS 7 (amendment) – Disclosure Initiative - the amendment to IAS 7 Statement of Cash Flows is effective for annual periods beginning on or after 1 January 2017. The amendments require companies to provide information about changes in their financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses). Currently, the amendments do not have impact on the presentation of NLB Group's consolidated financial statements, because there are no changes in financing activities.

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

- IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a new approach to financial instruments classification and measurement, a new more forward-looking expected loss model, and amends the requirements for hedge accounting. IFRS 9 is mandatorily effective for annual periods beginning on or after 1 January 2018, with early application permitted. In October 2017, the IASB issued the Amendment to IFRS 9: Prepayment Features with Negative Compensation that are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. The amendment allows certain pre-payable financial assets with a negative compensation prepayment option to be measured at an amortized cost or fair value through other comprehensive income, if the prepayment amount substantially represents the reasonable compensation and unpaid principal and interest. Reasonable compensation may be positive or negative. Prior to this amendment financial assets with this negative compensation feature would have failed the exclusive payments of principal and interest test and be mandatorily measured at fair value through profit or loss. This amendment has not yet been endorsed by EU but nevertheless, it will not impact the NLB Group's financial statements.

NLB Group and NLB applied the new standard on 1 January 2018, with the exception of the aforementioned amendment that will be adopted on 1 January 2019 or after endorsement by EU.

Taking into account the dimensions of the IFRS 9 requirements and their impact on the overall banking system, implementation of the standard has been driven centrally by the parent bank. The project has been organised around different working groups covering the different aspects of IFRS 9. Classification and measurement is run by Financial Accounting, while the impairment is run by Global Risk. Other relevant departments have been involved in a supporting role. The Project has been sponsored by the Chief Financial and Risk Officers. A project Steering Committee has been nominated for internal monitoring of progress in the implementation and adoption of relevant decisions, meeting on at least a quarterly basis.

In accordance with the transition requirements of IFRS 9, comparative figures have not been restated. An adjustment arising from the adoption to IFRS 9 was recognised in retained earnings and other comprehensive income as at 1 January 2018. Due to the transition to IFRS 9 requirements, share-holders equity on NLB Group increased for EUR 43.8 million and EUR 27.7 million for NLB. The Tier 1 capital ratio for NLB Group has increased by 0.4 percentage points. NLB Group will not apply transitional arrangements at the transition to the expected credit loss model in accordance with Regulation (EU) 2017/2395.

Classification and measurement under IFRS 9

From a classification and measurement perspective, IFRS 9 requires all debt financial assets to be assessed based on a combination of the Group's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories of financial assets have been replaced by:

- Financial assets, measured at amortised costs (AC),
- Financial assets at fair value through other comprehensive income (FVOCI),
- Financial assets held for trading (FVTPL), and
- Non-trading financial assets, mandatorily at fair value through profit or loss (FVTPL).

Financial assets are measured at AC if they are held within a business model for the purpose of collecting contractual cash flows ('held to collect'), and if cash flows are solely payments of principal and interest on the principal amount outstanding.

Debt financial instruments are measured at FVOCI if they are held within a business model for the purpose of both collecting contractual cash flows and selling ('held to collect and sell'), and if cash flows are solely payments of principal and interest on the principal amount outstanding. FVOCI results in the debt instruments being recognised at fair value in the statement of financial position and at AC in the income statement. Gains and losses, except for expected credit losses and foreign currency translations, are recognised in other comprehensive income until the instrument is derecognised. At derecognition of the debt financial instrument, the cumulative gains and losses previously recognised in other comprehensive income are reclassified to the income statement.

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement, except for dividends that are recognised in the income statement.

All other financial assets are mandatorily measured at FVTPL, including financial assets within other business models such as financial assets managed at fair value or held for trading and financial assets with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding.

Like IAS 39, IFRS 9 includes an option to designate financial assets at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases.

The accounting for financial liabilities remained the same as the requirements of IAS 39, except for the treatment of gains or losses arising from bank's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

NLB Group and NLB elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting requirements in accordance with IAS 39. However, the Bank will implement the revised hedge accounting disclosures that are required by the IFRS 9 related amendments to IFRS 7 "Financial Instruments: Disclosures" in the 2018 Annual Report. Embedded derivatives are under IFRS 9, and no longer separated from the host's financial assets. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

Assessment of NLB Group's business model

NLB Group has determined its business model separately for each reporting unit within the NLB Group and is based on observable factors for different portfolios that best reflects how the Group manages groups of financial assets to achieve its business objective, such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to key management personnel,
- the risks that affect the performance of the business model and, in particular, the way those risks are managed,
- how the managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets or on collection of contractual cash flows),
- the expected frequency, value, and timing of sales.

The business model assessment is based on reasonably expected scenarios without taking worst-case and stress case scenarios into account. In general, the business model assessment of the Group can be summarised as follows:

- loans and deposits given are included in a business model 'held to collect' since the primary purpose of NLB Group for the loan portfolio is to collect the contractual cash flows.
- debt securities are divided into three business models:
  - the first group of debt securities presents "held for trading" category
  - the second group of debt securities are held under a business model "held to collect and sale" with the aim to collect the contractual cash flows and sale of financial assets, and forms part of the Group's liquidity reserves
  - the third part of debt securities is held within the business model for holding them in order to collect contractual cash flows.

With regard to debt securities within the 'held to collect' business model, the sales which are related to the increase of the issuers' credit risk, concentrations risk, sales made close to the final maturity, or sales order to meet liquidity needs in a stress case scenario are permitted. Other sales, which are not due to an increase in credit risk may still be consistent with a held to collect business model if such sales are incidental to the overall business model and;

- are insignificant in value both individually and in aggregate, even when such sales are frequent;
- are infrequent even when they are significant in value.

Review of instruments' contractual cash flow characteristics (the SPPI test – solely payment of principal and interest on the principal amount outstanding)

The second step in the classification of the financial assets in portfolios being 'held to collect' and 'held to collect and sell' relates to the assessment of whether the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g. due to repayment. The interest must represent only the consideration for the time value of money, credit risk, other basic lending risks, and a profit margin consistent with basic lending features. If the cash flows introduce more than de minimis exposure to risk or volatility that is not consistent with basic lending features, the financial asset is mandatorily recognised at FVTPL.

NLB Group reviewed the portfolio within 'held to collect' and 'held to collect and sale' for standardised products on a level of a product sample and for non-standardised products on a single exposure level. The Group established a procedure for SPPI identification as part of regular investment process with defined responsibilities for primary and secondary controls. Special emphasis is put on new and non-standardised characteristics of the loan agreements.

At transition to IFRS 9, as of 1 January 2018, NLB Group identified only few exposures that did not pass the SPPI test and are therefore measured mandatorily at fair value through profit or loss.

Accounting policy for modified financial assets

Accounting policy for modified financial assets differentiates between modifications of contractual cash flows that occur from commercial reasons and those, occurring due to financial difficulties of a client. Modifications of financial assets due to commercial reasons present the derecognition event. In relation to clients in financial difficulties, significant modifications lead to derecognition event whereas modifications that are not significant (where exposure to risks remains broadly the same) do not lead to derecognition. For the latter NLB Group recognizes modification gain or loss.

Impairment of financial instruments

IFRS 9 requires the shift from an incurred loss model to an expected loss model that provides an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. The expected loss model requires NLB Group to recognise not only credit losses that have already occurred, but also losses that are expected to occur in the future. An allowance for expected credit losses (ECL) is required for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

The allowance is based on the expected credit losses associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset (LECL). When determining whether the risk of default increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical data, experience, and expert credit assessment and incorporation of forward-looking information.

Classification into stages

NLB Group prepared a methodology for ECL defining the criteria for classification into stages, transition criteria between stages, risk indicators calculation, and validation of models. The Group classifies financial instruments into Stage 1, Stage 2, and Stage 3, based on the applied impairment methodology as described below:

- Stage 1 – performing portfolio: no significant increase of credit risk since initial recognition, NLB Group recognises an allowance based on 12-month period,
- Stage 2 – underperforming portfolio: significant increase in credit risk since initial recognition, NLB Group recognises an allowance for lifetime period, and
- Stage 3 – impaired portfolio: NLB Group recognises lifetime allowances for these financial assets. Definition of default is harmonised with EBA guidelines.

A significant increase in credit risk is assumed:

- when a credit rating significantly deteriorates at the reporting date, in comparison to the credit rating at initial recognition,
- when a financial asset has material delays over 30 days (days-past due are also included in the credit rating assessment),
- if NLB Group expects to grant the borrower forbearance, or
- if the facility is placed on the watch list.

The methodology of credit rating for banks and sovereign classification depends on the existence or non-existence of a rating from international credit rating agencies Fitch, Moody's, or S&P. Ratings are set on a basis of the average international credit rating. If there are no international credit ratings, the classification is based on the internal methodology of NLB Group.

ECL for Stage 1 financial assets is calculated based on 12-month PDs (probability of default) or shorter period PDs, if the maturity of the financial asset is shorter than 1 year. The 12-month PD already includes macroeconomic impact effect. Impairment losses in stage 1 are designed to reflect impairment losses that had been incurred in the performing portfolio, but have not been identified.

LECL for Stage 2 financial assets is calculated on the basis of lifetime PDs (LPD) because their credit risk has increased significantly since their initial recognition. This calculation is also based on forward-looking assessment that takes into account number of economic scenarios in order to recognise the probability of losses associated with the predicted macro-economic forecasts.

For financial instruments in Stage 3 the same treatment is applied as for those considered to be credit impaired in accordance with IAS 39. Exposures below the materiality threshold obtain collective provisions using PD of 100%. Financial instruments will be transferred out of Stage 3 if they no longer meet the criteria of credit-impaired after a probation period. Special treatment applies for purchased or originated credit-impaired financial instruments (POCI), where only the cumulative changes in the lifetime expected losses since initial recognition is recognised a loss allowance.

The calculation of collective provisions is performed by multiplying the EAD (exposure at default) at the end of each month with an appropriate PD and LGD (loss-given default). EAD is determined as the sum of on-balance exposure and off-balance exposure multiplied by the CCF (credit conversion factor). The obtained result for each month is discounted to the present time. For Stage 1 exposures ECL only takes a 12-month period into account, while for Stage 2 all potential losses until maturity date are included.

For the purpose of estimating the LGD parameter, NLB uses collateral HC (haircut) at the level of each type of collateral and URR (unsecured recovery rate) at the level of each client segment, in accordance with Bank of Slovenia Guidelines. Both parameters are calculated on the bank's historical repayment data.

Expected Life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Forward looking information

The Group incorporates forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECL. The Group considers forward-looking information such as macroeconomic factors (e.g., unemployment rate, GDP growth, interest rates, and housing prices) and economic forecasts. The baseline scenario represents the more likely outcome resulting from the Group's normal budgeting process, while the better and worse case scenarios represent more optimistic or pessimistic outcomes (similar as by ICAAP).

Recalculation of all parameters is performed annually or more frequently if the macro environment changes more than it was incorporated in previous forecasts. In such a case all the parameters are recalculated according to new forecasts.

Presentation of effects at transition to IFRS 9 as of 1 January 2018

Based on the presented business model, the contractual cash flow characteristics of debt instruments and implementation of the expected credit loss model, and the comparison between IAS 39 and IFRS 9 measurements categories at which NLB Group recognised the effects at the transition to IFRS 9 as of 1 January 2018 are presented below:

in EUR thousand

	NLB Group	NLB
IAS 39 measurement categories		
Assets	**11,811,926**	**8,150,393**
Cash, cash balances at central banks, and other demand deposits at banks	1,256,481	570,010
Financial assets designated at fair value through profit or loss	5,003	634
Available-for-sale financial assets	2,276,493	1,777,762
Loans and receivables	7,570,650	5,170,321
Held-to-maturity investments	609,712	609,712
Tax assets	21,398	21,954
Liabilities	**102,860**	**75,633**
Financial liabilities designated at fair value through profit or loss	635	635
Provisions	88,639	70,817
Tax liabilities	3,990	-
Other liabilities	9,596	4,181

in EUR thousand

	NLB Group	NLB
IFRS 9 Measurement categories		
Assets	**11,870,917**	**8,179,895**
Cash, cash balances at central banks, and other demand deposits at banks	1,255,824	569,943
Non-trading financial assets mandatorily at fair value through profit or loss	31,404	31,239
Financial assets at fair value through other comprehensive income	1,656,365	1,285,276
Financial assets measured at amortised costs	8,834,791	6,273,119
Tax assets	20,344	20,318
Liabilities	**115,737**	**77,469**
Financial liabilities designated at fair value through profit or loss	5,815	5,166
Provisions	93,989	67,232
Tax liabilities	6,466	1,014
Other liabilities	9,467	4,057
Effect on equity at transition to IFRS 9 as of 1.1.2018	**46,114**	**27,666**

Details on effects at transition to IFRS 9 recognised in the retained earnings is presented below:

in EUR thousand

	NLB Group	NLB
Impact on equity due to transition to IFRS 9 - details		
Changed methodology for impairments and provisions	58,743	37,319
Remeasurement of loans to fair value	36	(687)
Recognition of modification loss	(1,049)	(1,049)
Reclassification and remeasurement of securities	(7,504)	(5,267)
Income tax on transition	(4,112)	(2,650)
Total impact	**46,114**	**27,666**
Minority share	(2,281)	-
Total impact attributable to the owners of the parent	**43,833**	**27,666**

- IFRS 15 (new standard) – Revenue from Contracts with Customers is effective for annual periods beginning on or after 1 January 2018. IFRS 15 replaces all existing revenue requirements in the IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. The standard specifies the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. NLB Group does not expect a material impact on its consolidated financial statements.

- IFRS 15 (amendment) – Clarifications to Revenue from Contracts with Customers are effective for annual periods beginning on or after 1 January 2018. The amendments to the Revenue Standard do not change the underlying principles of the Standard, but clarify how those principles should be applied. They also clarify how to identify a performance obligation in a contract, determine whether a company is a principal, and determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. NLB Group does not expect a material impact on its consolidated financial statements.

- IFRS 4 (amendment) – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts is effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new replacement Standard IFRS 4. The amendments introduce two approaches: an overlay approach and a temporary exemption from applying IFRS 9. NLB Group does not expect an impact on its consolidated financial statements.

- IFRS 16 (new standard) – Leases is effective for annual periods beginning on or after 1 January 2019. IFRS 16 replaces the old lease accounting Standard IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases, and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments, and an asset representing the right to use the underlying asset during the lease. The term 'Lessor Accounting' under IFRS 16 is substantially unchanged from today's accounting under IAS 17. NLB Group is evaluating the impact of the standard on NLB Group's consolidated financial statements.

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

- IFRS 17 (new standard) – Insurance Contracts is effective for annual periods beginning on or after 1 January 2021. The new standard provides a comprehensive principle-based framework for the measurement and presentation of all insurance contracts. The new standard will replace IFRS 4 Insurance Contracts and requires insurance contracts to be measured using current fulfilment cash flows and for revenue to be recognised as the service is provided over the coverage period. The Group will assess the impact of adopting this new standard.

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration is effective for annual periods beginning on or after 1 January 2018. The interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. It covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense, or income. It does not apply when an entity measures the related asset, expense, or income on initial recognition at fair value. NLB Group is evaluating the impact of the amendments on NLB Group's consolidated financial statements.

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments is effective for annual periods beginning on or after 1 January 2019. The Interpretation addresses the accounting for income tax when it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. NLB Group is evaluating the impact of the amendments on NLB Group's consolidated financial statements.

- IFRS 2 (amendment) – Classification and Measurement of Share-based Payment Transactions is effective for annual periods beginning on or after 1 January 2018. The amendments clarify how to account for certain types of share-based payment transactions.

They provide requirements that address three main areas: the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, the classification of share-based payment transactions with a net settlement feature for withholding tax obligations, and accounting where a modification to the terms and conditions of a share-based payment transactions changes its classification from cash-settled to equity-settled. NLB Group does not have share-based payments transactions.

- Annual Improvements to IFRSs 2014–2016 Cycle. The improvements are minor amendments that clarify, correct, or remove redundant wording in Standards. The amendments refer to three Standards: IFRS 12 Disclosure of Interests in Other Entities effective for annual periods beginning on or after 1 January 2017, and IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures effective for annual periods beginning on or after 1 January 2018.

- IAS 40 (amendment) – Transfers of Investment Property is effective for annual periods beginning on or after 1 January 2018. The amendments clarify the requirements on transfers to, or from, investment property. An entity shall transfer a property to, or from, an investment property when, and only when, there is evidence of a change in use. A change of use occurs if the property meets, or ceases to meet, the definition of an 'investment property.' A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. NLB Group is evaluating the impact of the amendments on NLB Group's consolidated financial statements.

- IAS 28 (amendment) – Long-term Interests in Associates and Joint Ventures is effective for annual periods beginning on or after 1 January 2019. The amendment clarifies that IFRS 9 Financial Instruments applies to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture, but to which the equity method is not applied. NLB Group does not expect an impact on its consolidated financial statements.

- Annual Improvements to IFRSs 2015-2017 Cycle. The improvements comprise a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 January 2019. The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. The amendments to IAS 12 clarify that all income tax consequences of dividends should be recognised in profit or loss, regardless of how the tax arises. The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. NLB Group is evaluating the impact of the amendments on NLB Group's consolidated financial statements.

- IFRS 14 (new standard) - Regulatory Deferral Accounts is an optional standard, effective for annual periods beginning on or after 1 January 2016. The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard. The standard allows an entity whose activities are subject to rate-regulation to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Existing IFRS preparers are prohibited from adopting this standard. The amendment does not have an impact on NLB Group's consolidated financial statements.

- IFRS 10 and IAS 28 (amendment) – The IASB has deferred the effective dates of Sale or Contribution of Assets between an Investor and its Associate or Joint Venture amendments indefinitely. The amendments address a conflict between the requirements of IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. NLB Group does not expect an impact on its consolidated financial statements.

3. Changes in subsidiary holdings

Changes in 2017

Capital changes:

- An increase in share capital in the form of a cash contribution in the amount of EUR 10,909 thousand in NLB Banka Belgrade, REAM d.o.o. Belgrade and REAM d.o.o. Zagreb to ensure an increase in business operations.
- An increase in share capital in the form of cash contributions in the amount of EUR 75 thousand in CBS Invest, Sarajevo to ensure capital adequacy until the end of liquidation.
- NLB acquired shares of NLB Banka, Podgorica and thereby increased its ownership from 99.36% to 99.83%. The increase in the capital investment was recognised in the amount of EUR 125 thousand.
- An increase in share capital in the form of a cash contribution in the amount of EUR 212 thousand in Prvi Faktor d.o.o., Belgrade – u likvidaciji to ensure

capital adequacy until the end of the liquidation. Now NLB has directly 5% ownership in the company.

Other changes:

- Kreditni biro SISBON was liquidated. In accordance with a court order, the company was removed from the court register.
- SPV 2 d.o.o., Novi Sad was established and will manage certain real estate in NLB Group. NLB's ownership is 100%. In August 2017 headquarters of the company was moved to Belgrade, and so the company is now called SPV 2 d.o.o., Belgrade.
- In July 2017, NLB sold its non-core subsidiary NLB Factoring – "v likvidaci," Brno.
- NLB Prospera Plus d.o.o., Ljubljana – v likvidaciji and NLB Leasing d.o.o. – v likvidaciji, Ljubljana are formally in liquidation.

Changes in 2016

Capital changes:

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

Other changes:

- FIN-DO d.o.o., Domžale and PRO-Avenija d.o.o., Ljubljana merged with PRO-REM d.o.o., Ljubljana. The merger was formally registered on 1 July 2016, with the accounting date of the merger as at 31.12.2015.
- BH-RE d.o.o., Sarajevo was established and will manage certain real estate in NLB Group. PRO-REM d.o.o., Ljubljana's ownership is 100%.
- Kreditni biro SISBON d.o.o,Ljubljana; Optima Leasing, Zagreb; NLB Leasing, Belgrade; NLB Lizing, Skopje; PRO-REM, Ljubljana; OL Nekretnine, Zagreb; NLB Leasing Podgorica, Podgorica; and NLB Interfinanz Zürich are formally in liquidation; and also NLB Propria, Ljubljana from 1 January 2017.
- Prvi faktor, Skopje and NLB Leasing Sofia were liquidated. In accordance with a court order, the companies were removed from the court register.

4. Notes to the income statement

4.1. Interest income and expenses

Analysis by type of assets and liabilities

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Interest and similar income				
Loans and advances to customers	311,581	327,055	148,229	166,718
Available-for-sale financial assets	26,476	31,426	14,045	17,881
Held-to-maturity financial assets	16,446	17,997	16,446	17,997
Financial assets held for trading	6,801	9,180	6,801	9,273
Loans and advances to banks and central banks	1,548	1,249	2,304	2,407
Derivatives - hedge accounting	-	831	-	831
Deposits with banks and central banks	881	755	430	442
Other financial assets	-	1	-	1
Total	**363,733**	**388,494**	**188,255**	**215,550**
Interest and similar expenses				
Due to customers	29,476	40,797	8,852	15,281
Debt securities in issue	4,357	9,376	4,357	9,376
Financial liabilities held for trading	5,896	5,923	5,896	5,923
Derivatives - hedge accounting	6,249	5,688	6,249	5,688
Borrowings from banks and central banks	2,243	3,699	1,670	2,713
Borrowings from other customers	1,561	1,857	-	10
Subordinated liabilities	1,593	1,840	-	-
Negative interest	2,436	1,429	2,115	1,307
Interest expenses on defined employee benefits (note 2.30. and 5.17.c)	242	357	110	205
Deposits from banks and central banks	220	75	166	70
Other financial liabilities	144	148	51	99
Total	**54,417**	**71,189**	**29,466**	**40,672**
Net interest	**309,316**	**317,305**	**158,789**	**174,878**

In 2017, interest income on individually impaired loans amounted to EUR 26,541 thousand (2016: EUR 31,059 thousand) for NLB Group, and to EUR 11,984 thousand for NLB (2016: EUR 15,940 thousand).

The item 'Negative interest' includes the interest from deposits with banks and central banks in amount of EUR 2,107 thousand for NLB Group (2016: EUR 1,429 thousand), and EUR 1,786 thousand for NLB (2016: 1,307), and also available for sale financial assets with negative effective interest rates due to purchase with premium in amount of EUR 329 thousand for NLB Group and NLB (2016:0 EUR).

4.2. Dividend income

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Available-for-sale financial assets	179	1,238	50	1,144
Total	**179**	**1,238**	**50**	**1,144**

4.3. Fee and commission income and expenses

a) Fee and commission income and expenses relating to activities of NLB Group and NLB

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Fee and commission income				
Fee and commission income relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	60,976	55,798	39,459	37,568
Customer transaction accounts	43,485	39,878	32,699	31,015
Other fee and commission income				
Payments	56,997	54,987	28,408	28,149
Investment funds	17,070	13,831	5,000	3,615
Guarantees	11,111	12,225	7,306	8,250
Agency of insurance products	4,073	3,321	4,060	3,302
Other services	5,810	6,008	3,900	4,399
Total	**199,522**	**186,048**	**120,832**	**116,298**
Fee and commission expenses				
Fee and commission expenses relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	38,064	34,539	22,980	21,430
Other fee and commission expenses				
Payments	5,675	5,363	812	775
Insurance for holders of personal accounts and golden cards	1,465	2,108	983	1,427
Investment banking	1,433	1,018	345	279
Guarantees	231	354	170	290
Other services	2,891	3,038	1,210	1,361
Total	**49,759**	**46,420**	**26,500**	**25,562**
Net activity fee and commission income	**149,763**	**139,628**	**94,332**	**90,736**

Income from other services includes income from deposit valuables, administrative services and safe custody, and other agency services. In 2017, income from other services also included income from servicing of sold non-performing loans in the amount of EUR 184 thousand (2016: EUR 1,543 thousand).

b) Fee and commission income and expenses relating to fiduciary activities

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Fee and commission income related to fiduciary activities				
Receipt, processing, and execution of orders	1,171	1,250	1,153	1,231
Management of financial instruments portfolio	1,351	1,502	-	-
Initial or subsequent underwriting and/or placing of financial instruments without a firm commitment basis	123	184	123	184
Custody and similar services	5,090	4,190	4,979	4,104
Management of clients' account of non-materialised securities	613	549	613	549
Advice to companies on capital structure, business strategy, and related matters and advice, and services relating to mergers and acquisitions of companies	38	648	49	648
Total	**8,386**	**8,323**	**6,917**	**6,716**
Fee and commission expenses related to fiduciary activities				
Fee and commission related to Central Securities Clearing Corporation and similar organisations	2,697	2,241	2,706	2,121
Fee and commission related to stock exchange and similar organisations	34	45	34	45
Total	**2,731**	**2,286**	**2,740**	**2,166**
Net fee income related to fiduciary activities	**5,655**	**6,037**	**4,177**	**4,550**
Total fee and commission income	**207,908**	**194,371**	**127,749**	**123,014**
Total fee and commission expenses	**52,490**	**48,706**	**29,240**	**27,728**
Total a) and b)	**155,418**	**145,665**	**98,509**	**95,286**

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

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Available-for-sale financial assets				
- gains	12,455	14,861	11,883	14,712
- losses	(213)	(33)	(172)	(33)
Financial liabilities measured at amortised cost				
- losses	-	(40)	-	(40)
Total	**12,242**	**14,788**	**11,711**	**14,639**

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

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

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Equity instruments				
- gains	-	26	-	26
- losses	-	(26)	-	(26)
Foreign exchange trading				
- gains	19,469	23,023	11,243	15,767
- losses	(8,851)	(13,244)	(7,093)	(12,415)
Debt instruments				
- gains	1,093	4,474	1,093	4,474
- losses	(1,135)	(6,862)	(1,135)	(6,862)
Derivatives				
- currency	1,232	506	1,698	288
- interest rate	1,170	(1,238)	1,170	(1,178)
- cross currency interest rate	(77)	(29)	(77)	(29)
- securities	166	291	166	291
Total	**13,067**	**6,921**	**7,065**	**336**

4.6. Foreign exchange translation gains less losses

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Financial assets and liabilities not classified as at fair value through profit or loss	(381)	1,449	(892)	1,014
Disposal of a subsidiary (note 5.12.)	2,614	-	-	-
Financial assets measured at fair value through profit or loss	(177)	(246)	(177)	(246)
Other	93	(45)	62	(30)
Total	**2,149**	**1,158**	**(1,007)**	**738**

4.7. Other operating income

in EUR thousand

	NLB Group		NLB	
	2017	**2016**	**2017**	**2016**
Income from non-banking services	12,099	14,552	8,255	9,911
- IT services	3,531	5,208	3,531	5,208
- cash transportation	3,617	3,608	3,617	3,608
- operating leases of movable property	2,798	3,132	439	484
- other	2,153	2,604	668	611
Rental income from investment property	5,440	5,942	381	260
Revaluation of investment property to fair value (note 5.10.)	2,242	155	396	22
Sale of investment property	1,821	6	62	-
Other operating income	4,822	3,787	3,078	2,074
Total	**26,424**	**24,442**	**12,172**	**12,267**

4.8. Other operating expenses

in EUR thousand

	NLB Group		NLB	
	2017	**2016**	**2017**	**2016**
Deposit guarantee	13,393	13,134	4,732	4,567
Revaluation of investment property to fair value (note 5.10.)	3,396	8,067	2,382	484
Single Resolution Fund	2,590	3,894	2,590	3,894
Other taxes and compulsory public levies	2,993	3,055	1,093	1,026
Expenses related to issued service guarantees	589	1,728	589	1,728
Membership fees and similar fees	1,122	889	700	317
Expenses related to legal issues for croatian savers (note 5.17.)	2,202	-	2,202	-
Other operating expenses	3,126	2,437	961	1,160
Total	**29,411**	**33,204**	**15,249**	**13,176**

Other operating expenses mainly include expenses associated with licences, donations, and damages.

4.9. Administrative expenses

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Employee costs				
Gross salaries, compensations, and other short-term benefits	139,918	140,961	88,429	88,277
Defined contribution scheme	11,323	11,460	6,718	6,639
Social security contributions	9,195	9,028	5,503	5,441
Defined benefit expenses (note 5.17.c)	4,049	3,930	3,046	2,843
Post-employment benefits	94	379	462	473
Other employee benefits	3,955	3,551	2,584	2,370
Total	**164,485**	**165,379**	**103,696**	**103,200**
Other general and administrative expenses				
Material	5,413	5,865	2,488	2,679
Services	25,957	28,884	15,032	17,636
Intellectual services	10,317	12,505	5,660	8,258
Costs of supervision	2,542	2,337	1,176	1,031
Costs of other services	13,098	14,042	8,196	8,347
Business travel	1,189	1,101	419	387
Marketing	7,031	5,845	3,739	2,655
Buildings and equipment	26,609	26,123	14,087	14,959
Electricity	4,124	4,201	2,117	2,224
Rents and leases	6,070	6,105	1,256	1,240
Maintainance costs	6,211	5,505	4,597	4,469
Costs of security	3,499	3,517	1,441	1,396
Insurance for tangible assets	2,725	2,661	1,722	1,510
Other costs related to buildings and equipment	3,980	4,134	2,954	4,120
Technology	15,492	16,897	10,873	12,493
Maintainance of software and hardware	8,355	8,268	5,493	5,154
Licences	2,950	4,005	2,560	3,817
Data assets and subscription costs	1,904	1,897	1,262	1,396
Other technology costs	2,283	2,727	1,558	2,126
Communications	8,505	9,192	6,055	6,685
Postal services	4,322	4,549	3,880	4,074
Telecommunication and internet	2,178	2,513	874	1,176
Other communication costs	2,005	2,130	1,301	1,435
Other general and administrative costs	2,226	1,874	1,488	1,389
Total	**92,422**	**95,781**	**54,181**	**58,883**
Total administrative expenses	**256,907**	**261,160**	**157,877**	**162,083**
Number of employees	6,029	6,175	2,789	2,885

Costs of other services include costs for cash transport, archiving services, personal assurance costs, non-deductible expenses, and legal costs and fees.

In the presented years NLB Group and NLB paid the following expenses to the statutory auditor:

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
External audit services				
Audit of annual report	559	566	198	200
Other audit services	361	236	361	236
Other non-audit services	253	-	253	-
Total	**1,173**	**802**	**812**	**436**

4.10. Depreciation and amortisation

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Amortisation of intangible assets (note 5.11.)	10,916	11,694	8,555	9,657
Depreciation of property and equipment (note 5.9.)	16,886	16,651	9,455	9,223
Total	**27,802**	**28,345**	**18,010**	**18,880**

4.11. Provisions for other liabilities and charges

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Guarantees and commitments (note 5.17.b)	(3,460)	(10,432)	(2,296)	(9,897)
Restructuring provisions (note 5.17.d)	8,588	10,644	8,400	9,377
Provisions for legal issues (note 5.17.e)	682	4,252	1,831	145
Other provisions (note 5.17.f)	(559)	(107)	(591)	(107)
Total	**5,251**	**4,357**	**7,344**	**(482)**

4.12. Impairment charge

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Impairment of financial assets				
Available-for-sale financial assets (note 5.4.b)	23	198	23	198
Held-to-maturity financial assets (note 5.7.b)	(10)	83	(10)	83
Loans and advances to banks (note 5.14.b)	187	74	-	(196)
Loans to government (note 5.14.b)	(7,706)	(2,604)	(1,891)	(163)
Loans to financial organisations (note 5.14.b)	(2,244)	(14,842)	(15,569)	(5,005)
Loans to individuals (note 5.14.a)	8,916	12,800	2,968	10,245
Granted overdrafts	2,157	2,587	1,513	2,303
Loans for houses and flats	(1,072)	4,436	97	5,495
Consumer loans	4,408	3,261	(18)	1,930
Other loans	3,423	2,516	1,376	517
Loans to other customers (note 5.14.b)	(40,284)	40,526	(25,289)	19,909
Loans to large corporate customers	(34,422)	(16,052)	(22,068)	5,065
Loans to small- and medium-sized enterprises	(5,862)	56,578	(3,221)	14,844
Other financial assets (note 5.14.c)	1,130	625	587	356
Total	**(39,988)**	**36,860**	**(39,181)**	**25,427**
Impairment of investments in subsidiaries, associates and JV				
Investments in subsidiaries	-	-	674	25,334
Investments in associates and joint ventures	-	12,250	19	12,313
Total	**-**	**12,250**	**693**	**37,647**
Impairment of other assets				
Property and equipment (note 5.9.)	717	3,307	390	1,127
Other assets	4,490	3,871	90	232
Total	**5,207**	**7,178**	**480**	**1,359**
Total impairment	**(34,781)**	**56,288**	**(38,008)**	**64,433**

In 2017, NLB impaired equity investments in non-core subsidiaries and associate in a total amount of EUR 731 thousand, and released an impairment in a total amount of EUR 38 thousand due to a sale of a non-core subsidiary. Impairments of investments in subsidiaries and associate are included in the segment ‘Non-core markets and activities.’

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

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Dividends from investments in subsidiaries, associates, and joint ventures	-	-	58,012	28,915
Gains less losses on derecognition of subsidiaries and associates	(930)	(153)	159	-
Share of net gains less losses of associates and joint ventures accounted for using the equity method (note 5.12.c)	4,782	5,159	-	-
Total	**3,852**	**5,006**	**58,171**	**28,915**

4.14. Income tax

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Current income tax	12,688	14,758	2,945	7,008
Deferred tax (note 5.18.)	(8,691)	217	(7,164)	(3,083)
Total	**3,997**	**14,975**	**(4,219)**	**3,925**

Income tax differs from the amount of tax determined by applying the Slovenian statutory tax rate as follows:

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Profit before tax	237,311	130,600	184,875	67,708
Tax calculated at prescribed rate of 19% (2016:17%)	45,089	22,202	35,126	11,510
Effect of change in tax rate	-	(1,666)	-	(2,006)
Income not assessable for tax purposes	(2,089)	(2,935)	(11,133)	(5,831)
Expenses not deductible for tax purposes	3,238	5,510	(1,007)	3,396
Effect of unrecognised deferred tax assets on impairment of subsidiaries and associates	(14,810)	(2,083)	(14,202)	3,375
Tax allowances	(1,550)	(1,391)	(1,436)	(1,032)
Effect of unrecognised deferred tax assets on tax losses	(10,919)	(2,319)	(4,589)	(6,225)
Effects of different tax rates in other countries	(9,081)	(4,543)		-
Changes in recognition and measurement of deferred taxes	(5,066)	1,462	(6,734)	-
Withholding tax suffered in other countries for which no tax credit was available in Slovenia	2,302	974	2,302	974
Adjustment to tax in respect of prior periods	(2,688)	842	(2,117)	842
Other	(429)	(1,078)	(429)	(1,078)
Total	**3,997**	**14,975**	**(4,219)**	**3,925**

Income tax rates within NLB Group range from 9-32%. A tax rate of 19% was applied in Slovenia in 2017 (2016: 17%).

The majority of non-taxable income relates to dividends and income deemed to be dividends. NLB excluded EUR 57,053 thousand in dividend income and income deemed to be dividends from its tax base in 2017 (2016: EUR 29,592 thousand).

The effect of unrecognised deferred tax assets on impairments of subsidiaries and associates represents mainly a decrease of the tax base of NLB due to utilisation of previously tax non-deductible expenses for impairments of subsidiary that was divested in the year 2017.

NLB recognised deferred tax assets accrued on the basis of temporary differences in an amount that, given future profit estimates, is expected to be reversed in the foreseeable future (i.e. within five years). Due to some uncertainties regarding external factors (regulatory environment, market situation, etc.,) a lower range of expected outcomes was considered for purposes of deferred tax assets calculation. NLB did not recognise deferred tax assets arising from tax losses. NLB recognised deferred tax assets on all temporary differences, except for impairments of non-strategic capital investments where deferred tax assets are recognised in the amount that, taking into account other recognised deferred tax assets, reaches the total amount of deferred tax assets, for which a reversal is expected within five years.

Other NLB Group members did not recognise deferred tax assets for tax losses where there is uncertainty about whether the tax losses can be utilised, because it is not probable that future taxable profits will be available against which the deferred tax assets can be utilised, and where the utilisation of unused tax losses is limited to five years.

NLB did not recognise deferred tax assets on temporary differences arising from the impairment of investments in strategic subsidiaries and associates in amount of EUR 322,186 thousand as at 31.12.2017 (31.12.2016: EUR 530,302 thousand), where it is not probable that the temporary difference will reverse in the foreseeable future. Impairments of investments in non-strategic subsidiaries on which NLB did not recognise deferred tax assets due to exceeding the total balance of deferred tax assets that are expected to be reversed within five years amount to EUR 382,462 thousand (2016: EUR 297,214 thousand).

4.15. Earnings per share

Earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares in issue, less treasury shares.

Diluted earnings per share are the same as basic earnings per share for NLB Group and NLB, since subordinated loans and issued debt securities have no future conversion options, and consequently there are no dilutive potential ordinary shares.

	NLB Group		NLB	
	2017	2016	2017	2016
Net profit attributable to the owners of the parent (in EUR thousand)	225,069	110,017	189,094	63,783
Weighted average number of ordinary shares (in thousand)	20,000	20,000	20,000	20,000
Basic earnings per share (in EUR per share)	11.3	5.5	9.5	3.2
Diluted earnings per share (in EUR per share)	11.3	5.5	9.5	3.2

5. Notes to the statement of financial position

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

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Cash	269,696	260,612	143,726	128,519
Balances and obligatory reserves with central banks	798,758	776,648	350,804	375,561
Demand deposits at banks	188,027	261,754	75,480	112,959
Total	**1,256,481**	**1,299,014**	**570,010**	**617,039**

Slovenian banks are required to maintain a compulsory reserve with the Bank of Slovenia relative to the volume and structure of their customer deposits. Other banks in NLB Group maintain a compulsory reserve in accordance with local legislation. NLB and other banks in NLB Group fulfil their compulsory reserve deposit requirements.

5.2. Trading assets

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Derivatives, excluding hedging instruments				
Swap contracts	11,739	15,185	11,734	15,179
- currency swaps	384	397	379	391
- interest rate swaps	11,355	14,551	11,355	14,551
- currency interest rate swaps	-	237	-	237
Options	847	405	847	405
- interest rate options	276	-	276	-
- securities options	571	405	571	405
Forward contracts	439	3,352	435	3,352
- currency forward	439	3,352	435	3,352
Total derivatives	**13,025**	**18,942**	**13,016**	**18,936**
Securities				
Bonds	4,117	19,735	4,117	19,735
- Republic of Slovenia	-	19,735	-	19,735
- other issuers	4,117	-	4,117	-
Treasury bills - Republic of Slovenia	55,047	30,012	55,047	30,012
Commercial papers - foreign banks	-	19,010	-	19,010
Total securities	**59,164**	**68,757**	**59,164**	**68,757**
Total	**72,189**	**87,699**	**72,180**	**87,693**
- quoted securities	59,164	49,747	59,164	49,747
of these debt instruments	59,164	49,747	59,164	49,747
- unquoted securities	-	19,010	-	19,010
of these debt instruments	-	19,010	-	19,010

The notional amounts of derivative financial instruments are disclosed in note 5.24.b.

During 2009, NLB Group and NLB reclassified certain bonds from the trading category to loans and receivables. NLB Group and NLB reclassified high quality corporate bonds that are not traded on the active market, and for which it has a positive intent and ability to hold for the foreseeable future - or until maturity rather than trade in the short term. Reclassified bonds meet the definition of loans and receivables.

The following table illustrates the carrying values and fair values of the assets reclassified:

in EUR thousand

NLB Group and NLB	Carrying amount	Fair value
the date of reclassification		69,766
as at 31.12.2009	72,030	65,278
as at 31.12.2010	75,928	67,000
as at 31.12.2011	84,429	55,922
as at 31.12.2012	86,501	53,958
as at 31.12.2013	80,218	55,260
as at 31.12.2014	87,667	72,986
as at 31.12.2015	85,009	76,258
as at 31.12.2016	85,315	78,953
as at 31.12.2017	82,133	79,974

The effective interest rates, determined on the day the bonds were reclassified, range from 4.15-4.23%.

in EUR thousand

NLB Group and NLB	Interest income in period								
	2017	2016	2015	2014	2013	2012	2011	2010	2009
Financial assets held for trading reclassified to loans and receivables	2,060	2,079	2,053	2,103	2,153	2,449	3,446	4,471	2,836

in EUR thousand

NLB Group and NLB	Gains/(losses) that would have been recognised if the assets had not been reclassified								
	2017	2016	2015	2014	2013	2012	2011	2010	2009
Financial assets held for trading reclassified to loans and receivables	1,021	2,695	3,272	17,726	1,302	(52)	(11,078)	1,722	(4,647)

5.3. Financial instruments designated at fair value through profit or loss

a) Financial assets designated at fair value through profit or loss

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Private equity fund	634	2,011	634	2,011
Other investments	4,369	4,683	-	-
Total	**5,003**	**6,694**	**634**	**2,011**

b) Financial liabilities designated at fair value through profit or loss

in EUR thousand

	NLB Group and NLB	
	31.12.2017	31.12.2016
Structured deposit	635	2,011
Total	**635**	**2,011**

In NLB, investments in private equity funds in the amount of EUR 634 thousand (31.12.2016: EUR 2,011 thousand) are designated at fair value through profit or loss to reduce the accounting mismatch that would otherwise arise. Financial liability, designated at fair value through profit or loss in the amount of EUR 635 thousand (31.12.2016: EUR 2,011 thousand) is the structured deposit from customers from which the returns depend on the returns from private equity funds, classified as financial assets, that are measured at fair value through profit or loss.

In NLB Group, in addition to the aforementioned, financial assets that are designated at fair value through profit or loss represent investments in other funds that are managed and evaluated on a fair value basis.

5.4. Available-for-sale financial assets

a) Analysis by type of available-for-sale financial assets

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Bonds	1,805,250	1,619,228	1,554,565	1,262,363
- governments	1,210,080	1,146,150	959,395	789,285
- Republic of Slovenia	377,612	442,802	377,612	380,411
- other EU members	571,669	405,655	571,669	405,655
- non-EU members	260,799	297,693	10,114	3,219
- banks	548,623	453,179	548,623	453,179
- other issuers	46,547	19,899	46,547	19,899
Cash certificates	-	199	-	-
Shares	8,670	29,050	2,334	22,737
National Resolution Fund	44,514	44,570	44,514	44,570
Treasury bills	136,182	104,617	40,070	55,093
- Republic of Slovenia	40,070	57,096	40,070	55,093
- non-EU members	96,112	47,521	-	-
Commercial bills	281,877	274,489	136,279	209,331
Total	**2,276,493**	**2,072,153**	**1,777,762**	**1,594,094**
- quoted securities	1,816,373	1,533,697	1,595,115	1,334,925
of these equity instruments	3,598	24,312	480	20,927
of these debt instruments	1,812,775	1,509,385	1,594,635	1,313,998
- unquoted securities	460,120	538,456	182,647	259,169
of these equity instruments	49,586	49,308	46,368	46,380
of these debt instruments	410,534	489,148	136,279	212,789

b) Movements of available-for-sale financial assets

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	2,072,153	1,737,191	1,594,094	1,248,359
Effects of translation of foreign operations to presentation currency	3,564	(2,048)	-	-
Transfer to non-current assets and disposal group classified as held for sale (note 5.8.b)	(3,790)	-	-	-
Additions	2,105,251	1,766,455	881,646	666,304
Disposals and maturity	(1,911,882)	(1,463,553)	(695,299)	(336,736)
Net interest income (note 4.1.)	26,148	31,426	13,716	17,881
Exchange differences on monetary assets	(4,454)	1,260	(3,253)	594
Changes in fair values	(10,474)	1,620	(13,119)	(2,110)
Impairment (note 4.12.)	(23)	(198)	(23)	(198)
- impairment of equity securities	(23)	(198)	(23)	(198)
Balance as at 31.12.	**2,276,493**	**2,072,153**	**1,777,762**	**1,594,094**

As at 31.12.2017, the value of equity instruments obtained by NLB Group from taking possession of collateral and recognised in the statement of financial position is EUR 3,536 thousand (31.12.2016: EUR 24,162 thousand), and by NLB it amounted to EUR 480 thousand (31.12.2016: EUR 20,832 thousand) (note 6.1.o).

By selling equity securities available for sale, NLB Group realised a net gain in the amount of EUR 9,964 thousand (2016: EUR 13,478 thousand), and NLB a net gain in the amount of EUR 9,835 thousand (2016: EUR 13,472 thousand). This gain is included in 'Gains Less Losses from Financial Assets and Liabilities not Classified at Fair Value through Profit or Loss' (note 4.4.).

c) Accumulated other comprehensive income related to available-for-sale financial assets

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	53,001	48,321	37,218	37,996
Effects of translation of foreign operations to presentation currency	(2)	(3)	-	-
Net gains/(losses) from changes in fair value	4,957	18,532	1,781	14,652
Gains/losses transferred to net profit on disposal or impairment	(12,216)	(14,630)	(11,685)	(14,481)
Deferred income tax (note 5.18.)	1,657	(1,207)	1,882	(949)
Share of other comprehensive income of associates and joint ventures	201	1,988	-	-
Balance as at 31.12.	**47,598**	**53,001**	**29,196**	**37,218**
- debt securities	43,865	41,989	28,346	28,574
- equity securities	3,733	11,012	850	8,644

5.5. Derivatives for hedging purposes

NLB Group entities measure exposure to interest rate risk using repricing gap analysis and by calculating the sensitivity of the statement of financial position and off-balance-sheet items in terms of the economic value of equity. Portfolio duration is used as a measure of risk in the management of securities in the banking book.

NLB Group entities use various derivatives such as interest rate swaps (IRS) and currency interest rate swaps (CIRS) to close open positions in an individual maturity bucket. Micro and macro fair value hedges are used for that purpose, i.e. the swapping of a fixed interest rate on a hedged item for a variable interest rate. Micro cash flow hedges are also used, i.e. the swapping of a variable interest rate on a hedged item for a fixed interest rate. All cash flow hedges were made on liability items, while fair value hedges were used on both liability and asset items.

Hedge accounting rules (fair value and cash flow hedging) were applied in the hedging of interest rate risk using interest rate swaps. These hedge relationships are created in such a way that the characteristics of the hedge instrument and those of the hedged item match (i.e. the principal terms match), while the dollar-offset method is used to regularly measure hedge effectiveness retrospectively. Prospective testing of hedge effectiveness is carried out regularly for macro hedges where the characteristics of both items in the hedge relationship do not fully match by comparing the change in the fair value of both items with the shift in the yield curve.

Hedge accounting rules were not applied in economic hedges using CIRS. Thus, the effects of valuation are disclosed in the income statement in the line 'Gains Less Losses from Financial Assets and Liabilities Held for Trading.'

a) Fair value adjustment in hedge accounting recognised in profit or loss

in EUR thousand

	NLB Group		NLB	
	2017	**2016**	**2017**	**2016**
Fair value hedge	**(813)**	**(770)**	**(813)**	**32**
Net effects from hedging instruments	5,599	715	5,599	715
Net effects from hedged items	(6,412)	(1,485)	(6,412)	(683)
Cash flow hedge	**-**	**(2,469)**	**-**	**(2,469)**
Transfer from other comprehensive income	-	(2,469)	-	(2,469)
Total	**(813)**	**(3,239)**	**(813)**	**(2,437)**

As at 31.12.2017 and 2016, NLB Group and NLB have no relationships designated for cash flow hedge accounting.

b) Notional amounts of interest rate swaps

in EUR thousand

	Notional amount	Fair value	
NLB Group and NLB		**Asset**	**Liability**
Fair value hedge			
31.12.2017	406,218	1,188	25,529
31.12.2016	108,554	217	29,024

c) Accumulated other comprehensive income related to cash flow hedging

in EUR thousand

	NLB Group and NLB	
	2017	2016
Balance as at 1.1.	-	(2,243)
Net losses on hedging instruments	-	(343)
Transfer to income statement	-	3,046
Deferred income tax (note 5.18.)	-	(460)
Balance as at 31.12.	**-**	**-**

There was no hedge ineffectiveness that NLB nor NLB Group should have recognised in the income statement.

5.6. Loans and advances

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Debt securities (companies)	82,133	85,315	82,133	85,315
Loans to banks	510,107	435,537	462,322	408,056
Loans and advances to customers	6,912,333	6,912,067	4,587,477	4,843,594
Other financial assets	66,077	61,014	38,389	36,151
Total	**7,570,650**	**7,493,933**	**5,170,321**	**5,373,116**

a) Loans and advances to banks

Analysis by type of loans and advances

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Loans	2,856	945	23,390	19,399
Time deposits	506,322	433,883	437,427	387,599
Purchased receivables	1,505	1,058	1,505	1,058
	510,683	**435,886**	**462,322**	**408,056**
Allowance for impairment (note 5.14.b)	(576)	(349)	-	-
Total	**510,107**	**435,537**	**462,322**	**408,056**

b) Loans and advances to customers

Analysis by type of loans and advances

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Loans	6,958,796	7,198,486	4,661,317	5,098,336
Finance lease receivables	169,806	192,923	-	-
Overdrafts	305,600	298,351	176,171	178,899
Credit card business	115,225	112,106	59,394	60,338
Called guarantees	9,658	13,577	7,658	10,744
Reverse sale and repurchase agreements	-	25	-	25
	7,559,085	**7,815,468**	**4,904,540**	**5,348,342**
Allowance for impairment (note 5.14.)	(646,752)	(903,401)	(317,063)	(504,748)
Total	**6,912,333**	**6,912,067**	**4,587,477**	**4,843,594**

Analysis of loans and advances by sector

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Government	457,080	775,986	358,675	668,300
Financial organisations	77,202	74,344	268,184	273,310
Companies	3,006,105	2,970,229	1,878,056	1,950,869
Individuals	3,371,946	3,091,508	2,082,562	1,951,115
Total	**6,912,333**	**6,912,067**	**4,587,477**	**4,843,594**

Finance leases

Loans and advances to customers in NLB Group include finance lease receivables:

in EUR thousand

NLB Group	31.12.2017	31.12.2016
The gross investment in finance leases by maturity		
- not later than 1 year	57,816	71,291
- later than 1 year and not later than 5 years	121,986	127,319
- later than 5 years	8,550	12,808
	188,352	**211,418**
Unearned future finance income on finance leases	(18,548)	(18,495)
Net investment in finance leases	**169,804**	**192,923**
- present value of minimum lease payments	169,804	192,923
The net investment in finance leases by maturity		
- not later than 1 year	51,539	64,337
- later than 1 year and not later than 5 years	110,277	116,944
- later than 5 years	7,988	11,642
Total	**169,804**	**192,923**

Finance and operating lease transactions are carried out by NLB Group through specialised subsidiaries that offer car leasing, leasing of commercial and production equipment, and others.

The majority of the lease agreements entered into by NLB Group as lessor contracts are finance lease agreements (operating leases account for less than 10% of all lease agreements). The majority of agreements are concluded for a non-cancellable period of between 48 and 60 months, with an unguaranteed residual value representing a purchase option typically between 1 and 2% of the gross investment.

As at 31.12.2017, the allowance for unrecoverable finance lease receivables included in the allowance for loan impairment amounted to EUR 23,240 thousand (31.12.2016: EUR 42,511 thousand).

Finance and operating leases of motor vehicles and operating leases of business premises represent the majority of agreements in which NLB Group acts as a lessee.

c) Other financial assets

Analysis by type of other financial assets

in EUR thousand

	NLB Group		NLB	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Credit card receivables	24,522	21,961	19,642	17,375
Receivables in the course of collection	13,398	13,235	10,467	11,481
Debtors	8,018	11,934	1,029	929
Fees and commissions	6,170	7,311	4,723	5,699
Prepayments	2,204	2,217	-	-
Receivables from purchase agreements for equity securities	163	164	163	164
Other financial assets	23,307	19,645	5,556	4,274
	77,782	**76,467**	**41,580**	**39,922**
Allowance for impairment (note 5.14.c)	(11,705)	(15,453)	(3,191)	(3,771)
Total	**66,077**	**61,014**	**38,389**	**36,151**

Receivables in the course of collection are temporary balances which will be transferred to the appropriate item in the days following their occurrence.

Other financial assets include receivables to pension funds for prior pension payments, receivables from insurance companies, claims in enforcement procedures, claims for sold securities and trust services, claims from refunds, paid duties and legal costs.

Analysis of other financial assets by sector

in EUR thousand

	NLB Group		NLB	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Banks	16,519	14,058	10,308	8,377
Government	14,819	13,708	1,761	1,753
Financial organisations	13,855	10,969	9,222	8,364
Companies	5,387	6,632	2,157	3,168
Individuals	15,497	15,647	14,941	14,489
Total	**66,077**	**61,014**	**38,389**	**36,151**

d) Movement of called non-financial guarantees

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	4,229	5,678	3,509	4,838
Effects of translation of foreign operations to presentation currency	12	(13)	-	-
Called guarantees	4,101	2,520	1,167	1,595
Paid guarantees	(4,062)	(1,525)	(508)	(493)
Write-offs	(2,905)	(2,431)	(2,905)	(2,431)
Balance as at 31.12.	**1,375**	**4,229**	**1,263**	**3,509**

5.7. Held-to-maturity financial assets

a) Analysis by type of held-to-maturity financial assets

in EUR thousand

	NLB Group and NLB	
	31.12.2017	31.12.2016
Bonds	609,785	611,532
- governments	560,565	591,468
- Republic of Slovenia	353,634	411,914
- other EU members	206,931	179,554
- banks	45,885	16,729
- other issuers	3,335	3,335
	609,785	**611,532**
Allowance for impairment	(73)	(83)
Total	**609,712**	**611,449**
- quoted	609,712	611,449

b) Movements of held-to-maturity financial assets

in EUR thousand

	NLB Group and NLB	
	2017	2016
Balance as at 1.1.	611,449	565,535
Additions	74,108	116,897
Decreases	(91,071)	(88,897)
Interest income (note 4.1.)	16,446	17,997
Impairment (note 4.12.)	10	(83)
Exchange differences on monetary assets	(1,230)	-
Balance as at 31.12.	**609,712**	**611,449**

5.8. Non-current assets and a disposal group classified as held for sale

a) Analysis by type of non-current assets and disposal group classified as held for sale

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Property and equipment	4,105	4,263	1,483	1,788
Equity investment	-	-	1,081	-
Assets of a disposal group classified as held for sale	7,526	-	-	-
Total non-current assets held for sale	**11,631**	**4,263**	**2,564**	**1,788**
Liabilities of a disposal group classified as held for sale	**440**	**-**	**-**	**-**

Item 'Property and equipment' includes business premises, apartments, and assets received as collateral that are in the process of sale. NLB classified the subsidiary NLB Nov Penziski Fond, Skopje as the disposal group held for sale, due to its expected sale in 1st quarter of 2018. Items 'Assets and liabilities of a disposal group classified as held for sale' represent assets and associated liabilities from NLB Nov Penziski Fond, Skopje.

b) Major classes of disposal group classified as held for sale

in EUR thousand

NLB Group	31.12.2017
Assets	
Available-for-sale financial assets	3,790
Loans and advances to banks	3,354
Other financial assets	180
Property and equipment	20
Intangible assets	44
Other assets	138
Total assets classified as held for sale	**7,526**
Liabilities	
Other financial liabilities	335
Provisions	61
Other liabilities	44
Total liabilities classified as held for sale	**440**
NET ASSETS CLASSIFIED AS HELD FOR SALE	**7,086**
Accumulated other comprehensive income	
Foreign currency translation adjustment (cumulative)	42
Available-for-sale financial assets valuation	65

Disclosers in 6.1 include also the data of NLB Nov Penziski Fond, Skopje.

c) Analysis of movements

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	4,263	4,629	1,788	1,776
Effects of translation of foreign operations to presentation currency	104	(53)	-	-
Transfer from/(into) property and equipment (note 5.9.)	2,588	481	67	418
Transfer from/(into) other assets	67	-	67	-
Transfer from/(into) investment property (note 5.10.)	(201)	-	(201)	-
Transfer to non-current assets and disposal group classified as held for sale	7,526	-	1,081	-
Disposals	(745)	(217)	(493)	(128)
Valuation	(1,971)	(577)	255	(278)
Balance as at 31.12.	**11,631**	**4,263**	**2,564**	**1,788**

5.9. Property and equipment

in EUR thousand

	NLB Group				NLB			
2017	**Land & Buildings**	**Computers**	**Other equipment**	**Total**	**Land & Buildings**	**Computers**	**Other equipment**	**Total**
Cost								
Balance as at 1.1.2017	327,240	73,525	108,068	508,833	201,618	50,659	59,276	311,553
Effects of translation of foreign operations to presentation currency	1,410	217	463	2,090	-	-	-	-
Additions	3,269	5,254	5,555	14,078	2,057	3,982	2,098	8,137
Disposals	(351)	(8,955)	(8,512)	(17,818)	(9)	(7,632)	(3,310)	(10,951)
Transfer to/from investment property (note 5.10.)	(5,846)	-	-	(5,846)	(5,825)	-	-	(5,825)
Transfer to/from non-current assets and disposal group held for sale (note 5.8. b) and c)	(4,010)	(101)	(113)	(4,224)	(175)	-	-	(175)
Balance as at 31.12.2017	**321,712**	**69,940**	**105,461**	**497,113**	**197,666**	**47,009**	**58,064**	**302,739**
Depreciation and impairment								
Balance as at 1.1.2017	162,455	57,006	92,523	311,984	127,710	39,580	53,767	221,057
Effects of translation of foreign operations to presentation currency	416	170	365	951	-	-	-	-
Disposals	(190)	(8,289)	(7,522)	(16,001)	(6)	(7,631)	(3,309)	(10,946)
Depreciation (note 4.10.)	7,732	4,954	4,200	16,886	5,161	3,387	907	9,455
Impairment (note 4.12.)	717	-	-	717	390	-	-	390
Transfer to/from investment property (note 5.10.)	(4,163)	-	-	(4,163)	(4,160)	-	-	(4,160)
Transfer to/from non-current assets held for sale (note 5.8. b) and c)	(1,422)	(84)	(110)	(1,616)	(108)	-	-	(108)
Balance as at 31.12.2017	**165,545**	**53,757**	**89,456**	**308,758**	**128,987**	**35,336**	**51,365**	**215,688**
Net carrying value								
Balance as at 31.12.2017	**156,167**	**16,183**	**16,005**	**188,355**	**68,679**	**11,673**	**6,699**	**87,051**
Balance as at 1.1.2017	**164,785**	**16,519**	**15,545**	**196,849**	**73,908**	**11,079**	**5,509**	**90,496**

in EUR thousand

2016	NLB Group Land & Buildings	NLB Group Computers	NLB Group Other equipment	NLB Group Total	NLB Land & Buildings	NLB Computers	NLB Other equipment	NLB Total
Cost								
Balance as at 1.1.2016	329,096	73,285	123,775	526,156	202,303	51,279	65,307	318,889
Effects of translation of foreign operations to presentation currency	(674)	(91)	(207)	(972)	-	-	-	-
Additions	1,845	7,260	3,528	12,633	1,548	4,168	1,245	6,961
Disposals	(949)	(6,929)	(19,028)	(26,906)	(823)	(4,788)	(7,276)	(12,887)
Impairment (note 4.12.)	(754)	-	-	(754)	(150)	-	-	(150)
Transfer to/from non-current assets held for sale (note 5.8.)	(1,324)	-	-	(1,324)	(1,260)	-	-	(1,260)
Balance as at 31.12.2016	**327,240**	**73,525**	**108,068**	**508,833**	**201,618**	**50,659**	**59,276**	**311,553**
Depreciation and impairment								
Balance as at 1.1.2016	153,877	63,148	101,401	318,426	122,884	45,059	56,376	224,319
Effects of translation of foreign operations to presentation currency	(205)	(71)	(172)	(448)	-	-	-	-
Disposals	(606)	(10,733)	(13,016)	(24,355)	(572)	(8,601)	(3,447)	(12,620)
Depreciation (note 4.10.)	7,679	4,662	4,310	16,651	5,263	3,122	838	9,223
Impairment (note 4.12.)	2,553	-	-	2,553	977	-	-	977
Transfer to/from non-current assets and disposal group held for sale (note 5.8.)	(843)	-	-	(843)	(842)	-	-	(842)
Balance as at 31.12.2016	**162,455**	**57,006**	**92,523**	**311,984**	**127,710**	**39,580**	**53,767**	**221,057**
Net carrying amount								
Balance as at 31.12.2016	**164,785**	**16,519**	**15,545**	**196,849**	**73,908**	**11,079**	**5,509**	**90,496**
Balance as at 1.1.2016	**175,219**	**10,137**	**22,374**	**207,730**	**79,419**	**6,220**	**8,931**	**94,570**

NLB Group and NLB had no assets held under finance leases as at 31.12.2017 (31.12.2016: NLB Group EUR 6 thousand, NLB EUR 0).

The value of assets received by taking possession of collateral and included in property and equipment by NLB Group amounted to EUR 1,355 thousand (31.12.2016: EUR 1,523 thousand), and in NLB amounted to EUR 7 thousand (31.12.2016: EUR 7 thousand) (note 6.1.o).

The net carrying value of assets leased out by NLB Group under operating leases was EUR 2,913 thousand as at 31.12.2017 (31.12.2016: EUR 2,842 thousand). A total of 58.2% of assets leased out relates to motor vehicles (31.12.2016: 61.9%).

5.10. Investment property

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	83,663	93,513	8,151	8,613
Effects of translation of foreign operations to presentation currency	94	-	-	-
Additions	1,277	2,632	-	-
Disposals	(34,743)	(4,661)	(60)	-
Transfer from/(into) property and equipment (note 5.9.)	1,683	-	1,665	-
Transfer from/(into) non-current assets and disposal group held for sale (note 5.8.c)	201	-	201	-
Transfer from/(into) other assets	817	91	1,286	-
Net valuation to fair value (note 4.7. and 4.8.)	(1,154)	(7,912)	(1,986)	(462)
Balance as at 31.12.	**51,838**	**83,663**	**9,257**	**8,151**

The value of assets received by taking possession of collateral and included in investment property by NLB Group amounted to EUR 40,809 thousand (31.12.2016: EUR 48,658 thousand), and in NLB amounted to EUR 4,286 thousand (31.12.2016: EUR 3,750 thousand) (note 6.1.o).

Operating expenses arising from investment properties:

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Leased to others	1,076	965	323	297
Not leased to others	27	40	3	9
Total	**1,103**	**1,005**	**326**	**306**

Future minimum operating lease income from investment property:

in EUR thousand

NLB Group	2017	2016
Not later than one year	2,429	3,775
Later than one year and not later than five years	1,614	6,004
Later than five years	97	197
Total	**4,140**	**9,976**

Expected future operating lease income reported in 2017 is lower due to the sale of investment properties in 2017.

NLB Group realised rental income arising from investment properties in the amount of EUR 5,440 thousand (2016: EUR 5,942 thousand), and NLB in the amount of EUR 381 thousand (2016: EUR 260 thousand) (note 4.7.).

5.11. Intangible assets

in EUR thousand

	NLB Group			NLB
2017	**Software licenses**	**Goodwill**	**Total**	**Software licenses**
Cost				
Balance as at 1.1.2017	222,605	32,336	254,941	196,455
Effects of translation of foreign operations to presentation currency	340	-	340	-
Additions	15,246	-	15,246	12,466
Transfer to non-current assets and disposal group held for sale (note 5.8.b)	(293)	-	(293)	-
Write-offs	(5,602)	-	(5,602)	(5,179)
Balance as at 31.12.2017	**232,296**	**32,336**	**264,632**	**203,742**
Amortisation and impairment				
Balance as at 1.1.2017	192,164	28,807	220,971	173,110
Effects of translation of foreign operations to presentation currency	233	-	233	-
Amortisation (note 4.10.)	10,916	-	10,916	8,555
Transfer to non-current assets and disposal group held for sale (note 5.8.b)	(249)	-	(249)	-
Write-offs	(2,213)	-	(2,213)	(1,834)
Balance as at 31.12.2017	**200,851**	**28,807**	**229,658**	**179,831**
Net carrying value				
Balance as at 31.12.2017	**31,445**	**3,529**	**34,974**	**23,911**
Balance as at 1.1.2017	**30,441**	**3,529**	**33,970**	**23,345**

in EUR thousand

2016	NLB Group Software licenses	NLB Group Goodwill	NLB Group Total	NLB Software licenses
Cost				
Balance as at 1.1.2016	216,723	32,336	249,059	193,080
Effects of translation of foreign operations to presentation currency	(124)	-	(124)	-
Additions	6,418	-	6,418	3,375
Write-offs	(412)	-	(412)	-
Balance as at 31.12.2016	**222,605**	**32,336**	**254,941**	**196,455**
Amortisation and impairment				
Balance as at 1.1.2016	180,925	28,807	209,732	163,453
Effects of translation of foreign operations to presentation currency	(90)	-	(90)	-
Amortisation (note 4.10.)	11,694	-	11,694	9,657
Write-offs	(365)	-	(365)	-
Balance as at 31.12.2016	**192,164**	**28,807**	**220,971**	**173,110**
Net carrying value				
Balance as at 31.12.2016	**30,441**	**3,529**	**33,970**	**23,345**
Balance as at 1.1.2016	**35,798**	**3,529**	**39,327**	**29,627**

5.12. Investments in subsidiaries, associates and joint ventures

a) Analysis by type of investment in subsidiaries

in EUR thousand

NLB	31.12.2017	31.12.2016
Banks	277,160	267,071
Other financial organisations	18,819	19,900
Enterprises	53,966	52,722
Total	**349,945**	**339,693**

In 2017, NLB Group sold its non-core subsidiary NLB Factoring – 'v likvidaci,' Ostrava. At sale, NLB Group recognised a loss at derecognition in amount of EUR 928 thousand, shown in item 'Gains Less Losses from Capital Investments in Subsidiaries, Associates, and Joint Ventures' and reclassified accumulated foreign exchange translation gains less losses from equity to profit or loss in amount of EUR 2,614 thousand.

Data on subsidiaries as included in the consolidated financial statements of NLB Group as at 31.12.2017:

in EUR thousand

	Nature of Business	Country of Incorporation	Equity as at 31.12.2017	Profit/(loss) for 2017	NLB's shareholding %	NLB's voting rights%	NLB Group's shareholding %	NLB Group's voting rights%
Core members								
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	156,609	40,004	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	66,975	5,385	99.83	99.83	99.83	99.83
NLB Banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	84,440	23,694	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Republic of Kosovo	66,705	14,197	81.21	81.21	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	69,086	8,300	97.34	97.35	97.34	97.35
NLB Banka a.d., Belgrade	Banking	Republic of Serbia	61,443	3,731	99,997	99,997	99,997	99,997
NLB Srbija d.o.o., Belgrade	Real estate	Republic of Serbia	30,582	1,484	100	100	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	8,744	3,747	100	100	100	100
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	7,513	1,218	51	51	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	1,320	82	100	100	100	100
Non-core members								
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	Finance	Republic of Slovenia	11,119	951	100	100	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Republic of Croatia	3,821	(967)	-	-	100	100
NLB Leasing Podgorica d.o.o., Podgorica - "u likvidaciji"	Finance	Republic of Montenegro	558	(295)	100	100	100	100
NLB Leasing d.o.o., Belgrade - u likvidaciji	Finance	Republic of Serbia	5,181	489	100	100	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	6,011	6,730	100	100	100	100
NLB Lizing d.o.o.e.l., Skopje - vo likvidacija	Finance	Republic of Macedonia	981	101	100	100	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	16,927	154	12.71	12.71	100	100
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	21,025	1,213	100	100	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Republic of Croatia	538	(124)	-	-	100	100
BH-RE d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	12	(12)	-	-	100	100
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	665	(114)	100	100	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	309	(133)	100	100	100	100
REAM d.o.o., Belgrade	Real estate	Republic of Serbia	231	(77)	100	100	100	100
SR-RE d.o.o., Belgrade	Real estate	Republic of Serbia	2,349	426	100	100	100	100
SPV 2 d.o.o., Belgrade	Real estate	Republika Srbija	1,613	(25)	100	100	100	100
NLB Propria d.o.o., Belgrade - v likvidaciji	Real estate	Republic of Slovenia	398	(483)	100	100	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	55	(38)	100	100	100	100
NLB InterFinanz AG, Zürich in Liquidation	**Finance**	**Switzerland**	**7,750**	**(1,771)**	**100**	**100**	**100**	**100**
NLB InterFinanz Praha s.r.o., Prague	Finance	Czech Republic	209	302	-	-	100	100
NLB InterFinanz d.o.o., Belgrade	Finance	Republic of Serbia	(16)	(17)	-	-	100	100
Prospera plus d.o.o., Ljubljana - v likvidaciji	**Tourist and catering trade**	**Republic of Slovenia**	**185**	**(240)**	**100**	**100**	**100**	**100**
LHB AG, Frankfurt	Finance	Republic of Germany	6,412	3,916	100	100	100	100

Data on subsidiaries as included in the consolidated financial statements of NLB Group as at 31.12.2016:

in EUR thousand

	Nature of Business	Country of Incorporation	Equity as at 31.12.2016	Profit/(loss) for 2016	NLB's shareholding %	NLB's voting rights%	NLB Group's shareholding %	NLB Group's voting rights%
Core members								
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	129,083	24,997	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	75,787	5,318	99.36	98.00	99.36	98.00
NLB Banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	74,607	14,117	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Republic of Kosovo	62,845	11,263	81.21	81.21	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	60,780	5,357	97.34	97.35	97.34	97.35
NLB Banka a.d., Belgrade	Banking	Republic of Serbia	45,526	2,152	99,997	99,997	99,997	99,997
NLB Srbija d.o.o., Belgrade	Real estate	Republic of Serbia	27,906	555	100	100	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	7,948	2,951	100	100	100	100
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	6,155	979	51	51	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	1,238	305	100	100	100	100
Non-core members								
NLB Leasing d.o.o., Ljubljana	Finance	Republic of Slovenia	10,112	(18,316)	100	100	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Republic of Croatia	4,716	(3,115)	-	-	100	100
NLB Leasing Podgorica d.o.o., Podgorica - "u likvidaciji"	Finance	Republic of Montenegro	853	(754)	100	100	100	100
NLB Leasing d.o.o., Belgrade - u likvidaciji	Finance	Republic of Serbia	4,495	(215)	100	100	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	(724)	(150)	100	100	100	100
NLB Lizing d.o.o.e.l., Skopje - vo likvidacija	Finance	Republic of Macedonia	873	8	100	100	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	16,899	(5,946)	12.71	12.71	100	100
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	19,812	(216)	100	100	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Republic of Croatia	653	(173)	-	-	100	100
BH-RE d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	3	(9)	-	-	100	100
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	37	(90)	100	100	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	443	(83)	100	100	100	100
REAM d.o.o., Belgrade	Real estate	Republic of Serbia	105	(104)	100	100	100	100
SR-RE d.o.o., Belgrade	Real estate	Republic of Serbia	1,837	(163)	100	100	100	100
NLB Propria d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	880	67	100	100	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	12	(40)	100	100	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	8,976	(4,716)	100	100	100	100
NLB InterFinanz Praha s.r.o., Prague	Finance	Czech Republic	(94)	23	-	-	100	100
NLB InterFinanz d.o.o., Belgrade	Finance	Republic of Serbia	1	(40)	-	-	100	100
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	373	6	100	100	100	100
LHB AG, Frankfurt	Finance	Republic of Germany	2,316	(428)	100	100	100	100
NLB Factoring a.s. - "v likvidaci", Brno	Finance	Czech Republic	93	(280)	100	100	100	100

Changes in ownership interest in subsidiaries of NLB Group in 2017 and 2016 are presented in note 3.

Data on subsidiaries with significant non-controlling interests, before intercompany eliminations

in EUR thousand

	NLB Banka, Skopje		NLB Banka, Prishtina	
	2017	2016	2017	2016
Non-controlling interest in equity in %	13.03	13.03	18.79	18.79
Non-controlling interest's voting rights in %	13.03	13.03	18.79	18.79
Income statement and statement of comprehensive income				
Revenues	82,983	80,036	34,741	32,815
Profit/(loss) for the year	**40,004**	**24,997**	**14,197**	**11,263**
Atributable to non-controlling interest	5,213	3,257	2,668	2,116
Other comprehensive income	1,311	(427)	(183)	88
Total comprehensive income	**41,315**	**24,570**	**14,014**	**11,351**
Atributable to non-controlling interest	5,383	3,201	2,633	2,133
Paid dividends to non-controlling interest	1,795	1,233	1,908	1,547
Statement of financial position				
Current assets	657,436	574,520	320,580	297,485
Non-current assets	578,475	578,569	263,506	218,630
Current liabilities	871,453	810,619	430,501	363,590
Non-current liabilities	207,849	213,387	86,880	89,680
Equity	**156,609**	**129,083**	**66,705**	**62,845**
Atributable to non-controlling interest	20,406	16,820	12,534	11,809

b) Analysis by type of investment in associates and joint ventures

in EUR thousand

	NLB Group		NLB	
	NLB Group		NLB	
Carrying amount of the NLB Group's interest	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Other financial organisations	43,765	43,008	6,600	6,600
Enterprises	-	240	332	431
Total	**43,765**	**43,248**	**6,932**	**7,031**

NLB Group's associates

in EUR thousand

			2017		2016	
	Nature of Business	Country of Incorporation	Shareholding %	Voting rights %	Shareholding %	Voting rights %
Bankart d.o.o., Ljubljana	Card processing	Republic of Slovenia	39.44	39.44	39.44	39.44
Skupna pokojninska družba d.d., Ljubljana	Insurance	Republic of Slovenia	28.13	28.13	28.13	28.13
ARG - Nepremičnine d.o.o., Horjul	Real estate	Republic of Slovenia	75.00	75.00	75.00	75.00
Kreditni biro SISBON, d.o.o., Ljubljana - v likvidaciji	Credit bureau	Republic of Slovenia	-	-	29.68	29.68

By contractual agreement between the shareholders, NLB does not control ARG-Nepremičnine, Horjul, but does have a significant influence. Therefore, the entity is accounted as an associate.

Carrying amount of interests in associates included in the consolidated financial statements of NLB Group

in EUR thousand

	2017	2016
Carrying amount of the NLB Group's interest	**11,781**	**13,009**
NLB Group's share of:		
- Profit for the year	1,338	1,462
- Other comprehensive income	40	(234)
- Total comprehensive income	**1,378**	**1,228**

In 2017 NLB Group did not recognise a share of profit of an associate in the amount of EUR 65 thousand (31.12.2016: unrecognised profit EUR 48 thousand), as it still has the cumulative unrecognised share of losses of an associate that as at 31.12.2017 amounted to EUR 2,337 thousand (31.12.2016: EUR 2,402 thousand).

NLB Group’s joint ventures

			2017	2016
	Nature of Business	**Country of Incorporation**	**Voting rights%**	**Voting rights%**
NLB Vita d.d., Ljubljana	Insurance	Republic of Slovenia	50	50
Prvi Faktor Group, Ljubljana	Finance	Republic of Slovenia	50	50

In 2017 NLB Group did not recognise a share of profit of a joint venture in the amount of EUR 2,949 thousand, as it still has a cumulative unrecognised share of losses of a joint venture that as at 31.12. amounted to EUR 14,371 thousand (31.12.2016: EUR 17,320 thousand).

Summarised financial information on material joint venture NLB Vita, Ljubljana included in the consolidated financial statements of NLB Group:

in EUR thousand

NLB Vita d.d., Ljubljana	2017	2016
Revenues	80,747	74,342
Interest income	7,310	7,038
Interest expense	(2)	(1)
Depreciation and amortisation	(212)	(241)
Income tax	(1,520)	(1,422)
Profit for the year	**6,889**	**7,394**
Other comprehensive income	298	4,434
Total comprehensive income	**7,186**	**11,828**
NLB Group's share of:		
- Profit for the year	3,444	3,697
- Other comprehensive income	149	2,216
	31.12.2017	**31.12.2016**
Total assets	453,028	409,513
Cash and cash equivalents	28	2,541
Total liabilities	389,060	349,035
Equity	**63,968**	**60,478**
NLB Group's ownership interest in joint venture	31,984	30,239
Carrying amount of the NLB Group's interest in joint venture	**31,984**	**30,239**

c) Movements of investments in associates and joint ventures

in EUR thousand

NLB Group	2017	2016
Balance as at 1.1.	43,248	39,696
Share of results before tax	5,585	6,097
Share of tax	(803)	(938)
Net gains/(losses) recognised in other comprehensive income	189	1,982
Dividends received	(4,215)	(3,587)
Liquidation of an associate	(239)	-
Other	-	(2)
Balance as at 31.12.	**43,765**	**43,248**

5.13. Other assets

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Assets, received as collateral (note 6.1.o)	77,500	79,059	4,811	4,263
Inventories	8,879	8,913	335	460
Deferred expenses	4,324	4,597	2,886	3,096
Claim for taxes and other dues	1,675	1,305	375	389
Prepayments	971	684	285	211
Total	**93,349**	**94,558**	**8,692**	**8,419**

Assets received as collateral and inventories on NLB Group in the amount of EUR 76,222 thousand (31.12.2016: EUR 76,416 thousand) and on NLB in the amount of EUR 4,811 thousand (31.12.2016: EUR 4,263 thousand) consist of real estate.

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

a) Impairment of loans and advances to individuals

in EUR thousand

NLB Group	Granted overdrafts	Loans for houses and flats	Consumer loans	Other loans	Total
Balance as at 1.1.2016	18,556	49,351	53,401	21,511	142,819
Effects of translation of foreign operations to presentation currency	(32)	(49)	(123)	3	(201)
Impairment (note 4.12.)	2,587	4,436	3,261	2,516	12,800
Write-offs	(4,973)	(21,900)	(20,369)	(10,241)	(57,483)
Repayments of written-off receivables	-	-	199	1,143	1,342
Exchange differences	-	29	2	(87)	(56)
Other	-	-	(5)	-	(5)
Balance as at 31.12.2016	**16,138**	**31,867**	**36,366**	**14,845**	**99,216**
Effects of translation of foreign operations to presentation currency	40	84	252	(413)	(37)
Impairment (note 4.12.)	2,157	(1,072)	4,408	3,423	8,916
Write-offs	(4,725)	(1,405)	(1,546)	(4,421)	(12,097)
Repayments of written-off receivables	823	210	235	750	2,018
Exchange differences	-	(236)	(3)	434	195
Other	-	-	-	(4)	(4)
Balance as at 31.12.2017	**14,433**	**29,448**	**39,712**	**14,614**	**98,207**

in EUR thousand

NLB	Granted overdrafts	Loans for houses and flats	Consumer loans	Other loans	Total
Balance as at 1.1.2016	14,960	33,432	17,808	1,976	68,176
Impairment (note 4.12.)	2,303	5,495	1,930	517	10,245
Write-offs	(4,509)	(20,513)	(13,527)	(811)	(39,360)
Exchange differences	-	8	-	-	8
Balance as at 31.12.2016	**12,754**	**18,422**	**6,211**	**1,682**	**39,069**
Impairment (note 4.12.)	1,513	97	(18)	1,376	2,968
Write-offs	(1,817)	(976)	(456)	(359)	(3,608)
Repayments of written-off recievables	-	20	-	354	374
Exchange differences	-	(198)	-	-	(198)
Balance as at 31.12.2017	**12,450**	**17,365**	**5,737**	**3,053**	**38,605**

b) Impairment of loans and advances to legal entities

in EUR thousand

NLB Group	Loans and advances to government	Loans and advances to banks	Loans and advances to financial organisations	Loans and advances to large corporate customers	Loans and advances to Small- and medium-sized enterprises	Total
Balance as at 1.1.2016	19,872	242	45,383	329,224	725,537	1,120,258
Effects of translation of foreign operations to presentation currency	(7)	(1)	-	(318)	(703)	(1,029)
Impairment (note 4.12.)	(2,604)	74	(14,842)	(16,052)	56,578	23,154
Write-offs	(690)	(1)	(710)	(72,990)	(273,891)	(348,282)
Repayments of written-off receivables	110	35	-	3,354	7,581	11,080
Exchange differences	-	-	4	(719)	241	(474)
Other	(5)	-	(2)	-	(166)	(173)
Balance as at 31.12.2016	**16,676**	**349**	**29,833**	**242,499**	**515,177**	**804,534**
Effects of translation of foreign operations to presentation currency	14	4	3	(465)	(249)	(693)
Impairment (note 4.12.)	(7,706)	187	(2,244)	(34,422)	(5,862)	(50,047)
Write-offs	(352)	-	(22,596)	(45,633)	(141,024)	(209,605)
Repayments of written-off receivables	318	36	22	2,659	10,842	13,877
Exchange differences	(10)	-	(22)	742	1,609	2,319
Disposal of subsidiary	-	-	-	(4,153)	(6,898)	(11,051)
Other	-	-	-	-	(213)	(213)
Balance as at 31.12.2017	**8,940**	**576**	**4,996**	**161,227**	**373,382**	**549,121**

in EUR thousand

NLB	Loans and advances to government	Loans and advances to banks	Loans and advances to financial organisations	Loans and advances to large corporate customers	Loans and advances to Small- and medium-sized enterprises	Total
Balance as at 1.1.2016	6,799	197	56,231	200,000	363,512	626,739
Impairment (note 4.12.)	(163)	(196)	(5,005)	5,065	14,844	14,545
Write-offs	(689)	(1)	(446)	(39,415)	(138,831)	(179,382)
Repayments of written-off receivables	110	-	-	1,486	2,149	3,745
Exchange differences	-	-	17	6	9	32
Balance as at 31.12.2016	**6,057**	**-**	**50,797**	**167,142**	**241,683**	**465,679**
Impairment (note 4.12.)	(1,891)	-	(15,569)	(22,068)	(3,221)	(42,749)
Write-offs	-	-	(23,522)	(40,580)	(84,507)	(148,609)
Repayments of written-off receivables	210	-	-	1,617	2,383	4,210
Exchange differences	-	-	(22)	(21)	(30)	(73)
Balance as at 31.12.2017	**4,376**	**-**	**11,684**	**106,090**	**156,308**	**278,458**

c) Impairment of other financial assets

in EUR thousand

	NLB Group	NLB
Balance as at 1.1.2016	27,078	5,123
Effects of translation of foreign operations to presentation currency	43	-
Impairment (note 4.12.)	625	356
Write-offs	(12,417)	(1,726)
Exchange differences	(39)	(1)
Repayments of written-off receivables	165	19
Other	(2)	-
Balance as at 31.12.2016	**15,453**	**3,771**
Effects of translation of foreign operations to presentation currency	65	-
Impairment (note 4.12.)	1,130	587
Write-offs	(5,043)	(1,189)
Exchange differences	(17)	-
Repayments of written-off receivables	117	22
Balance as at 31.12.2017	**11,705**	**3,191**

5.15. Trading liabilities

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Derivatives, excluding hedges				
Swap contracts	8,855	15,555	8,751	15,552
- currency swaps	367	328	263	325
- interest rate swaps	8,488	15,227	8,488	15,227
Options	276	-	276	-
- interest rate options	276	-	276	-
Forward contracts	371	3,236	371	3,235
- currency forward	371	3,236	371	3,235
Total	**9,502**	**18,791**	**9,398**	**18,787**

The notional amounts of derivative financial instruments are disclosed in note 5.24.b.

5.16. Financial liabilities, measured at amortised cost

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

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Deposits from banks and central banks	40,602	42,334	72,072	74,977
Borrowings from banks and central banks	279,616	371,769	260,747	338,467
Due to customers	9,878,378	9,437,147	6,810,967	6,615,390
Borrowings from other customers	74,286	83,619	5,726	4,274
Debt securities in issue	-	277,726	-	277,726
Subordinated liabilities	27,350	27,145	-	-
Other financial liabilities	111,019	110,295	71,534	68,784
Total	**10,411,251**	**10,350,035**	**7,221,046**	**7,379,618**

a) Deposits from banks and central banks and amounts due to customers

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Deposits on demand				
- banks and central banks	36,331	34,828	71,383	74,434
- other customers	7,332,344	6,415,927	5,455,657	4,781,616
- governments	203,228	200,629	80,325	83,745
- financial organisations	156,713	124,918	140,379	101,536
- companies	1,692,840	1,584,892	1,042,298	1,015,371
- individuals	5,279,563	4,505,488	4,192,655	3,580,964
Other deposits				
- banks and central banks	4,271	7,506	689	543
- other customers	2,546,034	3,021,220	1,355,310	1,833,774
- governments	52,727	150,835	44,343	147,914
- financial organisations	129,030	122,401	66,826	78,767
- companies	281,527	350,431	185,156	246,584
- individuals	2,082,750	2,397,553	1,058,985	1,360,509
Total	**9,918,980**	**9,479,481**	**6,883,039**	**6,690,367**

b) Borrowings from banks and central banks and other customers

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Loans				
- banks and central banks	279,616	371,769	260,747	338,467
- other customers	74,286	83,619	5,726	4,274
- governments	17,058	20,063	-	-
- financial organisations	49,257	56,728	-	-
- companies	7,971	6,828	5,726	4,274
Total	**353,902**	**455,388**	**266,473**	**342,741**

As at 31.12.2017, NLB Group and NLB had EUR 341,691 thousand in undrawn borrowings (31.12.2016: EUR 347,434 thousand).

c) Debt securities in issue

in EUR thousand

	NLB Group and NLB	
	31.12.2017	31.12.2016
Carrying amount of issued securities		
- traded on active markets	-	277,726
Bonds (in %)		
- fixed rated	-	100.00

d) Subordinated liabilities

in EUR thousand

NLB Group				31.12.2017		31.12.2016	
	Currency	Due date	Interest rate	Carrying amount	Nominal value	Carrying amount	Nominal value
Subordinated loans							
	EUR	30.6.2018	6 months EURIBOR +5% p.a.	12,221	12,000	12,103	12,000
	EUR	30.6.2020	6 months EURIBOR + 7.7% p.a.	5,132	5,000	5,151	5,000
	EUR	26.6.2025	6 months EURIBOR + 6.25% p.a.	9,997	10,000	9,891	10,000
Total				**27,350**	**27,000**	**27,145**	**27,000**

e) Other financial liabilities

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Debit or credit card payables	36,578	32,704	32,132	29,350
Items in the course of payment	20,931	28,671	4,393	8,499
Accrued expenses	11,343	13,382	4,456	5,593
Suppliers	14,826	11,781	11,146	8,393
Accrued salaries	9,665	8,537	6,662	6,583
Fees and commissions	1,682	1,440	1,627	1,398
Other financial liabilities	15,994	13,780	11,118	8,968
Total	**111,019**	**110,295**	**71,534**	**68,784**

Other financial liabilities mainly include liabilities to insurance companies, liabilities to employees, received warranties, obligation for purchase of securities and trust services.

5.17. Provisions

a) Analysis by type of provisions

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Provisions for financial guarantees (note 5.24.a)	9,497	25,327	7,806	23,131
Provisions for non-financial guarantees (note 5.24.a)	19,724	22,745	19,069	21,777
Provisions for other credit commitments (note 5.24.a)	7,694	5,609	7,382	4,957
Employee benefit provisions	20,440	19,758	16,712	15,384
Restructuring provisions	15,284	10,014	14,687	8,750
Provisions for legal issues	15,786	15,194	4,958	3,282
Other provisions	214	2,267	203	2,265
Total	**88,639**	**100,914**	**70,817**	**79,546**

Provisions for legal issues are recognised based on expectations regarding the probable outcome of legal disputes.

As at 31.12.2017, NLB Group was involved in 38 (31.12.2016: 41) legal disputes with material claims against group members in a total amount of EUR 585,406 thousand, excluding accrued interest (31.12.2016: EUR 631,918 thousand). As at 31.12.2017, NLB was involved in 19 (31.12.2016: 19) legal disputes with material monetary claims against NLB. The total amount of these claims, excluding accrued interest, was EUR 399,824 thousand (31.12.2016: EUR 417,041 thousand).

In connection with legal issues, the biggest amount of material monetary claims relates to civil claims filed by Privredna banka Zagreb (the PBZ) and Zagrebačka banka (the ZaBa) against NLB, referring to the old savings of LB Branch Zagreb savers, which were transferred to these two banks in a principal amount of approximately EUR 167.1 million. Due to the fact the proceedings have been pending for such a long time, the penalty interest already exceeds the principal amount. As NLB is not liable for the old foreign currency savings, based on numerous process and content-related reasons, NLB has all along objected to these claims. Two key reasons NLB is not liable for the old foreign currency savings are that it was only founded on the basis of the Constitutional Act on 27 July 1994 (at the time the savings were deposited with LB Branch Zagreb, NLB did not yet exist), and NLB did not assume any of such obligations. Moreover, this is a former Yugoslavia succession matter, as the governments of the Republic of Slovenia and the Republic of Croatia agreed in a Memorandum of Understanding signed in 2013 whose intent was to find a solution to the transferred foreign currency savings of Ljubljanska banka in Croatia (LB) on the basis of the Agreement on Succession Issues. The Memorandum also said that the Republic of Croatia would ensure the stay all the proceedings commenced by the PBZ and the ZaBa in relation to the transferred foreign currency savings until the issue was finally resolved.

Despite the agreement in Memorandum of Understanding to stay all the proceedings commenced, the Court of Appeal, the County Court of Zagreb, ruled in three claims (as explained bellow in details) in favour of the plaintiff. NLB then filed in the case from May 2015 a constitutional appeal with the Constitutional Court of the Republic of Croatia and in relation to the ruling, dated 26 September 2017 (received on 16 November 2017) and the ruling, dated 21 November 2017(received on 26 January 2018) an extraordinary legal measure with the Supreme Court of the Republic of Croatia was filed against the aforementioned final judgements. In the other cases, with respect to which court procedures described above are pending, final judgments have not yet been issued.

Conversely, in another case, a claim filed by the PBZ was refused and the judgment became final in favour of NLB. Extraordinary legal measure with the Supreme Court of the Republic of Croatia, filed by the plaintiff, was dismissed by Supreme Court on 16 June 2015.

In May 2015 the Court of Appeal, the County Court of Zagreb, ruled in one claim to reject the complaints raised by the LB and NLB and awarded that the plaintiff PBZ be paid the principal value of EUR 254.76 and costs of the proceedings totalling HRK 15,781.25, both with accompanying accrued penalty interest. NLB then filed a constitutional appeal against the aforementioned final judgement as it found the court decision contrary to the legislation in force as well as the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia.

On 16 November 2017, NLB received the judgement of Županijski sud in Zagreb, which as the Court of the second instance changed the judgment of the Court of the first instance, with which the claim against NLB was refused, in such a way that the defendants NLB and LB are jointly and severally obliged to pay to the plaintiff

ZaBa the principal in the amount of EUR 492.430,53 plus interest, which exceeds the principal amount and litigation costs in the amount of approximately EUR 99 thousand with penalty interest. LB and NLB are, in accordance with the judgment, obliged to pay all relevant amounts jointly and severally. Given the fact that such ruling became final and enforceable and recognizing fundamental EU principles on mutual recognition of judgments, the payment had to be completed by 1 December 2017. Nevertheless, NLB challenged the judgment with the extraordinary legal measure on the Supreme Court of the Republic of Croatia and later, if necessary, will also challenge the judgment with all other available remedies, as the obligations of the old foreign currency savings in accordance with Slovenian Constitutional Law are not the liabilities of the NLB.

In another case Županijski sud in Zagreb, which as the Court of the second instance in a judgment dated 21 November 2017 upheld the judgment of the Court of first instance dated 21 January 2014, with which was decided that the defendants NLB and LB are jointly and severally obliged to pay to the plaintiff Privredna banka Zagreb ("PBZ") the principal in the amount of EUR 220.115,,98 plus interest and litigation costs in the amount of approximately EUR 93 thousand with penalty interest until payment. LB and NLB are, in accordance with the judgment, obliged to pay all relevant amounts jointly and severally. In accordance with the final judgment the payment should be completed up to and including 12 February 2018. NLB has challenged the judgment with the extraordinary legal measure with the Supreme Court of the Republic of Croatia and later, if necessary, will also challenge the judgment with all other available remedies, as the obligations of the old foreign currency savings in accordance with Slovenian Constitutional Law are not the liabilities of the NLB.

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

b) Movements in provisions for guarantees and commitments

Financial guarantees

in EUR thousand

	NLB Group		NLB	
	2017	**2016**	**2017**	**2016**
Balance as at 1.1.	25,327	47,737	23,131	44,583
Effects of translation of foreign operations to presentation currency	11	(16)	-	-
Additional provisions/provisions released (note 4.11.)	(2,587)	(4,521)	(2,069)	(3,565)
Utilised during year	(13,254)	(17,894)	(13,254)	(17,894)
Exchange differences	(3)	21	(2)	7
Balance as at 31.12.	**9,494**	**25,327**	**7,806**	**23,131**

Non-financial guarantees

in EUR thousand

	NLB Group		NLB	
	2017	**2016**	**2017**	**2016**
Balance as at 1.1.	22,745	31,034	21,777	29,863
Effects of translation of foreign operations to presentation currency	4	(2)	-	-
Additional provisions/provisions released (note 4.11.)	(3,024)	(8,295)	(2,716)	(8,093)
Exchange differences	(1)	8	8	7
Balance as at 31.12.	**19,724**	**22,745**	**19,069**	**21,777**

Other credit commitments

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	5,609	3,228	4,957	3,197
Effects of translation of foreign operations to presentation currency	2	(1)	-	-
Additional provisions/provisions released (note 4.11.)	2,151	2,384	2,489	1,761
Exchange differences	(65)	(2)	(64)	(1)
Balance as at 31.12.	**7,697**	**5,609**	**7,382**	**4,957**

c) Movements in employee benefit provisions

Post-employment benefits

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	13,130	14,205	10,886	11,786
Effects of translation of foreign operations to presentation currency	9	(2)	-	-
Transfer to non-current assets and disposal group held for sale	(9)	-	-	-
Additional provisions (note 4.9.)	559	594	462	473
Provisions released (note 4.9.)	(465)	(215)	-	-
Interest expenses (note 4.1.)	188	274	93	171
Utilised during year (payments)	(90)	(210)	(53)	(78)
Actuarial gains and losses	822	(1,516)	950	(1,466)
Balance as at 31.12.	**14,144**	**13,130**	**12,338**	**10,886**

Other employee benefits

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	6,628	7,060	4,498	4,773
Effects of translation of foreign operations to presentation currency	11	(2)	-	-
Transfer to non-current assets and disposal group held for sale	(52)	-	-	-
Additional provisions (note 4.9.)	4,131	4,065	2,584	2,628
Provisions released (note 4.9.)	(176)	(514)	-	(258)
Interest expenses (note 4.1.)	54	83	17	34
Utilised during year	(4,300)	(4,064)	(2,725)	(2,679)
Balance as at 31.12.	**6,296**	**6,628**	**4,374**	**4,498**

Other employee benefits include NLB Group’s obligations for jubilee long-service benefits and unused annual leave.

d) Movements in restructuring provisions

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	10,014	3,477	8,750	3,429
Effects of translation of foreign operations to presentation currency	5	(3)	-	-
Additional provisions (note 4.11.)	8,588	10,644	8,400	9,377
Utilised during year	(3,323)	(4,104)	(2,463)	(4,056)
Balance as at 31.12.	**15,284**	**10,014**	**14,687**	**8,750**

NLB Group has adopted a new business strategy and initiated key strategic initiatives, aiming among others towards a leaner organisation, optimisation of processes, implementation of a new IT strategy with a focus on digitalisation and simplification, and adjustment of the organisational structure. These initiatives will result in a decreased number of employees in the coming years. Built provisions are expected to be used for redundancy payments in the next three years.

e) Movements in provisions for legal issues

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	15,194	13,465	3,282	5,075
Effects of translation of foreign operations to presentation currency	175	(74)	-	-
Additional provisions (note 4.11.)	4,940	5,291	1,831	401
Provisions released (note 4.11.)	(4,258)	(1,039)	-	(256)
Utilised during year	(245)	(2,462)	(155)	(1,949)
Exchange differences	(20)	13	-	11
Balance as at 31.12.	**15,786**	**15,194**	**4,958**	**3,282**

f) Movements in other provisions

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Balance as at 1.1.	2,267	2,433	2,265	2,431
Additional provisions (note 4.11.)	32	-	-	-
Provisions released (note 4.11.)	(591)	(107)	(591)	(107)
Utilised during year	(1,494)	(59)	(1,471)	(59)
Balance as at 31.12.	**214**	**2,267**	**203**	**2,265**

5.18. Deferred income tax

a) Analysis by type of deferred income taxes

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Deferred income tax assets				
Valuation of financial instruments and capital investments	25,513	19,301	25,475	19,424
Impairment provisions	170	387	2	2
Employee benefit provisions	4,018	3,208	3,432	2,736
Depreciation and valuation of non-financial assets	976	1,113	162	175
Total deferred income tax assets	**30,677**	**24,009**	**29,071**	**22,337**
Deferred income tax liabilities				
Valuation of financial instruments	10,077	12,233	9,067	11,463
Depreciation and valuation of non-financial assets	1,097	1,278	246	252
Impairment provisions	1,996	3,471	-	-
Other	-	19	-	-
Total deferred income tax liabilities	**13,170**	**17,001**	**9,313**	**11,715**
Net deferred income tax assets	**18,603**	**7,735**	**19,758**	**10,622**
Net deferred income tax liabilities	**(1,096)**	**(727)**	**-**	**-**

	NLB Group		NLB	
	2017	2016	2017	2016
Included in the income statement for the current year	**8,691**	**(217)**	**7,164**	**3,083**
- valuation of financial instruments and capital investments	6,710	2,503	6,565	2,428
- impairment provisions	1,214	(3,505)	-	(6)
- employee benefit provisions	724	1,016	606	681
- depreciation and valuation of non-financial assets	37	(239)	(7)	(20)
- other	6	8	-	-
Included in other comprehensive income for the current year	**1,747**	**(1,858)**	**1,972**	**(1,600)**
- valuation of available-for-sale financial assets	1,657	(1,207)	1,882	(949)
- cash flow hedges	-	(460)	-	(460)
- actuarial assumptions and experience	90	(191)	90	(191)

As at 31.12.2017, NLB recognised EUR 29,071 thousand in deferred tax assets (31.12.2016: EUR 22,337 thousand). Unrecognised deferred tax assets amount to EUR 277,325 thousand (31.12.2016: EUR 265,149 thousand), of which EUR 204,657 thousand (31.12.2016: EUR 208,678 thousand) relates to unrecognised deferred tax assets from tax loss, and EUR 72,668 thousand (31.12.2016: EUR 56,471 thousand) to unrecognised deferred tax assets from impairments of non-strategic capital investments.

b) Movements in deferred income taxes

Deferred income tax assets

in EUR thousand

NLB Group	Employee benefit provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment provisions	Total
Balance as at 1.1.2016	2,385	17,479	1,130	554	21,548
Effects of translation of foreign operations to presentation currency	(2)	(1)	(1)	(4)	(8)
(Charged)/credited to profit and loss	1,016	2,488	(16)	(163)	3,325
(Charged)/credited to other comprehensive income	(191)	(665)	-	-	(856)
Balance as at 31.12.2016	**3,208**	**19,301**	**1,113**	**387**	**24,009**
Effects of translation of foreign operations to presentation currency	-	-	7	6	13
Transfer to non-current assets and disposal group held for sale	(4)	-	-	-	(4)
(Charged)/credited to profit and loss	724	6,607	(144)	(223)	6,964
(Charged)/credited to other comprehensive income	90	(395)	-	-	(305)
Balance as at 31.12.2017	**4,018**	**25,513**	**976**	**170**	**30,677**

in EUR thousand

NLB	Employee benefit provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment provisions	Total
Balance as at 1.1.2016	2,246	17,550	182	8	19,986
(Charged)/credited to profit and loss	681	2,413	(7)	(6)	3,081
(Charged)/credited to other comprehensive income	(191)	(539)	-	-	(730)
Balance as at 31.12.2016	**2,736**	**19,424**	**175**	**2**	**22,337**
(Charged)/credited to profit and loss	606	6,462	(13)	-	7,055
(Charged)/credited to other comprehensive income	90	(411)	-	-	(321)
Balance as at 31.12.2017	**3,432**	**25,475**	**162**	**2**	**29,071**

Deferred income tax liabilities

in EUR thousand

NLB Group	Impairment provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Other	Total
Balance as at 1.1.2016	129	11,249	1,056	27	12,461
Effects of translation of foreign operations to presentation currency	-	(3)	(1)	-	(4)
Charged/(credited) to profit and loss	3,342	(15)	223	(8)	3,542
Charged/(credited) to other comprehensive income	-	1,002	-	-	1,002
Balance as at 31.12.2016	**3,471**	**12,233**	**1,278**	**19**	**17,001**
Effects of translation of foreign operations to presentation currency	1	7	-	-	8
Transfer to non-current assets and disposal group held for sale	-	(8)	-	(13)	(21)
Disposal of subsidiary	(39)	-	-	-	(39)
Charged/(credited) to profit and loss	(1,437)	(103)	(181)	(6)	(1,727)
Charged/(credited)to other comprehensive income	-	(2,052)	-	-	(2,052)
Balance as at 31.12.2017	**1,996**	**10,077**	**1,097**	**-**	**13,170**

in EUR thousand

NLB	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Total
Balance as at 1.1.2016	10,608	239	10,847
Charged/(credited) to profit and loss	(15)	13	(2)
Charged/(credited) to other comprehensive income	870	-	870
Balance as at 31.12.2016	**11,463**	**252**	**11,715**
Charged/(credited) to profit and loss	(103)	(6)	(109)
Charged/(credited) to other comprehensive income	(2,293)	-	(2,293)
Balance as at 31.12.2017	**9,067**	**246**	**9,313**

5.19. Income tax relating to components of other comprehensive income

in EUR thousand

	NLB Group			NLB		
2017	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Actuarial gains and lossess	(810)	90	(720)	(950)	90	(860)
Available-for-sale financial assets	(7,261)	1,657	(5,604)	(9,904)	1,882	(8,022)
Share of associates and joint ventures	225	(36)	189	-	-	-
Total	**(7,846)**	**1,711**	**(6,135)**	**(10,854)**	**1,972**	**(8,882)**

in EUR thousand

	NLB Group			NLB		
2016	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Actuarial gains and lossess	1,515	(191)	1,324	1,466	(191)	1,275
Available-for-sale financial assets	3,899	(1,207)	2,692	171	(949)	(778)
Cash flow hedge	2,703	(460)	2,243	2,703	(460)	2,243
Share of associates and joint ventures	2,725	(743)	1,982	-	-	-
Total	**10,842**	**(2,601)**	**8,241**	**4,340**	**(1,600)**	**2,740**

5.20. Other liabilities

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Taxes payable	3,409	3,699	2,770	3,049
Deferred income	3,101	2,964	1,034	661
Payments received in advance	3,086	2,040	377	476
Total	**9,596**	**8,703**	**4,181**	**4,186**

5.21. Share capital

The share capital of NLB amounts to EUR 200,000 thousand and did not change during 2017. It comprises of 20,000,000 no-par-value ordinary registered shares, with the corresponding value of EUR 10.0 for one share. All issued shares are fully paid and there are no un-issued authorised shares. As at 31.12.2017 and 31.12.2016, the Republic of Slovenia was the only shareholder of NLB. NLB Group does not own treasury shares.

The book value of a NLB share on a consolidated level as at 31.12.2017 was 82.7 EUR (31.12.2016: EUR 74.8), and on solo level was EUR 69.1 (31.12.2016: EUR 63.2). It is calculated as the ratio of net assets' book value without other equity instruments issued and the number of shares.

Distributable profit as at 31.12.2017 amounts to EUR 270,627 thousand (31.12.2016: EUR 145,313 thousand), and consists of a net profit for 2017 in the amount of EUR 189,094 thousand (2016: EUR 63,783 thousand) and retained earnings from previous years in the amount of EUR 81,533 thousand. Its allocation will be subject to a decision by the Bank's Annual General Meeting.

In 2017 NLB paid dividends for previous year in the amount of 3,189 EUR per share (2016: 2,194 EUR), which decreased retained earnings for EUR 63,780 thousand (2016: EUR 43.880 thousand).

5.22. Accumulated other comprehensive income and reserves

a) Reserves

The share premium account as at 31.12.2017 and 31.12.2016 comprises paid-up premiums in the amount of EUR 822,173 thousand and the revaluation of share capital from previous years in the amount of EUR 49,205 thousand.

As at 31.12.2017 and 31.12.2016 profit reserves in the amount of EUR 13,522 thousand relate entirely to legal reserves in accordance with the Companies Act.

b) Accumulated other comprehensive income

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Available-for-sale financial assets - debt securities	43,860	41,954	28,346	28,574
Available-for-sale financial assets - equity securities	3,735	11,017	850	8,644
Actuarial defined benefit pension plans	(4,349)	(3,617)	(3,497)	(2,637)
Foreign currency translation	(17,248)	(20,139)	-	-
Hedge of a net investment in a foreign operation	754	754	-	-
Total	**26,752**	**29,969**	**25,699**	**34,581**

5.23. Capital adequacy ratios

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Paid up capital instruments	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Retained earnings - from previous years	296,773	246,656	81,533	81,530
Profit eligible - from current year	29,280	49,890	-	-
Accumulated other comprehensive income	(11,450)	(6,053)	(20)	5,205
Other reserves	13,522	13,522	13,522	13,522
Prudential filters: Value adjustments due to the requirements for prudent valuation	(2,389)	(2,213)	(1,886)	(1,734)
(-) Goodwill	(3,529)	(3,529)	-	-
(-) Other intangible assets	(31,445)	(30,397)	(23,911)	(23,345)
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-	(3,013)	-	(4,626)
COMMON EQUITY TIER 1 CAPITAL (CET1)	**1,362,140**	**1,336,241**	**1,140,616**	**1,141,930**
Additional Tier 1 capital	-	-	-	-
TIER 1 CAPITAL	**1,362,140**	**1,336,241**	**1,140,616**	**1,141,930**
Tier 2 capital	-	-	-	-
Total CAPITAL (OWN FUNDS)	**1,362,140**	**1,336,241**	**1,140,616**	**1,141,930**
RWA for credit risk	7,096,413	6,864,737	4,369,557	4,292,262
RWA for market risks	499,726	104,175	269,988	27,975
RWA for credit valuation adjustment risk	850	463	850	463
RWA for operational risk	949,493	892,753	593,750	561,091
Total RISK EXPOSURE AMOUNT (RWA)	**8,546,482**	**7,862,128**	**5,234,145**	**4,881,791**
Common Equity Tier 1 Ratio	15.9%	17.0%	21.8%	23.4%
Tier 1 Ratio	15.9%	17.0%	21.8%	23.4%
Total Capital Ratio	15.9%	17.0%	21.8%	23.4%

* Profit eligible from the current year and capital ratios envisage dividends payments in 100% of profit after tax of NLB (EUR 189 million)

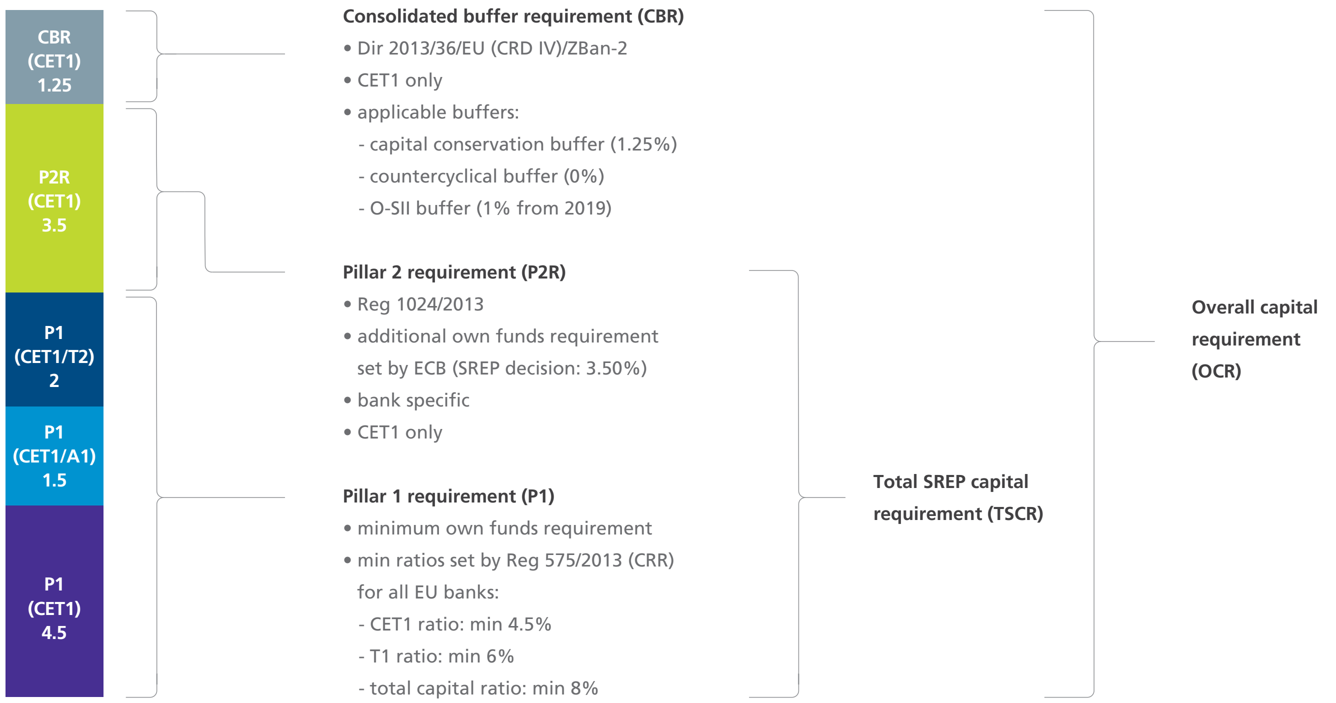
European bank capital legislation, comprising the CRR regulation and CRD IV directive, is based on the Basel III guidelines. Legislation defines three capital ratios reflecting a different quality of capital:

- Common Equity Tier 1 ratio (ratio between common or CET1 capital and weighted risk exposure amount or RWA), which must be at least 4.5%;
- Tier 1 capital ratio (Tier 1 capital to RWA), which must be at least 6%; and
- Total capital ratio (total capital to RWA), which must be at least 8%.

In addition to the aforementioned ratios, which form the Pillar 1 requirement, the Bank must meet other requirements and recommendations that are being imposed by the supervisory institutions or by the legislation:

- Pillar 2 Requirement (SREP requirement): bank specific, obligatory requirement set by the supervisory institution through the SREP process (together with the Pillar 1 requirement it represents the minimum total SREP requirement – TSCR);
- Applicable combined buffer requirement (CBR): system of capital buffers to be added on top of TSCR – breaching of the CBR is not a breach of capital requirement, but triggers limitations in payment of dividends and other distributions from capital. Some of the buffers are prescribed by law for all banks and some of them are bank specific, set by the supervisory institution (CBR and TSCR together form the overall capital requirement – OCR);
- Pillar 2 Guidance: capital recommendation over and above the OCR, set by the supervisory institution through the SREP process. It is bank-specific, and as a recommendation not obligatory. Any non-compliance does not affect dividends or other distributions from capital, however, it might lead to intensified supervision and imposition of measures to re-establish a prudent level of capital.

Table 24: NLB's overall capital requirement on the consolidated level for 2017



As of 1 January 2017, NLB was required to maintain the OCR on the level of 12.75% on consolidated basis and meet the following capital requirements on a consolidated basis:

- 9.25% CET 1 ratio (transitional),
- 10.75% Tier 1 ratio (transitional),
- 12.75% Total Capital ratio (transitional).

All capital ratios are inclusive of 3.5% Pillar 2 Requirement (P2R) and 1.25% Capital Conservation Buffer (CCB). As prescribed by CRD IV and the Banking Act (ZBan-2), CCB is linearly increasing and will reach the fully loaded level of 2.5% in 2019, whereas the Bank of Slovenia requires NLB to apply the O-SII buffer at the rate of 1% on the consolidated level from 2019 on.

In 2018, NLB is required to maintain the OCR on the level of 13.375% RWA on a consolidated basis. The increase of the requirement in comparison to the 2017 level is due to the phasing-in of the capital conservation buffer as prescribed by law.

As of 31.12.2017, NLB Group capital ratios on a consolidated basis stand at:

- 15.94% CET 1 ratio,
- 15.94% Tier 1 ratio,
- 15.94% Total Capital ratio.

The capital adequacy of the NLB Group and NLB at the end of year 2017 remains strong, at a level which covers all current and announced regulatory capital requirements, including capital buffers and other currently known requirements, and the pillar 2 Guidance. Moreover, it is within the stated risk appetite limit and above the EU average as published by the European Banking Authority (EBA).

In 2017, the capital of the Bank and the Group consists merely of the components of top quality CET1 capital (no subordinated instruments that would rank in lower capital categories), which is why all three capital ratios are the same.

In the scope of regulatory risks, which include credit risk, operational risk, and market risk, NLB Group uses the standardised approach for credit and market risks, while the calculation of capital requirement for operational risks is made according to the basic indicator approach. The same approaches are used for calculating the capital requirements for NLB on a standalone basis, except for the calculation of the capital requirement for operational risks where the standardised approach is used.

At the end of December 2017, the capital ratios for NLB Group stood at 15.9% (or 1.1 p.p. lower than at the end of 2016), and for NLB at 21.8% (or 1.6 .p.p. lower than at the end of 2016). The Group's lower capital adequacy derives from higher risk weighted assets (RWA). RWA for credit risk increased by EUR 231.7 million, mainly for retail exposures due to consumer and housing loans growth. RWA for market risks and CVA increased by EUR 395.9 million, particularly as a result of the requested correction of the treatment of the FX position on a consolidated level and treatment of equity investments in non-euro subsidiary banks. The requested correction from the regulator relates to structural positions arising from operations of NLB Group's non-euro subsidiaries banks. These positions are long, non- trading, and deliberately taken. On a consolidated level, foreign exchange translation differences from these positions are recognised in the consolidated capital and do not have an impact on the Group's profit and loss. By keeping our structural position open, NLB Group maintains capital ratio insensitive to foreign exchange movements. The Bank will try to partly or fully exclude this position from an open FX position in the future (by getting the approval from the regulator) and partly mitigate this capital adequacy decrease on consolidated and individual levels. The increase in the RWA for operating risks (EUR 56.7 million) arises from the higher three-year average of income, which represents the basis for the calculation.

In preparation of the internal capital adequacy assessment (ICAAP), NLB Group identifies risks not included in the calculation under the regulatory approach (Pilar 1), but have a significant impact on their operation. The scope of additional credit risks also includes the concentration risk that refers to the individual clients and groups of related parties and to the industry. NLB Group calculates the capital requirement for non-financial risks (which include profitability risk, strategic risk, legal risk, divestment risk, and reputation risk) if it assesses that an individual risk is crucial for NLB Group. In addition, the Pillar 2 risks include the effects of stress scenarios for credit (deterioration of the credit portfolio structure, decrease in real-estate market prices), currency, liquidity, interest rate risk in the banking book, credit spread risk, and market risk.

In March 2018, NLB received a letter from ECB on ECB's intention to adopt the decision to restrict distributions by NLB to its shareholders and to require a Contingent Capital Plan specifying the planned measures to increase the capital ratios in case that provision recognition criteria are met for the lawsuits against NLB pending in the courts of the Republic of Croatia. Details on legal issues are disclosed in note 5.17.

5.24. Off-balance sheet liabilities

a) Contractual amounts of off-balance sheet financial instruments

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Short-term guarantees	188,104	162,535	109,885	87,957
- financial	105,420	109,412	50,978	49,611
- non-financial	82,684	53,123	58,907	38,346
Long-term guarantees	553,436	586,895	408,119	447,125
- financial	209,091	222,869	127,357	140,031
- non-financial	344,345	364,026	280,762	307,094
Commitments to extend credit	1,130,250	1,075,940	898,927	881,198
Letters of credit	14,614	17,485	375	3,761
Other	4,109	8,329	69	118
	1,890,513	**1,851,184**	**1,417,375**	**1,420,159**
Provisions (note 5.17.b)	(36,915)	(53,681)	(34,257)	(49,865)
Total	**1,853,598**	**1,797,503**	**1,383,118**	**1,370,294**

Fee income from all issued non-financial guarantees amounted to EUR 5,240 thousand (2016: EUR 5,643 thousand) in NLB Group, and to EUR 4,617 thousand (2016: EUR 5,224 thousand) at NLB.

b) Analysis of derivative financial instruments by notional amounts

in EUR thousand

	NLB Group				NLB			
	31.12.2017		31.12.2016		31.12.2017		31.12.2016	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Swaps	158,109	1,696,447	57,188	810,972	141,137	1,696,447	57,188	810,972
- currency swaps	158,109	-	57,188	-	141,137	-	57,188	-
- interest rate swaps	-	1,696,447	-	808,898	-	1,696,447	-	808,898
- currency interest rate swaps	-	-	-	2,074	-	-	-	2,074
Options	11,262	26,125	10,703	1,495	11,262	26,125	10,703	1,495
- interest rate options	-	26,125	-	1,495	-	26,125	-	1,495
- securities options	11,262	-	10,703	-	11,262	-	10,703	-
Forward contracts	67,918	29,927	192,950	7,468	67,329	29,927	191,280	7,468
- currency forward	67,918	29,927	192,950	7,468	67,329	29,927	191,280	7,468
Futures	-	-	2,400	-	-	-	2,400	-
- currency futures	-	-	2,400	-	-	-	2,400	-
Total	**237,289**	**1,752,499**	**263,241**	**819,935**	**219,728**	**1,752,499**	**261,571**	**819,935**
	1,989,788		**1,083,176**		**1,972,227**		**1,081,506**	

The notional amounts of derivative financial instruments that qualify for hedge accounting at NLB Group and NLB amount to EUR 406,218 thousand (31.12.2016: EUR 108,554 thousand).

Derivatives that qualify for hedge accounting are used to hedge interest rate risk.

The fair values of derivative financial instruments are disclosed in notes 5.2., 5.5., and 5.15.

c) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Real estate				
Not later than one year	1,534	1,775	801	957
Later than one year and not later than five years	5,471	6,283	2,982	3,668
Later than five years	1,367	1,666	1,399	1,709
Other				
Not later than one year	758	383	342	259
Later than one year and not later than five years	810	772	531	373
Total	**9,940**	**10,879**	**6,055**	**6,966**

d) Capital commitments

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Capital commitments for purchase of:				
- property and equipment	129	179	129	92
- intangible assets	3,023	1,363	2,855	1,260
Total	**3,152**	**1,542**	**2,984**	**1,352**

5.25. Funds managed on behalf of third parties

Funds managed on behalf of third parties are accounted separately from NLB Group's funds. Income and expenses arising with respect to these funds are charged to the respective fund, and no liability falls on NLB Group in connection with these transactions. NLB Group charges fees for its services.

Funds managed on behalf of third parties

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Fiduciary activities	24,638,065	21,511,615	23,532,746	20,518,240
Settlement and other services	1,684,218	1,509,864	1,647,375	1,482,693
Total	**26,322,283**	**23,021,479**	**25,180,121**	**22,000,933**

Fiduciary activities

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Assets				
Clearing or transaction account claims for client assets	**24,596,576**	**21,452,329**	**23,498,114**	**20,463,466**
- from financial instruments	24,591,369	21,444,586	23,493,388	20,456,016
- receipt, processing, and execution of orders	9,802,973	9,292,661	9,200,568	8,786,845
- management of financial instruments portfolio	422,222	380,344	-	-
- custody services	14,366,174	11,771,581	14,292,820	11,669,171
- to Central Securities Clearing Corporation or bank settlement account for sold financial instrument	685	820	204	527
- to other settlement systems and institutions for bought financial instrument (debtors)	4,522	6,923	4,522	6,923
Clients' money	**41,489**	**59,286**	**34,632**	**54,774**
- at settlement account for client assets	12,789	33,940	5,932	29,428
- at bank transaction accounts	28,700	25,346	28,700	25,346
Liabilities				
Clearing or transaction liabilities for client assets	**24,638,065**	**21,511,615**	**23,532,746**	**20,518,240**
- to client from cash and financial instruments	24,634,743	21,500,968	23,530,705	20,508,917
- receipt, processing, and execution of orders	9,807,819	9,297,620	9,205,414	8,791,804
- management of financial instruments portfolio	428,279	383,825	-	-
- custody services	14,398,645	11,819,523	14,325,291	11,717,113
- to Central Securities Clearing Corporation or bank settlement account for bought financial instrument	225	75	225	75
- to other settlement systems and institutions for bought financial instrument (creditors)	2,670	10,030	1,389	8,706
- to bank or settlement bank account for fees and costs, etc.	427	542	427	542

Fee income for funds managed on behalf of third parties

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Fiduciary activities (note 4.3.b)	8,386	8,323	6,917	6,716
Settlement and other services	1,296	796	943	633
Total	**9,682**	**9,119**	**7,860**	**7,349**

6. Risk management

NLB Group pays great attention and importance to the risk culture and awareness of all relevant risks within the entire Group. Risk management in NLB Group is implemented in accordance with the established internal policies and procedures which take into account European banking regulations, the regulations adopted by the Bank of Slovenia, the current EBA guidelines, and relevant good banking practices. In addition, the Group is constantly enhancing and complementing the existing methods and processes in all risk management segments.

Risk management function represents an important part of overall management and governance system in the Group. NLB Group Risk Management framework is defined and organised with regard to the Group's business and risk profile, based on forward looking perspective to meet internal objectives and all external requirements. The Group's Risk management framework supports business decision-making on strategic and operating levels, comprehensive steering, and proactive risk management by incorporating:

- risk appetite statement and risk strategy orientations,
- yearly review of strategic goals, budgeting, and capital planning process,
- the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP),
- recovery and resolution plan activities,
- other internal stress-testing capabilities and comprehensive risk analysis.

Set governance and different risk management tools enable adequate oversight of the Group's risk profile. Moreover, they proactively support business operations and enable efficient risk management by incorporating escalation procedures and different mitigation measures when necessary.

a) Risk management strategies and processes

The key goal of NLB Group's Risk Management is to proactively manage, assess, and monitor risks within the Group. Sound and holistic understanding of risk management is embedded into the entire organisation, focusing on risk identification in a very early stage, efficient risk management, and mitigation of them with aim to ensure the prudent and economic use of its capital. Key risk guidelines of NLB Group are defined by its Risk Appetite and Risk Strategy with regard to the Group's business model, and based on a forward-looking perspective, which are regularly revised and enhanced. The Strategy of NLB Group, the Risk Appetite and Risk Strategy guidelines and the key internal policies of NLB Group – which are approved by the Management Board and by the Supervisory Board – specify the strategic goals, risk appetite guidelines, approaches, and methodologies for monitoring, measuring, and managing all types of risk in order to meet internal objectives and all external requirements. In addition, main strategic risk guidelines are integrated into the annual business plan review and budgeting process.

NLB Group plans a prudent risk profile, optimal capital usage, and profitable operations for the long run, considering the risks assumed. The management of credit risk, which is the most important risk category in NLB Group, concentrates on taking moderate risks – diversified credit portfolio, adequate credit portfolio quality, sustainable cost of risk, and ensuring an optimal return considering the risks assumed. As regards liquidity risk, the tolerance is low, while the activities are geared towards constantly ensuring an appropriate level of liquidity, both in the short and long terms. Concerning market and operational risks, NLB Group follows the orientation that such risks must not significantly impact its operations. The tolerance for other risk types is low, and focuses on minimising their possible impacts on NLB Group's entire operations.

NLB regularly monitors its target Risk Appetite profile, both for NLB Group and NLB, and represents the key component of the risk mitigation process. The risk profile, on strategic and operational levels, enables detailed monitoring and proactive management of exposure to credit, market, interest, liquidity, and operational risk, while non-financial and other risks are managed within the ICAAP process. The usage of risk profile limits and potential deviations from limits and target values are reported regularly to the respective committees and/or the Management Board of the Bank. The comprehensive Risk Report is reviewed quarterly by the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank. The banking subsidiaries within NLB Group have adapted a corresponding approach to monitor their target risk profiles. Set governance and different risk management tools enable adequate oversight of the Group's risk profile. Besides, they proactively support Group's business operations and its management by incorporating escalation procedures and different mitigation measures when necessary. Additionally, the Group has set up early warning systems in different risk areas with the intention of strengthening existing internal controls and timely responses when necessary.

For the purpose of an efficient risk mitigation process, NLB Group applies a single set of standards to retail and corporate loan collateral, which represents a secondary source of repayment with the aim of efficient credit risk management and consuming capital economically. The Group has a system for monitoring and reporting collateral at fair (market) value in accordance with the International Valuation Standards (IVS). The eligibility of collateral, by types and ratios referring to prudent lending criteria, is set within internal lending guidelines. Credit risk mitigation principles and rules in NLB Group are described in more relevant details in the Section Credit risk management. When hedging market risks, namely interest rate risk and foreign exchange risk, in line with the set risk appetite, NLB Group follows the principle of natural hedge or using derivatives in line with hedge accounting principles.

NLB Group established comprehensive stress testing framework and other early warning systems in different risk areas with the intention to strengthen the existing internal controls and timely responding when necessary. Robust and uniform stress testing framework includes all material types of risk and several relevant stress scenarios, according to the vulnerability of the Group's business model. It is integrated into Risk appetite, ICAAP, ILAAP, and the Recovery plan to support proactive management of the Group's overall risk profile, namely capital and liquidity position on a forward-looking perspective. Additionally, other partial risk assessments are covered by sensitivity analysis based on relevant stressed risk parameters.

b) Risk management structure and organisation

A robust Risk Management framework is comprehensively integrated into decision-making, steering, and mitigation processes within the Group in order to proactively support its business operations. Risk management in NLB Group is in charge of managing, assessing, and monitoring risks within NLB as the main entity in Slovenia, and the competence centre for six banking subsidiary banks. Furthermore, NLB Group is also responsible to several companies for ancillary services, and a number of non-core subsidiaries which are in a controlled wind-down.

Overall, the organisation and delineation of competencies in the NLB Group's risk management structure is designed to prevent conflicts of interest and ensure a transparent and documented decision-making process that is subject to an appropriate upward and downward flow of information. Risk management in the NLB Group is centralised within the Risk management business-line, which is a specialised business-line encompassing several professional areas, for which the Global Risk Department, the Corporate and the Retail Credit Analysis Department, and Evaluation and Control Department are responsible within NLB, and which reports to the Assets and Liabilities Committee (ALCO) of the Management Board and the Risk Committee of the Supervisory Board. The Risk management business line is in charge of formulating and controlling the risk management policies of the NLB Group, overseeing the harmonisation of risk management policies within the NLB Group, monitoring the NLB Group's risk exposures, and the preparation of external and internal reports. The "NLB Group Risk Management Standards" are guidelines which represent the basis for the establishment and organisation of risk management and associated activities at each NLB Group member. These guidelines and standards in the area of credit, market, liquidity, operational, and other non-financial risk management represent the basis for the adaptation of the NLB Group members' business policies, organisational structures, work procedures, and reporting systems. NLB prescribes the methodologies and procedures, and governs and controls the NLB Group in accordance with EU and Slovenian regulation. At the same time, the NLB Group members must also fulfil the requirements set out in local legislation.

All members of the NLB Group, which are included in the financial statements of the NLB Group, report their exposure to risks to the competent organisational units within the Risk management business line. These organisational units then report all relevant risk information to the Assets and Liabilities Committee ('ALCO') of the Management Board and the Risk Committee of the Supervisory Board, which is where the Management Board and the Supervisory Board, adopt appropriate measures.

Credit ratings of clients that are materially important to the NLB Group and the issuing of credit risk opinions are centralised via the Credit Committee of NLB. The process follows the co-decision principle, in which the credit committee of the respective group member first approves their decision, following which the Credit Committee of NLB gives their opinion. The resolution of the Credit Committee of NLB is made on the basis of all available documentation, including a non-binding rating opinion prepared by the underwriting department of NLB. This same principle and process is set also for the issuing of credit exposures for the materially important clients of the NLB Group.

The NLB Group members

The primary responsibility for managing the risks assumed by the NLB Group members within the framework of their business strategy lies with each NLB Group member's management, which, in accordance with the set limits, targets and other guidelines established at the NLB Group level, pursue the NLB Group's strategic goals, implement the NLB Group's planned business results, and monitor and manage risks. In furtherance of this, the NLB Group members each adopt appropriate risk management policies approved by the supervisory board of the applicable member. The supervisory board of each NLB Group member also monitors the implementation of that member's risk management policies and assesses their effectiveness.

Risk monitoring in the NLB Group members is centralised within an independent and/or separate organisational unit. The centralised monitoring of risks aims to establish standardised and systemic approaches to risk management, and therefore, a comprehensive overview of the Group's and of each member's statement of financial position. In compliance with the risk management policies of the NLB Group, risk monitoring in each NLB Group member is separated from its management and/or business function in order to maintain the objectivity required when assessing business decisions. The organisational unit for managing risks directly reports to the Management Board and its committees (Credit Committee, ALCO and Operational Risk Committee), which report to the Supervisory Board (Risk Committee of the Supervisory Board or Board of Directors).

c) Risk measurement and reporting systems

As a systemic bank, NLB is subject to the Single Supervisory Mechanism (SSM), which is supervised by the Joint Supervisory Team of the ECB and the Bank of Slovenia. Each NLB Group member complies ECB regulation while the NLB Group subsidiaries operating outside Slovenia are compliant also with the rules set by the local regulators.

The NLB Group's measurement systems and the risk management principles are crucial elements of the risk management policies which, for the purpose of consolidated control, are aligned with all regulatory requirements of the Bank of Slovenia and the European Central Bank, taking into account the provisions of the Directive (CRD), Decision (CRR), and EBA guidelines. In regards to capital adequacy, the NLB Group applies the standardised approach to credit and market risk and the basic approach (a simplified approach with less data granularity) to operational risks, with the exception of NLB which applies the standardised approach.

NLB Group performs a uniform assessment and management of risks across the entire Group, taking into account the specifics of the markets in which individual Group members are operating in line with the Group's Risk management standards. For the purposes of measuring of exposure to credit, market, interest, operational, and non-financial risks, in addition to prescribed regulations, the NLB Group uses internal methodologies and approaches that enable more detailed monitoring and management of risks. These internal methodologies are aligned with the Basel and EBA guidelines, as well as best practices in banking methodologies.

As for risk reporting, the NLB Group's internal guidelines reflect, in addition to internal requirements, the substance and frequency of reporting required by the Bank of Slovenia and the ECB. In addition, each member of the NLB Group also complies with the requirements of its local regulations. Risk reporting is carried out in the form of standardised reports, pursuant to risk management policies founded on reasonable methodologies for measuring and harmonising exposure to risks, appropriate databases and the automation of report preparation, which ensures the quality of reports and reduces the possibility of errors.

d) Main emphasis of risk management in 2017

NLB Group was further enhancing the robustness of its risk management system in all respective risk categories in order to manage them proactively, comprehensively and prudently. Main focus is on risk identification in a very early stage, efficient risk management and mitigation process. Uniform stress testing framework, which includes internally-developed models, was also enhanced in connection with relevant expected macroeconomic factors. Besides other early warning systems were established in different risk areas with the intention to strengthen the existing internal controls and timely responding when necessary. Moreover, the Group is constantly developing a wide range of advanced approaches supported by mathematical and statistical models in the area of credit risk assessment in line with best banking practises to further enhance existing risk management tools, while at the same time enabling faster responsiveness towards clients. The activities related to International Financial Reporting Standard (IFRS) 9 requirements, which has entered into force in the beginning of 2018, including methodological adaptations and calculation of quantitative impacts, were fully implemented.

The most important risk in NLB Group, in line with strategic orientations, remains the credit risk category. NLB Group gives great emphasis to the credit portfolio quality, where the quality of new financing of corporate and retail clients, and a well-diversified portfolio structure represent the key goals. The Group managed to further reduce the volume of non-performing exposures, approaching average EU banking level. In addition, coverage ratio remains high, enabling further NPE reduction without significant influence on cost of risk in the years ahead. Positive trends have been recorded throughout the region in terms of clients putting greater trust in economic developments, alongside the related recovery in consumption and the real estate market. Economic upswing and other one-off occurrences resulted in negative cost of risk on the Group level, whose evolution was otherwise very stable and in line with strategic business orientations and expectations.

In the negative interest rate environment, the Group faced growing excess liquidity, whereby significant attention was put to the structure and concentration of the liquidity reserves, also having in mind potential adverse negative market movements. Excess liquidity and market demand for fixed interest rates products resulted in moderately increased interest rate risk exposure, which stayed within relatively low to moderate tolerance toward this risk. The Group was included into the ECB Stress Test 2017 – interest rate risk in banking book which resulted in a favourable adjustment of Pillar 2 Guidance as a part of overall Supervisory review and evaluation process (SREP) requirements. Moreover, during 2017 the Group's capital and liquidity position remained strong at both, the Group and subsidiary bank levels, standing well above the targeted risk appetite profile.

There was also a large emphasis on the management of operational risks, where NLB Group follows the guideline that such risk may not considerably influence its operations. Special attention was paid to the development of a stress testing system, based on modelling data on loss events and a scenario analysis referring to high severity/low frequency events. Furthermore, key risk indicators were established as an early warning system for the broader field of operational risks with the aim of improving existing internal controls and timely responding when necessary.

6.1. Credit risk management

a) Introduction

In its operations, NLB Group is exposed to credit risk, or the risk of losses due to the failure of a debtor to settle its liabilities to NLB Group. For that reason, it proactively and comprehensively monitors and assesses the aforementioned risk. In that process, NLB Group follows the International Financial Reporting Standards, regulations issued by the Bank of Slovenia, and the EBA guidelines. This area is governed in greater detail by the internal methodologies and procedures set out in internal acts.

Through regular reviews of the business practices and the credit portfolios of NLB entities, NLB ensures that the credit risk management of those entities functions in accordance with NLB Group's risk management standards in order to ensure meaningfully uniform procedures at the consolidated level.

NLB Group manages credit risk at two levels:

- At the level of the individual customer/group of customers, where appropriate procedures are followed in various phases of the relationship with a customer prior to, during, and after the conclusion of an agreement. Prior to concluding an agreement, a customer's performance, financial position, and past cooperation with NLB are assessed. It is also important to secure high-quality collateral that does not affect a customer's credit rating. This is followed by various forms of monitoring a customer, in particular an assessment of its ability to generate sufficient cash flows for the regular settlement of its liabilities and contractual obligations. As regards this detection of risks, regular monitoring of clients within the Early Warning System (EWS) is important. For the purpose of objectively assessing a client's operation comprehensively, internal scoring models for particular client segments have been developed.

- The quality of the credit portfolio, including on-balance and off-balance sheet exposures, is actively monitored and analysed at the level of the overall portfolio of NLB Group and NLB. Comprehensive analyses are regularly performed in terms of client segmentation (depending on the client type and size), credit rating structure, arrears, and/or volume of non-performing/past due and restructured receivables, coverage with impairments and provisions, collateral received, concentrations arising from a group of related clients and concentrations within an industry, currency exposure, and other indicators of risks in the credit portfolio. A lot of attention is put on regular monitoring of new deals and other changes or trends, with the emphasis on the early detection of increased risks and their optimisation in relation of profitability. NLB Group appropriately diversifies its portfolio to mitigate specific components of credit risk (i.e. the risk deriving from operations with a specific customer, sector, positions in financial instruments, or other specific events). Increasing emphasis is also placed on stress tests that forecast the effects of negative macroeconomic movements on the portfolio, on the level of impairments and provisions, and on capital adequacy within the second pillar. Capital requirements for credit risk at NLB Group level within the first pillar are calculated according to the standardised approach, while within the second pillar as a credit risk add-on and a concentration risk assessment are carried out. From a forward-looking prospective, also stress test results are taken into consideration within the own estimation of Pillar 2 requirements.

NLB and other NLB Group members assess the level of credit risk losses on an individual basis for material claims, and at the group level for the rest of the portfolio.

The primary aim of an individual review is to determine whether objective evidence of impairment exists. Such evidence includes information regarding significant financial problems encountered by a customer, regarding actual breaches of contractual obligations such as arrears in the settlement of liabilities, whether financial assets will be restructured for economic or legal reasons, and the likelihood that a customer will enter into bankruptcy or a financial reorganisation. Expected future cash flows (from ordinary operations and the possible redemption of collateral) are assessed following an individual review. If their discounted value differs from the book value of the financial asset in question, impairment must be recognised. If objective evidence of impairment does not exist, losses are assessed at the group level.

Collective impairments are made for the remainder of the portfolio, which is not assessed on an individual basis. To that end, the portfolio is broken down into groups of similar claims, and then further into sub-groups with respect to their credit rating. Here, impairments are created regarding the probability of default (PD) and regarding the average rate of default or loss given default (LGD) associated with non-performing claims. The probability of default is determined by transition matrices which illustrate the migration of customers between rating categories, using an unweighted moving average. The average rate of default or loss given default, which indicates how much we will lose on average when a claim becomes non-performing, is determined based on the amount of impairments created for non-performing loans as the non-weighted average of loss given default. When creating collective provisions for commitments, on the basis of empirical data regarding the redemption of guarantees in the past, the probability of the redemption of guarantees is taken into account when creating collective provisions.

As part of the IFRS 9 project, NLB Group prepared a full upgrade of the collective impairment methodology based on IFRS 9 requirements. NLB developed a staging concept based on the estimated increase of credit risk of a single exposure since initial recognition. Furthermore, NLB developed more sophisticated models for measuring risk parameters, prepared the calculation of Expected Credit Losses based on new regulatory requirements, and developed a model validation and back testing concept. The transition to IFRS 9 requirements was performed in full scale as of 1 January 2018 on the level of NLB Group. With the adoption of the new impairment methodology, NLB Group recorded positive effects, arising mainly from collective impairments due to very favourable macroeconomic trends and an improved quality of the credit portfolio (note 2.34.).

b) Main emphasis in 2017

In the process of constantly complementing and enhancing credit risk management NLB Group focuses on taking moderate risks and at the same time ensuring an optimal return considering the risks assumed. The Group puts considerable emphasis on new corporate and retail financing, the sustainability of the credit risk volatility in terms of its structure, and the cost of risk, including the sustainable size of the subsidiary banks. Moreover, the Group is constantly developing a wide range of advanced approaches supported by mathematical and statistical models in the area of credit risk assessment in line with best banking practises to further enhance existing risk management tools, while at the same time enabling faster responsiveness towards clients.

Preserving high credit portfolio quality represents the most important key aim, with a focus on the quality of new placements leading to a diversified portfolio of customers. The Group is actively present on the market, financing existing and new creditworthy clients. The lower indebtedness of companies in Slovenia and their successful deleveraging has had a positive influence on the approval of new loans. In the retail segment, positive trends have been recorded throughout the region in terms of clients putting greater trust in economic developments, alongside the related recovery in consumption and the real estate market. The efforts, arising from the improved credit standards, resulted in the cumulatively very low new non-performing loans (NPL) formation. In addition, the favourable macroeconomic environment across the region resulted in the negative cost of risk, whose evolution during the year was otherwise very stable and sustainable in line with strategic orientations.

The restructuring approaches built in the past are focused on early warning detection of clients with potential financial difficulties and their proactive resolution. The strong commitment to reduce the NPE legacy on the Group level continued in 2017. Precisely set targets and constant monitoring of the realisation supported a further substantial reduction in the volume of the non-performing portfolio. As at 31.12.2017 the share of non-performing exposure by EBA methodology was 6.7% (reduced from 10.0% at the end of 2016). Moreover, the coverage ratio remains high at 62.2%, which is well above the EU average published by the EBA (44.7% in 3Q 2017).

c) Internal rating system and authorisations

in EUR thousand

	31.12.2017				31.12.2016			
NLB Group	**Gross loans and advances**	**Loans and advances (%)**	**Impairment provision**	**Impairment provision (%)**	**Gross loans and advances**	**Loans and advances (%)**	**Impairment provision**	**Impairment provision (%)**
A	4,952,528	60.7	24,149	0.5	4,872,072	58.4	23,763	0.5
B	1,972,025	24.2	57,310	2.9	1,852,289	22.2	60,619	3.3
C	393,247	4.8	47,711	12.1	410,975	4.9	64,451	15.7
D and E	837,455	10.3	518,158	61.9	1,201,333	14.4	754,917	62.8
Total	**8,155,255**	**100.0**	**647,328**	**7.9**	**8,336,669**	**100.0**	**903,750**	**10.8**

*Other financial assets are not included.

in EUR thousand

NLB	31.12.2017				31.12.2016			
	Gross loans and advances	Loans and advances (%)	Impairment provision	Impairment provision (%)	Gross loans and advances	Loans and advances (%)	Impairment provision	Impairment provision (%)
A	3,493,876	64.1	10,889	0.3	3,581,311	61.3	11,653	0.3
B	1,320,299	24.2	28,653	2.2	1,087,449	18.6	24,464	2.2
C	163,861	3.0	16,614	10.1	454,477	7.8	45,873	10.1
D and E	470,959	8.6	260,907	55.4	718,476	12.3	422,758	58.8
Total	**5,448,995**	**100.0**	**317,063**	**5.8**	**5,841,713**	**100.0**	**504,748**	**8.6**

*Other financial assets are not included.

The NLB Group's client credit rating classification is based on an internally developed methodology, drawing from internal statistical analyses, good banking practices, as well as Bank of Slovenia regulations, and ECB and EBA guidelines and requirements. The rating methodology is used across the entire NLB Group. The rating methodology includes a uniform credit grade scale of 12 rating classes, out of which nine represent performing clients and three non-performing clients. Rating Group A (AAA to A rating classes) includes the best clients with a low degree of default probability, characterised by high capital adequacy and a high coverage of financial liabilities with free cash flow. Rating Group A is considered as investment grade classification.

Rating Group B (BBB to B rating classes) includes clients with a low credit risk, one class higher than 'A' rating group clients. These clients show stable performance, acceptable financial ratios, and qualitative elements and have a sufficient cash flow to settle their obligations, but some are more sensitive to changes in the industry or the economy. The Rating Group B investment classification is an investment grade for BBB, and an 'invest with care' for BB and B. Rating Group C (CCC to C rating classes) includes clients who are exposed to a higher and above-average level of credit risk. Sometimes CCC rated clients are financed by the bank, as support brings more positive effects, however, Rating Group C is overall considered as a substantial risk. The Bank reasonably restricts cooperation with such clients and decreases its exposure to them.

Rating Group D, (D and DF rating classes) and 'E' represents non-performing clients that are treated as defaulted. D, DF, and E rating classified clients are ordinarily transferred to the specialised units for restructuring (which performs business and financial restructuring with a goal of minimising losses and restoring the client to a performing status) or workout and legal support (with the goal of minimising losses due to default).

A standard corporate rating methodology, with the prescribed set of parameters (qualitative and quantitative) applies to all the NLB Group bank entities. Groups of connected clients are treated as materially important for the NLB Group whenever exposure exceeds EUR 5 million. Materially important clients are submitted to the NLB Sub-Credit Committee.

NLB regularly reviews the business practices and credit portfolios of NLB Group entities to make sure they are operating in accordance with the minimum risk management standards of NLB Group. This ensures appropriate standard processes for managing and reporting credit risks at the consolidated level.

d) Maximum exposure to credit risk

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Cash, cash balances at central banks, and other demand deposits at banks	1,256,481	1,299,014	570,010	617,039
Debt securities classified as loans and receivables	82,133	85,315	82,133	85,315
Loans to government	457,080	775,986	358,675	668,300
Loans to banks	513,461	435,537	462,322	408,056
Loans to financial organisations	77,202	74,344	268,184	273,310
Loans to individuals	3,371,946	3,091,508	2,082,562	1,951,115
Granted overdrafts	176,769	182,322	140,209	147,779
Loans for houses and flats	1,740,167	1,589,762	1,307,246	1,208,996
Consumer loans	1,217,349	1,090,120	519,213	480,626
Other loans	237,661	229,304	115,894	113,714
Loans to other customers	3,006,105	2,970,229	1,878,056	1,950,869
Loans to large corporate customers	1,479,627	1,534,628	1,216,085	1,296,126
Loans to small- and medium-sized enterprises	1,526,478	1,435,601	661,971	654,743
Other financial assets	66,257	61,014	38,389	36,151
Trading assets	72,189	87,699	72,180	87,693
Financial assets designated at fair value through profit or loss	102	734	-	-
Available-for-sale financial assets	2,227,099	1,998,533	1,730,914	1,526,787
Held-to-maturity financial assets	609,712	611,449	609,712	611,449
Derivatives - hedge accounting	1,188	217	1,188	217
Total net financial assets	**11,740,955**	**11,491,579**	**8,154,325**	**8,216,301**
Guarantees	741,540	749,430	518,004	535,082
Financial guarantees	314,511	332,281	178,335	189,642
Non-financial guarantees	427,029	417,149	339,669	345,440
Loan commitments	1,130,250	1,075,940	898,927	881,198
Other potential liabilities	18,723	25,814	444	3,879
Total contingent liabilities	**1,890,513**	**1,851,184**	**1,417,375**	**1,420,159**
Total maximum exposure to credit risk	**13,631,468**	**13,342,763**	**9,571,700**	**9,636,460**

Maximum exposure to credit risk is a presentation of NLB Group's exposure to credit risk separately by individual types of financial assets and conditional obligations. Exposures stated in the above table are shown for the balance sheet items in their net book value as reported in the statement of financial position, and for off-balance sheet items in the amount of their nominal value.

NLB Group has 94.5% (31.12.2016: 92.9%) of loans and advances that are neither past due nor impaired, 1.5% (31.12.2016: 1.7%) of loans and advances past due but not impaired, and 3.9% (31.12.2016: 5.4%) of individually impaired loans. NLB has 95.5% (31.12.2016: 94.5%) of loans and advances that are neither past due nor impaired, 0.7% (31.12.2016: 0.5%) of loans and advances past due but not impaired, and 3.8% (31.12.2016: 5.0%) of individually impaired loans.

e) Collateral from loans and advances

in EUR thousand

31.12.2017	NLB Group: Fully/over collateralised loans and advances: Net value of loans and advances	Fair value of collateral	NLB Group: Loans and advances not or not fully covered with collateral: Net value of loans and advances	Fair value of collateral
Debt securities	82,133	82,133	-	-
Loans to government	160,860	226,325	296,220	6,979
Loans to banks	-	-	513,461	-
Loans to financial organisations	27,812	68,696	49,390	366
Loans to individuals	2,024,762	3,748,858	1,347,184	73,767
Granted overdrafts	-	-	176,769	1,104
Loans for houses and flats	1,508,710	2,971,950	231,457	49,014
Consumer loans	459,670	674,486	757,679	10,849
Other loans	56,382	102,422	181,279	12,800
Loans to other customers	1,773,629	4,142,117	1,232,476	384,075
Loans to large corporate customers	874,246	1,626,037	605,381	195,289
Loans to small- and medium-sized enterprises	899,383	2,516,080	627,095	188,786
Other financial assets	421	19,429	65,836	551
Total	**4,069,617**	**8,287,558**	**3,504,567**	**465,738**

in EUR thousand

31.12.2016	NLB Group: Fully/over collateralised loans and advances: Net value of loans and advances	Fair value of collateral	NLB Group: Loans and advances not or not fully covered with collateral: Net value of loans and advances	Fair value of collateral
Debt securities	85,315	85,315	-	-
Loans to government	251,551	317,715	524,435	33
Loans to banks	6	14	435,531	532
Loans to financial organisations	19,431	71,350	54,913	296
Loans to individuals	1,908,266	3,568,947	1,183,242	82,845
Granted overdrafts	-	-	182,322	958
Loans for houses and flats	1,372,758	2,759,543	217,004	60,596
Consumer loans	479,756	710,314	610,364	9,643
Other loans	55,752	99,090	173,552	11,648
Loans to other customers	1,782,319	4,175,647	1,187,910	403,571
Loans to large corporate customers	898,439	1,659,912	636,189	155,478
Loans to small- and medium-sized enterprises	883,880	2,515,735	551,721	248,093
Other financial assets	659	7,634	60,355	355
Total	**4,047,547**	**8,226,622**	**3,446,386**	**487,632**

in EUR thousand

31.12.2017	NLB Fully/over collateralised loans and advances: Net value of loans and advances	Fair value of collateral	Loans and advances not or not fully covered with collateral: Net value of loans and advances	Fair value of collateral
Debt securities	82,133	82,133	-	-
Loans to government	157,829	171,317	200,846	3,528
Loans to banks	-	-	462,322	-
Loans to financial organisations	27,364	64,781	240,820	205
Loans to individuals	1,572,108	2,614,244	510,454	26,702
Granted overdrafts	-	-	140,209	-
Loans for houses and flats	1,194,249	2,197,811	112,997	25,918
Consumer loans	377,675	413,519	141,538	782
Other loans	184	2,914	115,710	2
Loans to other customers	1,077,102	2,075,580	800,954	285,985
Loans to large corporate customers	712,545	1,124,947	503,540	168,676
Loans to small- and medium-sized enterprises	364,557	950,633	297,414	117,309
Other financial assets	22	1,996	38,367	487
Total	**2,916,558**	**5,010,051**	**2,253,763**	**316,907**

in EUR thousand

31.12.2016	NLB Fully/over collateralised loans and advances: Net value of loans and advances	Fair value of collateral	Loans and advances not or not fully covered with collateral: Net value of loans and advances	Fair value of collateral
Debt securities	85,315	85,315	-	-
Loans to government	223,474	230,986	444,826	-
Loans to banks	-	-	408,056	77
Loans to financial organisations	18,826	68,974	254,484	-
Loans to individuals	1,491,043	2,463,534	460,072	41,862
Granted overdrafts	-	-	147,779	-
Loans for houses and flats	1,089,934	2,018,702	119,062	41,214
Consumer loans	401,096	444,816	79,530	648
Other loans	13	16	113,701	-
Loans to other customers	1,128,371	2,196,939	822,498	320,580
Loans to large corporate customers	745,588	1,188,052	550,538	139,999
Loans to small- and medium-sized enterprises	382,783	1,008,887	271,960	180,581
Other financial assets	82	2,429	36,069	285
Total	**2,947,111**	**5,048,177**	**2,426,005**	**362,804**

f) Credit protection policy

NLB Group applies a single set of standards to retail and corporate loan collateral, as developed by the members through the collateral harmonisation project. The master document regulating loan collateral in NLB Group is the Loan Collateral Policy in NLB Group and NLB. The Policy has been adopted by the Management Board of NLB and by the supervisory bodies of respective members for other members of NLB Group. The Policy represents the basic orientations bank employees must take into account when signing, evaluating, monitoring, and reporting collateral, with the aim of reducing credit risk.

NLB Group primarily accepts collateral complying with the Basel II requirements with the aim of improving credit risk management and consuming capital economically. In accordance with Basel II, collateral may consist of pledged deposits, government guarantees, bank guarantees, debt securities issued by central governments and central banks, bank debt securities, and real-estate mortgages (the real estate must be located in the European Economic Area for the effect on capital to be recognised).

Loans made to companies and sole proprietors may be secured by other forms of collateral, as well (for example, a lien on movable property, a pledge of an equity stake, collateral by pledged/assigned receivables, etc.) if it is assessed that the collateral could generate a cash flow if it were needed as a secondary source of payment. In the case of a lower probability that such an item of collateral would generate a cash flow, a conservative approach is followed, namely, such collateral can be taken, but for reporting purposes the value is zero.

g) The processes for valuing collateral

Pursuant to the law, NLB Group has set up a system for monitoring and reporting collateral at fair (market) value.

The market value of real estate or movable property used as collateral is obtained from valuation reports of licensed appraisers or, for low contract amounts, from sales agreements not older than one year. The market value of financial instruments held by NLB Group is obtained from the organised market – the stock exchange – for listed financial instruments or determined in accordance with the internal methodology for unlisted financial instruments (such collateral is used exceptionally and on a small scale in loans granted to companies and sole proprietors).

NLB has compiled a reference list of licensed appraisers. All appraisals must be made for the purpose of secured lending and in accordance with the International Valuation Standards (IVS). Appraisals related to retail loans are generally ordered only from appraisers with whom the Bank has a contract for real-estate valuations. For corporate loans, appraisals are usually submitted by clients. If a client submits an appraisal not made by an appraiser included on the Bank's reference list, the expert department employing licensed appraisers (certified appraisers in construction with licences granted by the Ministry of Justice, and certified real-estate value appraisers with licences granted by the Slovenian Institute of Auditors) will verify the appraisal. The expert department is also responsible for reviewing valuations of real estate serving as collateral for large loans.

Other NLB Group members obtain valuations from in-house appraisers and outsourced appraisers, all having the necessary licences. NLB Group has compiled a reference list of appraisers for valuations of real estate located outside Slovenia. Appraisals must be made in accordance with the IVS. For larger loans, real-estate evaluations must be reviewed by an internal licensed appraiser with knowledge of the local real-estate market.

When assuring collateral, NLB Group follows the internal regulations which define the minimum security or pledge ratios. NLB Group strives to obtain collateral with a higher value than the underlying exposure (depending on the borrower's rating, loan maturity etc.) with the aim of reducing negative consequences resulting from any major swings in market prices of the assets used as collateral. In the case of a reduced value of collateral and/or deteriorated debtor credit rating, additional collateral is sought as necessary and in accordance with the contractual provisions.

If real estate, movable property, and financial instruments serve as collateral, the Bank's lien should be entered as a top ranking. Exceptionally, where the value of the mortgaged real estate is large enough, the lien can be entered with a different priority order.

NLB Group monitors the value of collateral during the loan repayment period in accordance with the mandatory periods and internal instructions. For example, the value of collateral using mortgaged real estate is monitored annually by either preparing individual assessments or using the internal methodology for preparing an own value appraisal of real estate (which applies to Slovenia, Serbia, Montenegro, and Bosnia and Herzegovina) based on public records and indexes of real-estate value published by the relevant government authorities (the Surveying and Mapping Authority in Slovenia).

h) The main types of collateral taken by the Bank

NLB Group accepts different forms of material and personal security as loan collateral.

Material loan collateral gives the right in case of the debtor (borrower) defaulting on their contractual obligations to sell specific property to recover claims, keep specific non-cash property or cash, or reduces or offsets the amount of exposure against the counterparty's debt to the Bank.

NLB Group accepts the following material types of loan collateral:

- asset-backed collateral:
  - collateral backed by business and residential real estate;
  - collateral backed by movable property;
  - cash receivable collateral;
- collateral by a pledge of financial assets (bank deposits or cash-like instruments, debt securities of different issuers, investment fund units, equity securities, or convertible bonds);
- pledge of an equity stake;
- pledge or assignment of receivables as collateral; and
- other material forms of loan collateral (life insurance policies pledged to the Bank, etc.).

Personal loan collateral is a method for reducing credit risk whereby a third party undertakes to pay the debt in case of the primary debtor (borrower) defaulting.

NLB Group accepts the following types of personal loan collateral:

- joint and several guarantees by retail and corporate clients;
- bank guarantees;
- government guarantees (e.g. of the Republic of Slovenia);
- guarantees by national and regional development agencies; and
- insurance with an insurance company, etc.

Loans are very often secured by a combination of collateral types.

The general recommendations on loan collateral are specified in the internal instructions and include the elements specified below. The decision on the type of collateral and the coverage of loan by collateral depends on the analysis of data on the debtor (the debtor's credit rating and creditworthiness) and loan maturity; the difference arises from whether the loan is granted to retail or a corporate client. Corporate clients (companies and sole proprietors) must submit bills of exchange with written authorities for the creditor to fill them.

NLB has also created, in the area of real-estate loan collateral, an 'on-line' connection with the Surveying and Mapping Authority in Slovenia which allows direct and immediate verification of the existence of property.

NLB Group strives to ensure the best possible collateral for long-term loans, namely mortgages in most cases. Thus, the mortgaging of real estate is the most frequent form of loan collateral of corporate and retail clients. In corporate loans, it is followed by government and corporate guarantees. In retail loans, it is followed by insurance companies and guarantors.

i) Evaluation risk of collateral

Client/counterparty credit risk is the key decision parameter when approving exposures. Collateral is a secondary source of repayment, and therefore decisions on approvals of exposures should not primarily be based on the provided collateral. However, collateral is an important comfort element in the approval process and, depending on the credit rating of the client, a prerequisite. NLB Group has prescribed the minimum ratios between the value of collateral and the loan amount, depending on the type of collateral and the client rating. The ratios are based on experience, regulatory guidelines, and are prescribed in the Collateral Manual.

NLB Group pays particular attention to closely monitoring the fair value of collateral, and to receiving regular and independent revaluations by applying the International Valuation Standards. Through a detailed examination of all collateral received, NLB has ensured that only collateral is taken into account from which payment can be realistically expected if it is liquidated.

NLB Group has the largest concentration on collaterals arising from mortgages on real estate, which is a comparatively reliable and quality type of collateral; however, among others due to the falling real estate market prices in recent history, the Bank closely monitors the real-estate collateral values and, where required, establishes higher amounts of impairments and provisions for non-performing loans secured by real estate, based on estimated discounts of the real-estate value (specified in the Collateral Manual) which are expected to be achieved in a sale (expected payment from collateral).

Collateral consisting of securities entails market risk, specifically the risk of changes in the prices of securities on capital markets. To limit such risks and restrict the possibility of the value of instruments received as collateral falling below approved limits, the Rules determine minimum pledge ratios for securing loans on the basis of pledged securities and equity shares in NLB. Deviations from the Rules are subject to the prior approval of the respective decision bodies of the Bank. The ratio between the loan amount and the securities' value is determined with regard to the securities' liquidity, maturity, correlation with changes in market indexes, i.e. by considering the key features reflecting the level of volatility of market prices, and the ability to sell the securities at the market price. For certain types of securities, the ratio is also determined by considering the issuer's credit rating, which reflects the credit risk entailed in collateral-using securities. In the case of adverse changes in the capital markets, the loan-to-collateral ratio may fall below the prescribed limit; in such a case, the debtor will be asked to provide additional securities or another type of collateral.

Collateral consisting of the sureties of corporate clients, sureties of private individuals, and bank guarantees entail the credit risk of the provider of the collateral. NLB Group includes the amount of the guarantees received in the exposure of the guarantor, and guarantees are only taken into account as collateral if the guarantor has sufficient overall creditworthiness.

The Collateral Manual regulates which forms of collateral are acceptable, and which preconditions a type of collateral needs to fulfil to be able to be considered.

j) Net loans and advances neither past due nor impaired

in EUR thousand

	NLB Group					NLB				
31.12.2017	A	B	C	D and E	Total	A	B	C	D and E	Total
Debt securities	82,133	-	-	-	82,133	82,133	-	-	-	82,133
Loans to government	289,716	152,180	7,460	11	449,367	282,201	72,564	244	-	355,009
Loans to banks	397,689	115,001	751	-	513,441	341,512	120,559	251	-	462,322
Loans to financial organisations	45,448	17,955	13,692	-	77,095	40,522	180,631	46,933	-	268,086
Loans to individuals	3,219,833	38,474	27,055	159	3,285,521	2,019,919	2,446	12,308	-	2,034,673
Granted overdrafts	164,326	1,550	4,420	-	170,296	129,903	200	4,183	-	134,286
Loans for houses and flats	1,681,992	10,515	10,581	-	1,703,088	1,274,361	1,813	5,935	-	1,282,109
Consumer loans	1,163,595	22,310	7,853	37	1,193,795	507,963	76	601	-	508,640
Other loans	209,920	4,099	4,201	122	218,342	107,692	357	1,589	-	109,638
Loans to other customers	861,666	1,557,306	270,397	6,334	2,695,703	700,560	912,760	82,940	4,218	1,700,478
Loans to large corporate customers	614,105	664,577	95,488	2,193	1,376,363	596,106	506,763	34,279	733	1,137,881
Loans to small- and medium-sized enterprises	247,561	892,729	174,909	4,141	1,319,340	104,454	405,997	48,661	3,485	562,597
Other financial assets	42,706	13,147	1,342	72	57,267	26,432	9,740	810	1	36,983
Total	**4,939,191**	**1,894,063**	**320,697**	**6,576**	**7,160,527**	**3,493,279**	**1,298,700**	**143,486**	**4,219**	**4,939,684**

in EUR thousand

	NLB Group					NLB				
31.12.2016	A	B	C	D and E	Total	A	B	C	D and E	Total
Debt securities	85,315	-	-	-	85,315	85,315	-	-	-	85,315
Loans to government	566,017	186,441	15,020	20	767,498	541,763	117,206	3,208	-	662,177
Loans to banks	337,639	97,798	81	-	435,518	320,201	87,774	81	-	408,056
Loans to financial organisations	38,473	4,562	30,300	-	73,335	33,873	2,096	236,541	-	272,510
Loans to individuals	2,922,528	31,441	24,684	90	2,978,744	1,878,392	2,710	15,531	-	1,896,633
Granted overdrafts	168,673	1,576	3,844	-	174,093	137,655	221	3,658	-	141,534
Loans for houses and flats	1,529,074	7,563	12,389	3	1,549,029	1,169,230	2,003	10,392	-	1,181,625
Consumer loans	1,028,158	18,250	5,539	11	1,051,958	468,478	128	926	-	469,532
Other loans	196,624	4,052	2,912	76	203,664	103,029	358	555	-	103,942
Loans to other customers	853,188	1,433,753	241,794	33,353	2,562,089	689,070	850,513	148,625	30,146	1,718,354
Loans to large corporate customers	622,397	689,474	77,223	15,493	1,404,587	603,429	546,134	27,984	13,920	1,191,467
Loans to small- and medium-sized enterprises	230,792	744,279	164,571	17,860	1,157,502	85,641	304,379	120,641	16,226	526,887
Other financial assets	44,634	9,996	1,847	56	56,533	25,229	7,629	1,602	-	34,460
Total	**4,847,794**	**1,763,991**	**313,726**	**33,519**	**6,959,030**	**3,573,843**	**1,067,928**	**405,588**	**30,146**	**5,077,505**

k) Net loans and advances past due but not individually impaired

in EUR thousand

31.12.2017	NLB Group Up to 30 days	NLB Group Up to 90 days	NLB Group Over 90 days	NLB Group Total	NLB Up to 30 days	NLB Up to 90 days	NLB Over 90 days	NLB Total
Loans to government	2,059	1,936	-	3,995	-	-	-	-
Loans to banks	20	-	-	20	-	-	-	-
Loans to financial organisations	15	-	-	15	6	-	-	6
Loans to individuals	27,979	16,180	827	44,986	16,447	5,242	8	21,697
Granted overdrafts	2,284	1,079	31	3,394	2,033	1,044	-	3,077
Loans for houses and flats	6,777	4,076	410	11,263	4,346	1,800	-	6,146
Consumer loans	8,617	5,264	128	14,009	6,088	1,522	-	7,610
Other loans	10,301	5,761	258	16,320	3,980	876	8	4,864
Loans to other customers	33,298	10,309	15,287	58,894	1,451	242	10,730	12,423
Loans to large corporate customers	6,306	3,174	10,752	20,232	-	-	10,730	10,730
Loans to small- and medium-sized enterprises	26,992	7,135	4,535	38,662	1,451	242	-	1,693
Other financial assets	6,768	118	46	6,932	10	16	4	30
Total	**70,139**	**28,543**	**16,160**	**114,842**	**17,914**	**5,500**	**10,742**	**34,156**

in EUR thousand

31.12.2016	NLB Group Up to 30 days	NLB Group Up to 90 days	NLB Group Over 90 days	NLB Group Total	NLB Up to 30 days	NLB Up to 90 days	NLB Over 90 days	NLB Total
Loans to government	401	1,345	-	1,746	-	-	-	-
Loans to banks	19	-	-	19	-	-	-	-
Loans to financial organisations	207	-	2	209	-	-	-	-
Loans to individuals	56,097	10,782	1,216	68,095	21,758	4,229	-	25,987
Granted overdrafts	3,856	1,141	26	5,023	2,204	1,057	-	3,261
Loans for houses and flats	10,040	2,212	174	12,426	4,889	1,115	-	6,004
Consumer loans	22,567	4,850	549	27,966	6,028	1,484	-	7,512
Other loans	19,634	2,579	467	22,680	8,637	573	-	9,210
Loans to other customers	40,889	8,203	5,600	54,692	2,378	106	24	2,508
Loans to large corporate customers	5,361	474	323	6,158	124	-	24	148
Loans to small- and medium-sized enterprises	35,528	7,729	5,277	48,534	2,254	106	-	2,360
Other financial assets	2,136	46	170	2,352	54	2	1	57
Total	**99,749**	**20,376**	**6,988**	**127,113**	**24,190**	**4,337**	**25**	**28,552**

* The loans and advances disclosed in the above tables are not individually impaired since they are fully or over collateralised.

l) Individually impaired loans and advances

in EUR thousand

	NLB Group			NLB		
31.12.2017	**Gross value**	**Impairment provision**	**Net value**	**Gross value**	**Impairment provision**	**Net value**
Loans to government	8,652	(4,934)	3,718	6,107	(2,441)	3,666
Loans to financial organisations	2,899	(2,807)	92	2,899	(2,807)	92
Loans to individuals	107,917	(66,478)	41,439	49,882	(23,690)	26,192
Granted overdrafts	9,134	(6,055)	3,079	7,416	(4,570)	2,846
Loans for houses and flats	46,904	(21,088)	25,816	32,562	(13,571)	18,991
Consumer loans	36,253	(26,708)	9,545	6,332	(3,369)	2,963
Other loans	15,626	(12,627)	2,999	3,572	(2,180)	1,392
Loans to other customers	695,443	(443,935)	251,508	397,123	(231,968)	165,155
Loans to large corporate customers	208,288	(125,256)	83,032	157,383	(89,909)	67,474
Loans to small- and medium-sized enterprises	487,155	(318,679)	168,476	239,740	(142,059)	97,681
Other financial assets	10,278	(8,220)	2,058	3,938	(2,562)	1,376
Total	**825,189**	**(526,374)**	**298,815**	**459,949**	**(263,468)**	**196,481**

in EUR thousand

	NLB Group			NLB		
31.12.2016	**Gross value**	**Impairment provision**	**Net value**	**Gross value**	**Impairment provision**	**Net value**
Loans to government	12,556	(5,814)	6,742	9,260	(3,137)	6,123
Loans to financial organisations	26,261	(25,461)	800	26,229	(25,429)	800
Loans to individuals	113,027	(68,358)	44,669	52,059	(23,564)	28,495
Granted overdrafts	10,974	(7,768)	3,206	7,925	(4,941)	2,984
Loans for houses and flats	50,730	(22,423)	28,307	35,152	(13,785)	21,367
Consumer loans	35,351	(25,155)	10,196	7,484	(3,902)	3,582
Other loans	15,972	(13,012)	2,960	1,498	(936)	562
Loans to other customers	1,008,733	(655,285)	353,448	600,636	(370,629)	230,007
Loans to large corporate customers	323,493	(199,610)	123,883	252,848	(148,337)	104,511
Loans to small- and medium-sized enterprises	685,240	(455,675)	229,565	347,788	(222,292)	125,496
Other financial assets	14,225	(12,096)	2,129	4,746	(3,112)	1,634
Total	**1,174,802**	**(767,014)**	**407,788**	**692,930**	**(425,871)**	**267,059**

m) Net loans analysis

in EUR thousand

31.12.2017	NLB Group Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	82,133	-	-	82,133
Loans to government	449,367	3,995	3,718	457,080
Loans to banks	513,441	20	-	513,461
Loans to financial organisations	77,095	15	92	77,202
Loans to individuals	3,285,521	44,986	41,439	3,371,946
Granted overdrafts	170,296	3,394	3,079	176,769
Loans for houses and flats	1,703,088	11,263	25,816	1,740,167
Consumer loans	1,193,795	14,009	9,545	1,217,349
Other loans	218,342	16,320	2,999	237,661
Loans to other customers	2,695,703	58,894	251,508	3,006,105
Loans to large corporate customers	1,376,363	20,232	83,032	1,479,627
Loans to small- and medium-sized enterprises	1,319,340	38,662	168,476	1,526,478
Other financial assets	57,267	6,932	2,058	66,257
Total	**7,160,527**	**114,842**	**298,815**	**7,574,184**

in EUR thousand

31.12.2016	NLB Group Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	85,315	-	-	85,315
Loans to government	767,498	1,746	6,742	775,986
Loans to banks	435,518	19	-	435,537
Loans to financial organisations	73,335	209	800	74,344
Loans to individuals	2,978,744	68,095	44,669	3,091,508
Granted overdrafts	174,093	5,023	3,206	182,322
Loans for houses and flats	1,549,029	12,426	28,307	1,589,762
Consumer loans	1,051,958	27,966	10,196	1,090,120
Other loans	203,664	22,680	2,960	229,304
Loans to other customers	2,562,089	54,692	353,448	2,970,229
Loans to large corporate customers	1,404,587	6,158	123,883	1,534,628
Loans to small- and medium-sized enterprises	1,157,502	48,534	229,565	1,435,601
Other financial assets	56,533	2,352	2,129	61,014
Total	**6,959,032**	**127,113**	**407,788**	**7,493,933**

in EUR thousand

31.12.2017	NLB Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	82,133	-	-	82,133
Loans to government	355,009	-	3,666	358,675
Loans to banks	462,322	-	-	462,322
Loans to financial organisations	268,086	6	92	268,184
Loans to individuals	2,034,673	21,697	26,192	2,082,562
Granted overdrafts	134,286	3,077	2,846	140,209
Loans for houses and flats	1,282,109	6,146	18,991	1,307,246
Consumer loans	508,640	7,610	2,963	519,213
Other loans	109,638	4,864	1,392	115,894
Loans to other customers	1,700,478	12,423	165,155	1,878,056
Loans to large corporate customers	1,137,881	10,730	67,474	1,216,085
Loans to small- and medium-sized enterprises	562,597	1,693	97,681	661,971
Other financial assets	36,983	30	1,376	38,389
Total	**4,939,684**	**34,156**	**196,481**	**5,170,321**

in EUR thousand

31.12.2016	NLB Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	85,315	-	-	85,315
Loans to government	662,177	-	6,123	668,300
Loans to banks	408,056	-	-	408,056
Loans to financial organisations	272,510	-	800	273,310
Loans to individuals	1,896,633	25,987	28,495	1,951,115
Granted overdrafts	141,534	3,261	2,984	147,779
Loans for houses and flats	1,181,625	6,004	21,367	1,208,996
Consumer loans	469,532	7,512	3,582	480,626
Other loans	103,942	9,210	562	113,714
Loans to other customers	1,718,354	2,508	230,007	1,950,869
Loans to large corporate customers	1,191,467	148	104,511	1,296,126
Loans to small- and medium-sized enterprises	526,887	2,360	125,496	654,743
Other financial assets	34,460	57	1,634	36,151
Total	**5,077,505**	**28,552**	**267,059**	**5,373,116**

n) Forborne loans

in EUR thousand

31.12.2017	NLB Group: All forborne exposures: Total	Performing	Non - performing: Impaired	Non - performing: Defaulted	Impairment, provisions and value adjustments: Performing forborne exposures	Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures
Loans and advances (including at amortised cost and fair value)	**606,884**	**78,035**	**528,849**	**528,849**	**(9,110)**	**(317,912)**	**194,738**
General governments	7,522	-	7,522	7,522	-	(3,882)	3,640
Other financial corporations	2,944	48	2,896	2,896	(3)	(2,806)	2
Non-financial corporations	558,775	67,871	490,904	490,904	(7,969)	(299,399)	176,317
Large corporate customers	230,371	37,392	192,979	192,979	(4,553)	(107,985)	73,083
Small- and medium- sized enterprises	328,404	30,479	297,925	297,925	(3,416)	(191,414)	103,234
Households	37,643	10,116	27,527	27,527	(1,138)	(11,825)	14,779
Granted overdrafts	675	663	12	12	(95)	(7)	-
Loans for houses and flats	21,998	6,050	15,948	15,948	(695)	(5,651)	4,346
Consumer loans	10,629	2,531	8,098	8,098	(294)	(3,467)	6,005
Other loans	4,341	872	3,469	3,469	(54)	(2,700)	4,428
Debt instruments other than HFT	**606,884**	**78,035**	**528,849**	**528,849**	**(9,110)**	**(317,912)**	**194,738**
Loan commitments given	**10,638**	**1,128**	**9,510**	**9,510**	**-**	**-**	**3,421**
Total exposures with forbearance measures	**617,522**	**79,163**	**538,359**	**538,359**	**(9,110)**	**(317,912)**	**198,159**

in EUR thousand

31.12.2016	NLB Group: All forborne exposures: Total	Performing	Non - performing: Impaired	Non - performing: Defaulted	Impairment, provisions and value adjustments: Performing forborne exposures	Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures
Loans and advances (including at amortised cost and fair value)	**922,883**	**114,786**	**808,097**	**808,097**	**(16,288)**	**(492,158)**	**279,935**
General governments	10,759	1,490	9,269	9,269	(498)	(3,175)	6,089
Other financial corporations	31,012	6,287	24,725	24,725	(574)	(23,933)	639
Non-financial corporations	838,843	91,363	747,480	747,480	(13,342)	(453,526)	259,025
Large corporate customers	331,545	43,492	288,053	288,053	(5,816)	(180,993)	91,450
Small- and medium- sized enterprises	507,298	47,871	459,427	459,427	(7,526)	(272,533)	167,575
Households	42,269	15,646	26,623	26,623	(1,874)	(11,524)	14,182
Granted overdrafts	123	94	29	29	(10)	(18)	-
Loans for houses and flats	24,518	11,078	13,440	13,440	(1,344)	(5,009)	4,235
Consumer loans	11,554	3,334	8,220	8,220	(426)	(3,418)	6,258
Other loans	6,074	1,140	4,934	4,934	(94)	(3,079)	3,689
Debt instruments other than HFT	**922,883**	**114,786**	**808,097**	**808,097**	**(16,288)**	**(492,158)**	**279,935**
Loan commitments given	**23,636**	**1,151**	**22,485**	**22,485**	**-**	**-**	**15,399**
Total exposures with forbearance measures	**946,519**	**115,937**	**830,582**	**830,582**	**(16,288)**	**(492,158)**	**295,334**

in EUR thousand

31.12.2017	NLB						
	All forborne exposures				Impairment, provisions and value adjustments		Collateral and financial guarantees received on forborne exposures
	Total	Performing	Non - performing: Impaired	Non - performing: Defaulted	Performing forborne exposures	Non-performing forborne exposures	
Loans and advances (including at amortised cost and fair value)	**398,889**	**57,609**	**341,280**	**341,280**	**(5,762)**	**(186,782)**	**139,111**
General governments	6,017	-	6,017	6,017	-	(2,373)	3,643
Other financial corporations	2,944	48	2,896	2,896	(3)	(2,806)	2
Non-financial corporations	365,879	50,535	315,344	315,344	(4,962)	(174,989)	125,712
Large corporate customers	188,022	33,283	154,739	154,739	(3,850)	(80,692)	62,447
Small- and medium- sized enterprises	177,857	17,252	160,605	160,605	(1,112)	(94,297)	63,265
Households	24,049	7,026	17,023	17,023	(797)	(6,614)	9,754
Granted overdrafts	675	663	12	12	(95)	(7)	-
Loans for houses and flats	19,948	5,404	14,544	14,544	(618)	(5,306)	3,037
Consumer loans	2,332	478	1,854	1,854	(54)	(896)	4,113
Other loans	1,094	481	613	613	(30)	(405)	2,604
Debt instruments other than HFT	**398,889**	**57,609**	**341,280**	**341,280**	**(5,762)**	**(186,782)**	**139,111**
Loan commitments given	**9,490**	**1,118**	**8,372**	**8,372**	**-**	**-**	**2,951**
Total exposures with forbearance measures	**408,379**	**58,727**	**349,652**	**349,652**	**(5,762)**	**(186,782)**	**142,062**

in EUR thousand

31.12.2016	NLB						
	All forborne exposures				Impairment, provisions and value adjustments		Collateral and financial guarantees received on forborne exposures
	Total	Performing	Non - performing: Impaired	Non - performing: Defaulted	Performing forborne exposures	Non-performing forborne exposures	
Loans and advances (including at amortised cost and fair value)	**620,593**	**80,696**	**539,897**	**539,897**	**(8,085)**	**(321,083)**	**199,626**
General governments	9,161	-	9,161	9,161	-	(3,071)	6,089
Credit institutions	247	247	-	-	-	-	-
Other financial corporations	31,012	6,287	24,725	24,725	(574)	(23,933)	639
Non-financial corporations	552,812	61,940	490,872	490,872	(6,050)	(287,971)	184,600
Large corporate customers	268,096	35,884	232,212	232,212	(4,107)	(140,078)	79,862
Small- and medium- sized enterprises	284,716	26,056	258,660	258,660	(1,943)	(147,893)	104,738
Households	27,361	12,222	15,139	15,139	(1,461)	(6,108)	8,298
Granted overdrafts	123	94	29	29	(10)	(18)	-
Loans for houses and flats	22,307	10,114	12,193	12,193	(1,235)	(4,472)	2,292
Consumer loans	2,897	1,029	1,868	1,868	(134)	(958)	2,333
Other loans	2,034	985	1,049	1,049	(82)	(660)	3,673
Debt instruments other than HFT	**620,593**	**80,696**	**539,897**	**539,897**	**(8,085)**	**(321,083)**	**199,626**
Loan commitments given	**22,488**	**1,141**	**21,347**	**21,347**	**-**	**-**	**15,072**
Total exposures with forbearance measures	**643,081**	**81,837**	**561,244**	**561,244**	**(8,085)**	**(321,083)**	**214,698**

Forborne exposures by periods of restructuring

in EUR thousand

	NLB Group			
31.12.2017	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 12 months**
Performing exposures	3,656	910	2,259	62,100
Non-performing exposures	12,313	6,054	17,189	175,381
Total exposures with forbearance measures	**15,969**	**6,964**	**19,448**	**237,481**
31.12.2016				
Performing exposures	3,877	11,611	19,078	63,932
Non-performing exposures	6,130	38,624	10,282	260,903
Total exposures with forbearance measures	**10,007**	**50,235**	**29,360**	**324,835**

in EUR thousand

	NLB			
31.12.2017	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 12 months**
Performing exposures	2,950	420	1,446	47,031
Non-performing exposures	11,512	5,311	14,717	122,958
Total exposures with forbearance measures	**14,462**	**5,731**	**16,163**	**169,989**
31.12.2016				
Performing exposures	1,745	6,593	18,352	45,921
Non-performing exposures	4,368	25,018	7,705	181,723
Total exposures with forbearance measures	**6,113**	**31,611**	**26,057**	**227,644**

Main forbearance measurements, used by NLB Group and NLB are deferral of payment, reduction of interest rates, acquisition of collateral for partial repayment of claims and others, either as a single forbearance measurement or as a combination of those.

o) Repossessed assets

NLB Group and NLB received the following assets by taking possession of collateral held as security and held them at the reporting date:

in EUR thousand

	NLB Group		NLB	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Nature of assets	**Net value**		**Net value**	
Securities (note 5.4.b)	3,536	24,162	480	20,832
Investment property (note 5.10.)	40,809	48,658	4,286	3,750
Property and equipment (note 5.9.)	1,355	1,523	7	7
Investments in subsidiaries and associates	-	-	2,464	2,484
Real estates (note 5.13.)	76,222	76,416	4,811	4,263
Other assets (note 5.13.)	1,278	2,643	-	-
Total	**123,200**	**153,402**	**12,048**	**31,336**

p) Analysis of loans and advances by industry sectors

in EUR thousand

NLB Group	31.12.2017				31.12.2016			
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	514,037	(576)	513,461	6.78	435,886	(349)	435,537	5.81
Finance	60,485	(3,065)	57,420	0.76	132,156	(27,863)	104,293	1.39
Electricity, gas, and water	155,911	(8,846)	147,065	1.94	176,230	(19,754)	156,476	2.09
Construction industry	236,617	(69,045)	167,572	2.21	260,537	(109,189)	151,348	2.02
Heavy industry	819,887	(79,497)	740,390	9.78	852,257	(168,205)	684,052	9.13
Education	14,230	(872)	13,358	0.18	15,314	(696)	14,618	0.20
Agriculture, forestry, and fishing	52,168	(8,264)	43,904	0.58	43,309	(9,515)	33,794	0.45
Public sector	314,481	(6,285)	308,196	4.07	364,764	(12,270)	352,494	4.70
Individuals	3,470,153	(98,207)	3,371,946	44.52	3,190,724	(99,216)	3,091,508	41.25
Mining	15,404	(1,675)	13,729	0.18	31,913	(6,300)	25,613	0.34
Entrepreneurs	128,534	(5,585)	122,949	1.62	99,715	(6,642)	93,073	1.24
Services	662,657	(123,226)	539,431	7.12	962,743	(156,285)	806,458	10.76
Transport and communications	839,171	(35,281)	803,890	10.61	869,779	(39,908)	829,871	11.07
Trade industry	840,189	(204,457)	635,732	8.39	873,406	(242,743)	630,663	8.42
Health care and social security	31,331	(2,447)	28,884	0.38	27,936	(4,815)	23,121	0.31
Other financial assets	77,962	(11,705)	66,257	0.87	76,467	(15,453)	61,014	0.81
Total	**8,233,217**	**(659,033)**	**7,574,184**	**100.00**	**8,413,136**	**(919,203)**	**7,493,933**	**100.00**

in EUR thousand

NLB	31.12.2017				31.12.2016			
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	462,322	-	462,322	8.94	408,056	-	408,056	7.59
Finance	251,303	(9,150)	242,153	4.68	341,644	(45,910)	295,734	5.50
Electricity, gas, and water	109,457	(3,498)	105,959	2.05	112,083	(6,279)	105,804	1.97
Construction industry	111,832	(41,618)	70,214	1.36	136,071	(71,294)	64,777	1.21
Heavy industry	551,816	(30,004)	521,812	10.09	569,022	(88,472)	480,550	8.94
Education	8,779	(33)	8,746	0.17	10,643	(54)	10,589	0.20
Agriculture, forestry, and fishing	15,087	(958)	14,129	0.27	15,437	(1,223)	14,214	0.26
Public sector	199,650	(1,710)	197,940	3.83	248,993	(2,265)	246,728	4.59
Individuals	2,121,167	(38,605)	2,082,562	40.28	1,990,184	(39,069)	1,951,115	36.31
Mining	7,454	(626)	6,828	0.13	25,332	(5,297)	20,035	0.37
Entrepreneurs	50,923	(2,040)	48,883	0.95	46,148	(2,587)	43,561	0.81
Services	494,815	(74,158)	420,657	8.14	782,110	(91,419)	690,691	12.85
Transport and communications	747,971	(17,192)	730,779	14.13	777,964	(17,903)	760,061	14.15
Trade industry	304,589	(96,358)	208,231	4.03	366,587	(131,753)	234,834	4.37
Health care and social security	11,830	(1,113)	10,717	0.21	11,439	(1,223)	10,216	0.19
Other financial assets	41,580	(3,191)	38,389	0.74	39,922	(3,771)	36,151	0.67
Total	**5,490,575**	**(320,254)**	**5,170,321**	**100.00**	**5,881,635**	**(508,519)**	**5,373,116**	**100.00**

q) Analysis of net loans and advances by geographical sectors

in EUR thousand

	NLB Group		NLB	
Country	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Republic of Slovenia	4,469,598	4,633,952	4,478,793	4,663,239
Other European Union members	484,919	468,887	428,772	393,858
Other countries	2,619,667	2,391,094	262,756	316,019
Total	**7,574,184**	**7,493,933**	**5,170,321**	**5,373,116**

r) Analysis of debt securities and derivative financial instruments by geographical sectors

in EUR thousand

31.12.2017	**NLB Group**						**NLB**				
Country	**Loans and advances**	**Trading assets**	**Financial assets designated at fair value through profit or loss**	**Available-for-sale financial assets**	**Held-to-maturity financial assets**	**Derivative financial instruments**	**Loans and advances**	**Trading assets**	**Available-for-sale financial assets**	**Held-to-maturity financial assets**	**Derivative financial instruments**
Republic of Slovenia	82,133	55,047	-	507,643	356,896	8,395	82,133	55,047	432,494	356,896	8,395
Other members of European Union	-	-	102	1,257,881	252,816	5,238	-	-	1,257,881	252,816	5,238
- Italy	-	-	-	46,196	-	-	-	-	46,196	-	-
- Ireland	-	-	-	48,639	-	-	-	-	48,639	-	-
- France	-	-	102	156,078	47,443	1	-	-	156,078	47,443	1
- Belgium	-	-	-	55,131	26,120	75	-	-	55,131	26,120	75
- Netherlands	-	-	-	118,611	27,180	313	-	-	118,611	27,180	313
- Austria	-	-	-	40,911	48,858	29	-	-	40,911	48,858	29
- Germany	-	-	-	177,541	57,785	79	-	-	177,541	57,785	79
- Finland	-	-	-	56,876	12,500	-	-	-	56,876	12,500	-
- Sweden	-	-	-	64,406	-	-	-	-	64,406	-	-
- Denmark	-	-	-	42,487	-	-	-	-	42,487	-	-
- Luxembourg	-	-	-	69,382	31,907	-	-	-	69,382	31,907	-
- Great Britain	-	-	-	120,749	-	4,632	-	-	120,749	-	4,632
- Poland	-	-	-	49,459	-	-	-	-	49,459	-	-
- Slovakia	-	-	-	45,025	-	-	-	-	45,025	-	-
- Spain	-	-	-	31,357	-	-	-	-	31,357	-	-
- Other	-	-	-	*135,033*	*1,023*	*109*	-	-	*135,033*	*1,023*	*109*
United States of America	-	4,117	-	17,229	-	-	-	4,117	17,229	-	-
Other countries	-	-	-	444,346	-	580	-	-	23,310	-	571
- Macedonia	-	-	-	171,751	-	4	-	-	-	-	-
- Serbia	-	-	-	56,615	-	5	-	-	-	-	-
- Bosnia and Herzegovina	-	-	-	78,421	-	-	-	-	-	-	-
- Montenegro	-	-	-	49,401	-	-	-	-	-	-	-
- Kosovo	-	-	-	64,848	-	571	-	-	-	-	571
- Other	-	-	-	23,310	-	-	-	-	23,310	-	-
Total	**82,133**	**59,164**	**102**	**2,227,099**	**609,712**	**14,213**	**82,133**	**59,164**	**1,730,914**	**609,712**	**14,204**

in EUR thousand

31.12.2016	NLB Group						NLB				
Country	Loans and advances	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative financial instruments	Loans and advances	Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative financial instruments
Republic of Slovenia	85,315	49,747	-	544,187	415,165	13,347	85,315	49,747	479,792	415,165	13,347
Other members of European Union	-	19,010	734	1,031,073	196,284	5,399	-	19,010	1,031,073	196,284	5,399
- Italy	-	-	-	42,203	-	-	-	-	42,203	-	-
- Ireland	-	-	471	35,935	-	-	-	-	35,935	-	-
- France	-	-	103	149,327	48,720	10	-	-	149,327	48,720	10
- Belgium	-	-	-	45,511	16,031	98	-	-	45,511	16,031	98
- Netherlands	-	-	-	102,420	26,123	240	-	-	102,420	26,123	240
- Austria	-	19,010	-	29,609	40,878	1	-	19,010	29,609	40,878	1
- Germany	-	-	-	200,358	43,533	146	-	-	200,358	43,533	146
- Finland	-	-	-	39,220	3,247	-	-	-	39,220	3,247	-
- Sweden	-	-	160	64,610	-	-	-	-	64,610	-	-
- Denmark	-	-	-	67,722	-	-	-	-	67,722	-	-
- Luxembourg	-	-	-	57,222	16,729	-	-	-	57,222	16,729	-
- Great Britain	-	-	-	113,675	-	4,904	-	-	113,675	-	4,904
- Poland	-	-	-	17,173	-	-	-	-	17,173	-	-
- Slovakia	-	-	-	20,583	-	-	-	-	20,583	-	-
- Spain	-	-	-	25,930	-	-	-	-	25,930	-	-
- Other	-	-	-	*19,575*	*1,023*	-	-	-	*19,575*	*1,023*	-
United States of America	-	-	-	9,074	-	-	-	-	9,074	-	-
Other countries	-	-	-	414,199	-	413	-	-	6,848	-	407
- Macedonia	-	-	-	159,993	-	-	-	-	-	-	-
- Serbia	-	-	-	54,568	-	6	-	-	-	-	-
- Bosnia and Herzegovina	-	-	-	72,384	-	-	-	-	-	-	-
- Montenegro	-	-	-	54,765	-	-	-	-	-	-	-
- Kosovo	-	-	-	65,641	-	405	-	-	-	-	405
- Other	-	-	-	6,848	-	2	-	-	6,848	-	2
Total	**85,315**	**68,757**	**734**	**1,998,533**	**611,449**	**19,159**	**85,315**	**68,757**	**1,526,787**	**611,449**	**19,153**

Other members of the European Union included in the item 'Other' are Romania, Czech Republic, Hungary, Bulgaria, Cyprus, Croatia, Lithuania, Latvia, and Portugal.

s) Structure of debt securities of the banking book according to the Fitch credit rating agency

in EUR thousand

	NLB Group				NLB			
	31.12.2017		31.12.2016		31.12.2017		31.12.2016	
	Carrying value	in %	Carrying value	in %	Carrying value	in %	Carrying value	in %
Rating								
AAA	365,985	12.6	271,157	10.1	365,985	15.1	271,157	12.2
AA	373,302	12.8	349,839	13.0	373,302	15.4	349,839	15.7
A	1,486,656	51.0	1,455,975	54.0	1,411,405	58.3	1,455,401	65.5
BBB	200,019	6.9	138,526	5.1	200,019	8.3	132,254	5.9
Other	489,294	16.8	480,534	17.8	72,048	3.0	14,900	0.7
Total	**2,915,256**	**100.0**	**2,696,031**	**100.0**	**2,422,759**	**100.0**	**2,223,551**	**100.0**

t) Structure of debt securities of the trading book according to the Fitch credit rating agency

in EUR thousand

	31.12.2017		31.12.2016	
NLB Group and NLB	Carrying value	in %	Carrying value	in %
Rating				
A	-	-	49,747	72.4
AAA	4,117	7.0	-	-
F1	15,016	25.4	-	-
Other	40,031	67.7	19,010	27.6
Total	**59,164**	**100.0**	**68,757**	**100.0**

u) Internal rating of derivatives counterparties

	31.12.2017	31.12.2016
NLB Group and NLB	in %	in %
A	71.47	76.66
B	28.24	22.17
C	0.29	0.11
D and E	0.00	1.06
Total	**100.00**	**100.00**

All derivatives in the banking book are entered into with counterparties with an external investment-grade rating.

When derivatives are entered into on behalf of NLB Group's customers, such customers usually do not have an external rating, but all such transactions are covered through back-to-back transactions involving third parties with an external investment-grade rating.

v) Debt financial instruments in NLB's and NLB Group's portfolio that represent subordinated liabilities for the issuer

in EUR thousand

31.12.2017	NLB Group				NLB			
Internal rating	A	B	C	Total	A	B	C	Total
Available-for-sale financial assets	581	-	-	581	581	-	-	581
Loans and advances								
- loans and advances to banks	-	-	-	-	10,962	-	-	10,962
- loans and advances to customers	-	-	-	-	-	-	5,506	5,506
Total	**581**	**-**	**-**	**581**	**11,543**	**-**	**5,506**	**17,049**

in EUR thousand

31.12.2016	NLB Group				NLB			
Internal rating	A	B	C	Total	A	B	C	Total
Available-for-sale financial assets	583	-	-	583	583	-	-	583
Loans and advances								
- loans and advances to banks	-	-	-	-	10,961	3,989	-	14,950
- loans and advances to customers	-	-	-	-	-	-	5,898	5,898
Total	**583**	**-**	**-**	**583**	**11,544**	**3,989**	**5,898**	**21,431**

w) Presentation of net financial instruments by measurement category

in EUR thousand

	NLB Group							
31.12.2017	**Trading assets**	**Financial assets designated at fair value through profit or loss**	**Available-for-sale financial assets**	**Loans and receivables**	**Financial leases**	**Held-to-maturity financial assets**	**Derivatives for hedge accounting**	**Total**
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	1,256,481	-	-	-	1,256,481
Securities	59,164	5,003	2,280,283	82,133	-	609,712	-	3,036,295
- Bonds	4,117	102	1,809,040	82,133	-	609,712	-	2,505,104
- Shares	-	-	53,184	-	-	-	-	53,184
- Commercial bills		-	281,877	-	-	-	-	281,877
- Treasury bills	55,047	-	136,182	-	-		-	191,229
- Private equity fund	-	634	-	-	-	-	-	634
- Other investments	-	4,267	-	-	-	-	-	4,267
Derivatives	13,025	-	-	-	-	-	1,188	14,213
Loans and receivables	-	-	-	7,279,228	146,566	-	-	7,425,794
- Loans to government	-	-	-	448,198	8,882	-	-	457,080
- Loans to banks	-	-	-	513,461	-	-	-	513,461
- Loans to financial organisations	-	-	-	77,121	81	-	-	77,202
- Loans to individuals	-	-	-	3,295,336	76,610	-	-	3,371,946
Granted overdrafts	-	-	-	176,769	-	-	-	176,769
Loans for houses and flats	-	-	-	1,740,167	-	-	-	1,740,167
Consumer loans	-	-	-	1,217,349	-	-	-	1,217,349
Other loans	-	-	-	161,051	76,610	-	-	237,661
- Loans to other customers	-	-	-	2,945,112	60,993	-	-	3,006,105
Loans to large corporate customers	-	-	-	1,473,055	6,572	-	-	1,479,627
Loans to small- and medium-sized enterprises	-	-	-	1,472,057	54,421	-	-	1,526,478
Other financial assets	-	-	-	66,257	-	-	-	66,257
Total financial assets	**72,189**	**5,003**	**2,280,283**	**8,684,099**	**146,566**	**609,712**	**1,188**	**11,799,040**

in EUR thousand

	NLB Group							
31.12.2016	**Trading assets**	**Financial assets designated at fair value through profit or loss**	**Available-for-sale financial assets**	**Loans and receivables**	**Financial leases**	**Held-to-maturity financial assets**	**Derivatives for hedge accounting**	**Total**
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	1,299,014	-	-	-	1,299,014
Securities	68,757	6,694	2,072,153	85,340	-	611,449	-	2,844,393
- Bonds	19,735	734	1,619,228	85,315	-	611,449	-	2,336,461
- Shares	-	-	73,620	-	-	-	-	73,620
- Commercial bills	19,010	-	274,489	-	-	-	-	293,499
- Cash certificates	-	-	199	-	-	-	-	199
- Treasury bills	30,012	-	104,617	-	-	-	-	134,629
- Private equity fund	-	2,011	-	-	-	-	-	2,011
- Reverse sell and repurchase agreements	-	-	-	25	-	-	-	25
- Other investments	-	3,949	-	-	-	-	-	3,949
Derivatives	18,942	-	-	-	-	-	217	19,159
Loans and receivables	-	-	-	7,197,167	150,412	-	-	7,347,579
- Loans to government	-	-	-	765,154	10,832	-	-	775,986
- Loans to banks	-	-	-	435,537	-	-	-	435,537
- Loans to financial organisations	-	-	-	74,312	32	-	-	74,344
- Loans to individuals	-	-	-	3,027,652	63,856	-	-	3,091,508
Granted overdrafts	-	-	-	182,322	-	-	-	182,322
Loans for houses and flats	-	-	-	1,589,762	-	-	-	1,589,762
Consumer loans	-	-	-	1,090,120	-	-	-	1,090,120
Other loans	-	-	-	165,448	63,856	-	-	229,304
- Loans to other customers	-	-	-	2,894,512	75,692	-	-	2,970,204
Loans to large corporate customers	-	-	-	1,530,194	4,409	-	-	1,534,603
Loans to small- and medium-sized enterprises	-	-	-	1,364,318	71,283	-	-	1,435,601
Other financial assets	-	-	-	61,014	-	-	-	61,014
Total financial assets	**87,699**	**6,694**	**2,072,153**	**8,642,535**	**150,412**	**611,449**	**217**	**11,571,159**

in EUR thousand

	NLB						
31.12.2017	**Trading assets**	**Financial assets designated at fair value through profit or loss**	**Available-for-sale financial assets**	**Loans and receivables**	**Held-to-maturity financial assets**	**Derivatives for hedge accounting**	**Total**
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	570,010	-	-	570,010
Securities	59,164	634	1,777,762	82,133	609,712	-	2,529,405
- Bonds	4,117	-	1,554,565	82,133	609,712	-	2,250,527
- Shares	-	-	46,848	-	-	-	46,848
- Commercial bills	-	-	136,279	-	-	-	136,279
- Treasury bills	55,047	-	40,070	-		-	95,117
- Private equity fund	-	634	-	-	-	-	634
Derivatives	13,016	-	-	-	-	1,188	14,204
Loans and receivables	-	-	-	5,049,799	-	-	5,049,799
- Loans to government	-	-	-	358,675	-	-	358,675
- Loans to banks	-	-	-	462,322	-	-	462,322
- Loans to financial organisations	-	-	-	268,184	-	-	268,184
- Loans to individuals	-	-	-	2,082,562	-	-	2,082,562
Granted overdrafts	-	-	-	140,209	-	-	140,209
Loans for houses and flats	-	-	-	1,307,246	-	-	1,307,246
Consumer loans	-	-	-	519,213	-	-	519,213
Other loans	-	-	-	115,894	-	-	115,894
- Loans to other customers	-	-	-	1,878,056	-	-	1,878,056
Loans to large corporate customers	-	-	-	1,216,085	-	-	1,216,085
Loans to small- and medium-sized enterprises	-	-	-	661,971	-	-	661,971
Other financial assets	-	-	-	38,389	-	-	38,389
Total financial assets	**72,180**	**634**	**1,777,762**	**5,740,331**	**609,712**	**1,188**	**8,201,807**

in EUR thousand

	NLB						
31.12.2016	**Trading assets**	**Financial assets designated at fair value through profit or loss**	**Available-for-sale financial assets**	**Loans and receivables**	**Held-to-maturity financial assets**	**Derivatives for hedge accounting**	**Total**
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	617,039	-	-	617,039
Securities	68,757	2,011	1,594,094	85,340	611,449	-	2,361,651
- Bonds	19,735	-	1,262,363	85,315	611,449	-	1,978,862
- Shares	-	-	67,307	-	-	-	67,307
- Commercial bills	19,010	-	209,331	-	-	-	228,341
- Treasury bills	30,012	-	55,093	-		-	85,105
- Private equity fund	-	2,011	-	-	-	-	2,011
- Reverse sell and repurchase agreements	-	-	-	25	-	-	25
Derivatives	18,936	-	-	-	-	217	19,153
Loans and receivables	-	-	-	5,251,625	-	-	5,251,625
- Loans to government	-	-	-	668,300	-	-	668,300
- Loans to banks	-	-	-	408,056	-	-	408,056
- Loans to financial organisations	-	-	-	273,285	-	-	273,285
- Loans to individuals	-	-	-	1,951,115	-	-	1,951,115
Granted overdrafts	-	-	-	147,779	-	-	147,779
Loans for houses and flats	-	-	-	1,208,996	-	-	1,208,996
Consumer loans	-	-	-	480,626	-	-	480,626
Other loans	-	-	-	113,714	-	-	113,714
- Loans to other customers	-	-	-	1,950,869	-	-	1,950,869
Loans to large corporate customers	-	-	-	1,296,126	-	-	1,296,126
Loans to small- and medium-sized enterprises	-	-	-	654,743	-	-	654,743
Other financial assets	-	-	-	36,151	-	-	36,151
Total financial assets	**87,693**	**2,011**	**1,594,094**	**5,990,155**	**611,449**	**217**	**8,285,619**

As at 31.12.2017 and 31.12.2016, all of NLB Group's financial liabilities, except for derivatives designated as hedging instruments, trading liabilities and financial liabilities designated at fair value through profit or loss, were carried at amortised cost.

6.2. Market risk

NLB defines market risk as the risk of potential financial losses due to changes in rates and/or market prices (exchange rates, credit spreads, and equity prices), or in parameters that affect prices (volatilities and correlations). Losses may impact profit or loss directly, for example in the case of trading book positions. However, for the banking book positions they are reflected in the revaluation reserve. The exposure to the market risk is to a certain degree integrated into the banking industry and offers an opportunity to create financial results and value.

The Global Risk Department of NLB is independent from the trading activities and reports to the bank's committee ALCO. They also monitor and manage exposure to market risks separately for the banking and trading books. Exposures and limits are monitored daily and reported to the ALCO committee on a regular basis.

The bank uses a wide selection of quantitative and qualitative tools for measuring, managing, and reporting market risks such as value-at-risk (VaR), sensitivity analysis, stress testing, back-testing, scenarios, other market risk mitigants (concentration of exposures, gap limits, stop-loss limits, etc.), net interest income sensitivity, economic value of equity, and economic capital. Stress testing provides an indication of the potential losses that could occur in severe market conditions.

In the area of currency risk, NLB Group pursues the goal of low exposure. NLB monitors the open position of NLB Group on an ongoing basis. The orientation of NLB Group in interest rate risk management is to prevent negative effects on the net revenues arising from changed market interest rates. In line with this, the tolerance for this risk is low. The conclusion of transactions involving derivatives at NLB is limited to the servicing of the clients' and hedging of the Group's own open positions. In accordance with the provisions of the Strategy on trading in financial instruments in NLB Group, the trading activities in other NLB Group members are very restricted. Thus, NLB is the only Group member with a trading book in accordance with CRR requirements.

Monitoring and managing NLB Group's exposure to market risks is decentralised. However, uniform guidelines and exposure limits for each type of risk are set for individual NLB Group entities. The methodologies are in line with regulatory requirements on individual and consolidated levels, while reporting to the regulator on the consolidated level is carried out using the standardised approach. Pursuant to the relevant policies, NLB Group entities must monitor and manage exposure to market risks and report to NLB accordingly. The exposure of an individual NLB Group entity is regularly monitored and reported to the Assets and Liabilities Committee of NLB Group (NLB Group ALCO).

6.2.1. Currency risk (FX)

Foreign currency risk (FX) is a risk of the potential losses from the open FX positions due to the changes of the foreign currency rates. The exposures of NLB to the movement of the FX rates have impact on the financial position and cash flows of the bank. The bank measures and manages the FX risk with a usage of combination of sensitivity analysis, VaR, scenarios, and stress testing.

In the trading book, similar to the other market risks, risk is managed on the basis of VaR limits which are approved by the Management Board of the bank and in accordance to the adopted policy of managing market risk in the trading book of NLB. Trading FX risk is managed on an integrated basis at a portfolio level.

NLB monitors and manages FX risk in the banking book according to the policy of managing FX risk in NLB. The policy is primarily composed to protect Common Equity Tier 1 against the negative effects of the volatility of the FX rates, whilst limiting the volatility in the profit and loss account. FX exposures in banking book result from core banking business activities.

Currency risk management in NLB Group is decentralised. Each member is responsible for its own currency risk policy, which also includes a limit system and is in line with local regulatory requirements, as well as the parent Bank's guidelines and standards. Policies are confirmed by either the local management board or supervisory board. NLB monitors and manages NLB Group currency risk exposure on a monthly basis for each member and on the consolidated level.

NLB Group banks follow the guidelines for managing FX lending in the NLB Group. The guidelines' goal is to address risks stemming from the potential excessive growth of FX lending, to identify hidden risks and tail-event risks related to FX lending, to mitigate the respective risk, to internalise the respective costs, and to hold adequate capital with respect to FX lending.

The positions of all currencies in the statement of financial position of NLB, for which a daily limit is set, are monitored daily. FX positions are managed by the Financial Markets Department on the basis of a report obtained from the Global Risk. The Financial Markets Department manages FX positions on the currency level so that they are always within the limits or closed.

Regarding structural FX positions on a consolidation level, assets and liabilities held in foreign operations are translated into euro currency at the closing FX rate on the balance sheet date. Foreign exchange differences of non-euro assets and liabilities against euro are recognised in OCI, and therefore affect shareholder's equity and CET1 capital. In December 2017 ECB requested for calculation of risk weighted assets a correction of treatment of the FX position on a consolidated level and treatment of equity investments in non-euro subsidiary banks (see note 5.23 Capital adequacy ratio). Group ALM employs strategies to manage this foreign currency exposure, including matched funding of assets and liabilities.

Exposure to currency risks is discussed at daily liquidity meetings and monthly meetings of the Assets and Liabilities Committee of NLB Group (ALCO), and quarterly on the consolidated level.

a) The amount of financial instruments denominated in euros and in foreign currency

in EUR thousand

	NLB Group				
31.12.2017	**EUR**	**USD**	**CHF**	**Other**	**Total**
Financial assets					
Cash, cash balances at central banks, and other demand deposits at banks	824,534	33,545	41,046	357,356	1,256,481
Trading assets	68,067	4,117	-	5	72,189
Financial assets designated at fair value through profit or loss	5,003	-	-	-	5,003
Available-for-sale financial assets	1,996,373	26,908	3,056	250,156	2,276,493
Derivatives - hedge accounting	1,188	-	-	-	1,188
Loans and advances					
- debt securities	82,133	-	-	-	82,133
- loans and advances to banks	359,268	103,836	-	47,003	510,107
- loans and advances to customers	5,952,008	30,474	69,381	860,470	6,912,333
- other financial assets	43,162	111	27	22,777	66,077
Held-to-maturity financial assets	600,328	9,384	-	-	609,712
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	-	-	-	719
Total financial assets	**9,932,783**	**208,375**	**113,510**	**1,537,767**	**11,792,435**
Financial liabilities					
Trading liabilities	9,398	-	-	104	9,502
Financial liabilities designated at fair value through profit or loss	635	-		-	635
Derivatives - hedge accounting	25,529	-	-	-	25,529
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	20,091	4,677	6,555	9,279	40,602
- borrowings from banks and central banks	247,326	18,425	13,865	-	279,616
- due to customers	8,443,684	185,880	71,900	1,176,914	9,878,378
- borrowings from other customers	74,206	-	-	80	74,286
- subordinated liabilities	27,350	-	-	-	27,350
- other financial liabilities	93,128	1,058	1,930	14,903	111,019
Total financial liabilities	**8,941,347**	**210,040**	**94,250**	**1,201,280**	**10,446,917**
Net on-balance sheet financial position	**991,436**	**(1,665)**	**19,260**	**336,487**	**1,345,518**
Derivative financial instruments	11,906	-	(12,818)	(8,014)	(8,926)
Net financial position	**1,003,342**	**(1,665)**	**6,442**	**328,473**	**1,336,592**
31.12.2016					
Total financial assets	**9,851,121**	**228,678**	**132,544**	**1,359,494**	**11,571,837**
Total financial liabilities	**8,986,936**	**226,191**	**102,137**	**1,084,597**	**10,399,861**
Net on-balance sheet financial position	**864,185**	**2,487**	**30,407**	**274,897**	**1,171,976**
Derivative financial instruments	26,519	2,077	(21,417)	(13,954)	(6,775)
Net financial position	**890,704**	**4,564**	**8,990**	**260,943**	**1,165,201**

in EUR thousand

	NLB				
31.12.2017	**EUR**	**USD**	**CHF**	**Other**	**Total**
Financial assets					
Cash, cash balances at central banks, and other demand deposits at banks	511,551	15,735	10,305	32,419	570,010
Trading assets	68,063	4,117	-	-	72,180
Financial assets designated at fair value through profit or loss	634	-	-	-	634
Available-for-sale financial assets	1,751,068	24,342	-	2,352	1,777,762
Derivatives - hedge accounting	1,188	-	-	-	1,188
Loans and advances					
- debt securities	82,133				82,133
- loans and advances to banks	378,241	58,393	-	25,688	462,322
- loans and advances to customers	4,482,928	25,834	70,369	8,346	4,587,477
- other financial assets	38,260	64	1	64	38,389
Held-to-maturity financial assets	600,328	9,384	-	-	609,712
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	-	-	-	719
Total financial assets	**7,915,113**	**137,869**	**80,675**	**68,869**	**8,202,526**
Financial liabilities					
Trading liabilities	9,398	-	-	-	9,398
Financial liabilities designated at fair value through profit or loss	635	-	-	-	635
Derivatives - hedge accounting	25,529	-	-	-	25,529
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	36,352	15,255	9,292	11,173	72,072
- borrowings from banks and central banks	228,457	18,425	13,865	-	260,747
- due to customers	6,623,766	104,325	43,688	39,188	6,810,967
- borrowings from other customers	5,726	-	-	-	5,726
- other financial liabilities	69,858	409	269	998	71,534
Total financial liabilities	**6,999,721**	**138,414**	**67,114**	**51,359**	**7,256,608**
Net on-balance sheet financial position	**915,392**	**(545)**	**13,561**	**17,510**	**945,918**
Derivative financial instruments	11,906	-	(12,818)	(8,014)	(8,926)
Net financial position	**927,298**	**(545)**	**743**	**9,496**	**936,992**
31.12.2016					
Total financial assets	**7,947,091**	**169,016**	**99,948**	**70,242**	**8,286,297**
Total financial liabilities	**7,140,090**	**169,184**	**78,138**	**42,028**	**7,429,440**
Net on-balance sheet financial position	**807,001**	**(168)**	**21,810**	**28,214**	**856,857**
Derivative financial instruments	26,519	2,077	(21,417)	(13,954)	(6,775)
Net financial position	**833,520**	**1,909**	**393**	**14,260**	**850,082**

b) FX sensitivity analysis

	NLB Group and NLB	
Scenarios	31.12.2017	31.12.2016
USD	+/-6%	+/-8%
CHF	+/-5%	+/-4%
CZK	+/-3%	+/-1%
RSD	+/-2%	+/-2%
MKD	+/-3%	+/-1%
JPY	+/-7%	+/-12.5%
AUD	+/-7%	+/-11%
HUF	+/-3%	+/-5%
HRK	+/-2%	+/-2%
BAM	+/-0%	+/-0%

in EUR thousand

	NLB Group		NLB	
31.12.2017	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensive income
Appreciation of				
USD	221	-	92	-
CHF	(308)	211	26	-
CZK	2	-	1	-
RSD	7	2,125	8	-
MKD	47	5,412	64	-
Other	(72)	338	6	-
Effects on comprehensive income	**(103)**	**8,086**	**197**	**-**
Depreciation of				
USD	(196)	-	(82)	-
CHF	281	(192)	(24)	-
CZK	(2)	-	(1)	-
RSD	(7)	(2,046)	(8)	-
MKD	(44)	(5,048)	(60)	-
Other	70	(327)	(6)	-
Effects on comprehensive income	**102**	**(7,613)**	**(181)**	**-**

in EUR thousand

	NLB Group		NLB	
31.12.2016	**Effects on income statement**	**Effects on other comprehensive income**	**Effects on income statement**	**Effects on other comprehensive income**
Appreciation of				
USD	271	-	79	-
CHF	(205)	227	13	-
CZK	(8)	23	2	-
RSD	(3)	1,567	2	-
MKD	1	1,425	1	-
Other	(16)	251	70	-
Effects on comprehensive income	**40**	**3,493**	**167**	**-**
Depreciation of				
USD	(229)	-	(67)	-
CHF	187	(208)	(12)	-
CZK	7	(22)	(2)	-
RSD	2	(1,506)	(2)	-
MKD	(1)	(1,390)	(1)	-
Other	23	(243)	(60)	-
Effects on comprehensive income	**(11)**	**(3,369)**	**(144)**	**-**

6.2.2. Managing market risks in the trading book

Market risk exposure in the trading book arises mostly as a result of the changes in interest rates, credit spreads, FX rates, and equity prices.

The Management Board determines total risk appetite and limits by the risk type. The limits are monitored daily by the Global Risk Department.

NLB uses an internal VaR model based on the variance-covariance method for other market risks. The daily calculation of the VAR value is adjusted to Basel standards (99% confidence interval, a monitored period of 250 business days, a 10-day holding position period).

6.2.3. Interest rate risk

Interest rate risk is the risk to NLB Group's capital and profit or loss arising from changes in market interest rates. Interest rate risk management of NLB Group includes all interest rate-sensitive on- and off-balance sheet assets and liabilities which are divided into the trading and banking books according to regulatory standards. It takes into account the positions in each currency, adjusted for a credit risk. Interest rate risk management in NLB Group is adopted in accordance with the conservative risk strategy and is based on general Basel standards on interest rate management in the banking book (IRRB; hereinafter: 'Standards') and European Banking Authority guidelines.

In the trading book interest rate risk is measured on the basis of the VaR method and BPV method, in accordance with the adopted policy for managing market risk in the trading book of NLB.

The interest rate risk in the banking book is measured and monitored within a framework of Interest rate risk management policy that establishes consistent methodologies, models, and limit systems. NLB Group manages interest rate risk exposure through application of two main measures:

- Economic value sensitivity – using BPV method (Basis Point Value), which measures the extent to which the value of the portfolio would change if interest rates changes according to the scenario.
- Sensitivity of net interest income – using EaR method (Earnings at Risk), which measures the impact of the interest rate change on future net interest income over a one-year period, assuming constant balance sheet volume and structure.

NLB Group regularly measures interest rate risk exposure in the banking book under various standardised and additional scenarios of changes in level and shape of interest rate yield curve and, furthermore, applies a cash flow modelling approach for positions with uncertain maturity and behavioural options. The latter was upgraded in 2017 according to new regulatory Standards with a renewal of non-maturing deposits allocation methodology, and with introduction of a methodology for positions with behavioural options.

The interest rate risk is closely measured, monitored, and managed within approved risk limits and controls. The Group manages interest rate positions and stabilises its interest rate margin primarily with the pricing policy and a fund transfer pricing policy. An important part of the interest rate risk management is presented by the banking book securities portfolio, whose primary purpose is to maintain adequate liquidity reserves, while it also contributes to the stability of the interest rate margin, which is why valuation risk has been included in the Group's interest rate risk management model.

NLB Group manages interest rates risk also by using plain vanilla derivative financial instruments (interest rate swaps, overnight index swaps, cross currency swaps, and forward rate agreements), most of which are treated according to hedge accounting rules. Interest rate risk exposure arises mainly from banking book positions; particularly in a current low interest rate environment, where NLB Group recorded increased volume of fixed interest rate loans and long-term banking book securities on the assets side and transformation of deposits from term to sight.

The management of NLB Group's interest rate exposure is decentralised. Each member of NLB Group is responsible for its own interest rate risk policy, which includes limit system and is in line with local regulatory requirements, as well as with the parent Bank's guidelines and standards. NLB regularly monitors the interest rate risk exposure of individual member of NLB Group in accordance with the Standards for Risk Management in NLB Group. The aforementioned document comprises guidelines for uniform and effective interest rate risk management within individual NLB Group members.

Interest rate risk in the banking book is measured, monitored, and reported weekly in the case of NLB by Global Risk Department, while positions are managed by Financial Markets and monthly on the Group level. Exposure to interest rate risk is discussed on ALCO monthly on NLB's individual level and quarterly on the consolidated level.

a) Analysis of financial instruments according to the exposure to interest rate risk

Illustrated below are the carrying amounts of financial instruments categorised by the earlier of contractual reprising or residual maturity.

in EUR thousand

	NLB Group							
31.12.2017	**Total**	**Non-interest bearing**	**Interest bearing**	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	1,256,481	531,414	725,067	725,067	-	-	-	-
Trading assets	72,189	13,025	59,164	-	55,060	5	2,438	1,661
Financial assets designated at fair value through profit or loss	5,003	4,901	102	-	-	102	-	-
Available-for-sale financial assets	2,276,493	53,184	2,223,309	100,425	143,970	538,822	818,030	622,062
Derivatives - hedge accounting	1,188	1,188	-	-	-	-	-	-
Loans and advances								
- debt securities	82,133	-	82,133	-	-	1,896	-	80,237
- loans and advances to banks	510,107	18	510,089	176,384	28,839	304,676	190	-
- loans and advances to customers	6,912,333	49,484	6,862,849	1,657,695	1,188,308	2,473,342	1,072,627	470,877
- other financial assets	66,077	66,077	-	-	-	-	-	-
Held-to-maturity financial assets	609,712	-	609,712	38,070	40,228	6,874	260,537	264,003
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	719	-	-	-	-	-	-
Total financial assets	**11,792,435**	**720,010**	**11,072,425**	**2,697,641**	**1,456,405**	**3,325,717**	**2,153,822**	**1,438,840**
Financial liabilities								
Trading liabilities	9,502	9,502	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	635	635	-	-	-	-	-	-
Derivatives - hedge accounting	25,529	25,529	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	40,602	5,788	34,814	34,573	-	-	241	-
- borrowings from banks and central banks	279,616	-	279,616	4,681	78,127	177,165	19,459	184
- due to customers	9,878,378	58,429	9,819,949	7,777,903	489,698	1,140,149	407,809	4,390
- borrowings from other customers	74,286	-	74,286	850	2,685	9,069	36,099	25,583
- subordinated liabilities	27,350	-	27,350	326	12,054	14,970	-	-
- other financial liabilities	111,019	111,019	-	-	-	-	-	-
Total financial liabilities	**10,446,917**	**210,902**	**10,236,015**	**7,818,333**	**582,564**	**1,341,353**	**463,608**	**30,157**
Total interest repricing gap				**(5,120,692)**	**873,841**	**1,984,364**	**1,690,214**	**1,408,683**

in EUR thousand

	NLB Group							
31.12.2016	Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	1,299,014	450,644	848,370	848,370	-	-	-	-
Trading assets	87,699	18,942	68,757	284	49,085	9,168	10,220	-
Financial assets designated at fair value through profit or loss	6,694	5,960	734	-	-	-	734	-
Available-for-sale financial assets	2,072,153	73,620	1,998,533	110,145	267,093	494,924	759,436	366,935
Derivatives - hedge accounting	217	217	-	-	-	-	-	-
Loans and advances								
- debt securities	85,315	-	85,315	-	-	1,891	-	83,424
- loans and advances to banks	435,537	7	435,530	114,962	42,138	276,794	1,636	-
- loans and advances to customers	6,912,067	54,612	6,857,455	1,816,432	1,387,083	2,524,693	840,204	289,043
- other financial assets	61,014	61,014	-	-	-	-	-	-
Held-to-maturity financial assets	611,449	-	611,449	37,691	63,047	16,866	264,360	229,485
Fair value changes of the hedged items in portfolio hedge of interest rate risk	678	678	-	-	-	-	-	-
Total financial assets	**11,571,837**	**665,694**	**10,906,143**	**2,927,884**	**1,808,446**	**3,324,336**	**1,876,590**	**968,887**
Financial liabilities								
Trading liabilities	18,791	18,791	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	2,011	2,011	-	-	-	-	-	-
Derivatives - hedge accounting	29,024	29,024	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	42,334	332	42,002	41,439	563	-	-	-
- borrowings from banks and central banks	371,769	-	371,769	6,779	134,777	203,215	26,381	617
- due to customers	9,437,147	61,672	9,375,475	7,035,752	572,913	1,342,213	417,065	7,532
- borrowings from other customers	83,619	-	83,619	1,298	8,769	26,878	40,966	5,708
- debt securities in issue	277,726	-	277,726	-	-	277,726	-	-
- subordinated liabilities	27,145	-	27,145	200	11,938	15,007	-	-
- other financial liabilities	110,295	110,295	-	-	-	-	-	-
Total financial liabilities	**10,399,861**	**222,125**	**10,177,736**	**7,085,468**	**728,960**	**1,865,039**	**484,412**	**13,857**
Total interest repricing gap				**(4,157,584)**	**1,079,486**	**1,459,297**	**1,392,178**	**955,030**

in EUR thousand

	NLB							
31.12.2017	**Total**	**Non-interest bearing**	**Interest bearing**	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	570,010	143,725	426,285	426,285	-	-	-	-
Trading assets	72,180	13,016	59,164	-	55,060	5	2,438	1,661
Financial assets designated at fair value through profit or loss	634	634	-	-	-	-	-	-
Available-for-sale financial assets	1,777,762	46,848	1,730,914	18,190	50,856	384,130	663,277	614,461
Derivatives - hedge accounting	1,188	1,188	-	-	-	-	-	-
Loans and advances								
- debt securities	82,133	-	82,133	-	-	1,896	-	80,237
- loans and advances to banks	462,322	9	462,313	105,616	23,889	325,375	7,433	-
- loans and advances to customers	4,587,477	44,318	4,543,159	1,354,311	1,019,785	1,615,885	309,278	243,900
- other financial assets	38,389	38,389	-	-	-	-	-	-
Held-to-maturity financial assets	609,712	-	609,712	38,070	40,228	6,874	260,537	264,003
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	719	-	-	-	-	-	-
Total financial assets	**8,202,526**	**288,846**	**7,913,680**	**1,942,472**	**1,189,818**	**2,334,165**	**1,242,963**	**1,204,262**
Financial liabilities								
Trading liabilities	9,398	9,398	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	635	635	-	-	-	-	-	-
Derivatives - hedge accounting	25,529	25,529	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	72,072	-	72,072	72,072				
- borrowings from banks and central banks	260,747	-	260,747	85	77,786	170,702	12,174	-
- due to customers	6,810,967	-	6,810,967	5,866,793	348,703	514,937	78,363	2,171
- borrowings from other customers	5,726	-	5,726	-	-	2	5,716	8
- other financial liabilities	71,534	71,534	-	-	-	-	-	-
Total financial liabilities	**7,256,608**	**107,096**	**7,149,512**	**5,938,950**	**426,489**	**685,641**	**96,253**	**2,179**
Total interest repricing gap				**(3,996,478)**	**763,329**	**1,648,524**	**1,146,710**	**1,202,083**

in EUR thousand

	NLB							
31.12.2016	Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	617,039	128,519	488,520	488,520	-	-	-	-
Trading assets	87,693	18,936	68,757	284	49,085	9,168	10,220	-
Financial assets designated at fair value through profit or loss	2,011	2,011	-	-	-	-	-	-
Available-for-sale financial assets	1,594,094	67,307	1,526,787	27,709	195,730	371,601	569,219	362,528
Derivatives - hedge accounting	217	217	-	-	-	-	-	-
Loans and advances								
- debt securities	85,315	-	85,315	-	-	1,891	-	83,424
- loans and advances to banks	408,056	7	408,049	77,061	28,596	302,392	-	-
- loans and advances to customers	4,843,594	43,021	4,800,573	1,422,972	1,316,675	1,682,375	227,870	150,681
- other financial assets	36,151	36,151	-	-	-	-	-	-
Held-to-maturity financial assets	611,449	-	611,449	37,691	63,047	16,866	264,360	229,485
Fair value changes of the hedged items in portfolio hedge of interest rate risk	678	678	-	-	-	-	-	-
Total financial assets	**8,286,297**	**296,847**	**7,989,450**	**2,054,237**	**1,653,133**	**2,384,293**	**1,071,669**	**826,118**
Financial liabilities								
Trading liabilities	18,787	18,787	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	2,011	2,011	-	-	-	-	-	-
Derivatives - hedge accounting	29,024	29,024	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	74,977	-	74,977	74,977	-	-	-	-
- borrowings from banks and central banks	338,467	-	338,467	4,708	133,117	186,846	13,796	-
- due to customers	6,615,390	-	6,615,390	5,281,645	408,851	744,327	174,193	6,374
- borrowings from other customers	4,274	-	4,274	-	-	-	4,265	9
- debt securities in issue	277,726	-	277,726	-	-	277,726	-	-
- other financial liabilities	68,784	68,784	-	-	-	-	-	-
Total financial liabilities	**7,429,440**	**118,606**	**7,310,834**	**5,361,330**	**541,968**	**1,208,899**	**192,254**	**6,383**
Total interest repricing gap				**(3,307,093)**	**1,111,165**	**1,175,394**	**879,415**	**819,735**

b) Net interest income sensitivity analysis and an economic view of interest rate risk in the banking book

The analysis of interest income sensitivity assumes a move in interest rates by 50 basis points in the one year period. The analysis is based on the assumption that the positions used remain unchanged, and that the yield curve shift is parallel. The assessment of the impact of a change in interest rates of 50 basis points on the amount of net interest income of the banking book position:

in EUR thousand

	NLB Group			NLB		
2017	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**
Interest income sensitivity						
EUR	11,682	9,027	14,764	10,729	7,867	13,486
USD	464	378	544	308	234	380
CHF	171	134	226	174	134	227
OTHER	1,293	953	1,641	33	24	41

in EUR thousand

	NLB Group			NLB		
2016	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**
Interest income sensitivity						
EUR	12,009	11,154	13,121	12,025	11,155	12,699
USD	417	319	507	311	182	407
CHF	161	78	247	166	83	248
OTHER	1,238	1,058	1,390	45	31	50

The values in the table are calculated on the basis of monthly calculations of short-term interest rate gaps, where the applied parallel shift of the yield curve by 50 basis points represents a realistic and practical scenario. The "average" value represents the arithmetic mean of monthly calculations, while the "maximum" and "minimum" values represent the highest and lowest values calculated during the period. In 2017 (as of 31th July 2017), the Bank has changed the methodological approach of calculating the sensitivity of net interest income, which is implemented in new technological support.

The BPV (Basis Point Value) method is a measure of sensitivity of financial instruments to market interest rates, i.e. changes of the required return. The BPV method is used to assess the change in the value of a position in case market interest rates change by +/- 200 basis points. In this method, a parallel shift of the yield curve is assumed. The basis point value is the measurement of the change in the market value of a position in the case of an assumed change in market interest rates by a certain number of basis points, which is expressed in monetary units. NLB weekly calculates the absolute value of potential negative economic effects that would result from a parallel shift in interest rates by 200 bp.

The assessment of the impact of a change in interest rates of 200 basis points on the economic value of the banking book position:

in EUR thousand

	NLB Group			NLB		
2017	Average (assessment)	Minimum (assessment)	Maximum (assessment)	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest risk in banking book - BPV	210,157	193,355	225,787	159,149	149,053	172,964
Interest risk in banking book - BPV, as % of equity	15.82%	14.47%	16.94%	14.00%	13.05%	15.14%

in EUR thousand

	NLB Group			NLB		
2016	Average (assessment)	Minimum (assessment)	Maximum (assessment)	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest risk in banking book - BPV	162,224	145,727	198,017	120,515	105,469	153,501
Interest risk in banking book - BPV, as % of equity	12.59%	11.36%	14.82%	10.60%	9.29%	13.48%

The values in the table have been calculated on the basis of weekly calculations of interest rate gaps for NLB and monthly on the Group level. The applied parallel shift of the yield curve is by 200 basis points. The "average" value represents the arithmetic mean while the "maximum" and "minimum" values represent the highest and lowest values calculated during the period. The calculation does not take the allocation of the core part of non-maturing deposits into account or other behavioural assumptions.

Exposure to interest rate risk of the banking book mainly arises from investments in long-term debt securities and loans with fixed interest rate, as well as from transformation of term to sight deposits. Long-term interest positions of other members in NLB Group, of which present a majority of their exposure to interest-rate risk (an economic point of view), mainly arise from a portfolio of mortgage loans with a fixed interest rate.

6.2.4. Risk of changes in prices in the portfolio of equity securities in the banking book

NLB Group's financial instruments trading strategy includes guidelines for the effective management of risks associated with equity investments. Trading with equity securities is not permitted in subsidiaries. Only stockbrokerage services are provided.

In terms of equity security investments, NLB has adopted policies for managing these investments that were approved by the Management and the Supervisory Board. The policies relate to the investment structure of the portfolio, its diversification, and the monitoring and measurement of risks. In addition to a standardised methodology, NLB also uses an internal model which has been adapted in accordance with the requirements of the Basel standards for monitoring and measuring risks related to the equity portfolio.

The carrying value of the equities portfolio in the banking book of NLB Group and NLB is represented in note 5.4.

6.3. Liquidity risk

Liquidity risk is the risk that NLB Group is unable to meet all of its actual and potential payments or collateral posting obligations, as well as the risk that NLB Group is unable to fund the growth of assets at reasonable prices, or only at excessive cost.

There are two types of risk:

- Funding liquidity risk is the risk of not being able to accommodate both expected and unexpected current and future cash outflows and collateral needs because insufficient cash is available. Eventually, this will affect the Group's daily operations or its financial conditions.
- Market Liquidity risk is a risk that the Group cannot sell an asset on time at a reasonable price due to insufficient market depth (insufficient supply and demand) or market disruptions. Market risk includes the sensitivity in liquidity value of a portfolio due to changes in the applicable haircuts and market value. It also concerns uncertainty about the time required to realise the liquidity value of the assets.

Liquidity risk is defined as an important risk type at NLB Group, which has to be managed carefully. NLB Group has a liquidity risk management framework in place that enables maintaining a low risk tolerance for liquidity risk. NLB Group formulated a set of liquidity risk metrics and limits to manage liquidity position within the requirements set by the regulator. By maintaining a smooth long-term maturity profile, limiting dependence on wholesale funding and holding a solid liquidity buffer, the NLB Group maintains a sound and robust liquidity position, even under severely adverse conditions.

The Management Board approves the Liquidity Risk Management Policy, which outlines the key principles for the bank's liquidity management. ALCO receives a regular report on the liquidity positon and the performance against approved limits and targets. ALCO oversees the development of the bank's funding and liquidity positon and decides on liquidity risk-related issues in NLB Group.

Risk tolerance for liquidity risk is low, therefore NLB Group maintains an adequate level of liquidity to provide sufficient funds for settling its liabilities at all times, even if a specific stress scenario is realised. NLB Group measures and manages its liquidity in three stages:

- Current exposure and compliance with the limits,
- Forward-looking and stress testing,
- Liquidity in exceptional circumstances.

The objectives of monitoring and managing liquidity risk in NLB Group are as follows:

- ensuring a sufficient level of liquid assets;
- minimising the costs of maintaining liquidity;
- optimising the amount of liquidity reserves;
- ensuring an appropriate level of liquidity for different situations and stress scenarios; and
- anticipating emergencies or crisis conditions, and implementing contingency plans in the event of extraordinary circumstances;
- preparing dynamic projections of liquidity taking several cash-flow scenarios of the bank into account;
- preparing proposals for establishing additional financial assets as collateral for sources of funding

Overall assessment of the liquidity position of NLB Group is assessed in the Internal Liquidity Adequacy Assessment Process (ILAAP) at least once per year for NLB Group, and it includes a clear formal statement on liquidity adequacy, supported by an analysis of ILAAP outcomes. NLB Group maintains a sufficient amount of liquidity reserves in the form of high credit quality debt securities that are eligible for refinancing via the ECB/central bank or on the market. In the current situation, NLB Group also strives to follow as closely as possible the long-term trend of diversification on both the liability and asset sides of the balance sheet. NLB Group regularly performs stress tests with the aim of testing the liquidity stability and the availability of liquidity reserves in various stress situations. In addition, special attention is given to the fulfilment of the liquidity regulation (CRR/CRD), with monitoring and reporting of the liquidity coverage ratio (LCR) according to the Delegated Act and net stable funding ratio (NSFR). This also includes monitoring and reporting of Additional Liquidity Monitoring Metrics (ALMM) on solo and consolidated levels. In accordance with the Commission Implementing Regulation (EU), NLB Group regularly monitors and issues quarterly reports on asset encumbrance.

The Group prepares regularly static liquidity mismatch table by residual maturity and dynamic liquidity projections taking several cash-flow scenarios into account to ensure monitoring over the liquidity position of each NLB Group member.

The Group manages its liquidity position (liquidity within one day) daily, for a period of several days or weeks in advance, based on the planning and monitoring of cash flows. Liquidity management on the operational level is decentralized in NLB Group. Each NLB Group member is responsible for its own liquidity position and carries out the following activities:

- managing intraday liquidity;
- planning and monitoring cash flows;
- monitoring and complying with the liquidity regulations of the central bank;
- adopting business decisions;
- forming and managing liquidity reserves; and
- performing liquidity stress test to define the liquidity buffer for smooth functioning of the payment system in stressed circumstances.

NLB Group members actively manage liquidity over the course of a day, taking into account the characteristics of payment settlements to ensure the timely settlement of liabilities in normal and stressed circumstances.

The Group members have defined a liquidity management plan for exceptional circumstances that lays down guidelines and a plan of activities for recognising problems, searching for solutions, and handling exceptional circumstances. It also provides for the establishment of a system of liquidity management that ensures the maintenance of NLB Group's liquidity and protects the commercial interests of its customers and shareholders.

Liquidity risk management in NLB Group is decentralised under strict monitoring by NLB as a parent bank. Reporting to NLB by all group members is done on a daily basis. Global Risk gives guidelines and defines minimal standards for group members regarding liquidity risk management in NLB Group Risk Management Standards. Decentralized liquidity management means that each group member is responsible for ensuring adequate liquidity via the necessary sources of funding and their appropriate diversification and maturity, and by managing liquidity reserves and fulfilling the requirements of regulations governing liquidity. The exposure of an individual NLB Group member towards liquidity risk is regularly monitored and reported to ALCO and to local Assets and Liabilities Committees.

a) Managing NLB Group's liquidity reserves

NLB Group has liquidity reserves available to cover liabilities that fall or may become due. Liquidity reserves must become available on short notice. Liquidity reserves comprise cash, the settlement account at the central bank, sight deposits and short-term deposits at banks, debt securities and loans eligible as collateral for Eurosystem's liquidity providing operations, on the basis of which the Bank may generate the requisite liquidity at any time. Available liquidity reserves are liquidity reserves decreased by the reserve requirement, required balances for the continuous performance of payment transactions, encumbered securities, and/or credit claims for different purposes (secured funding).

The minimum and optimum amount of liquidity reserves is determined on the basis of the methodology pertaining to liquidity risk stress tests. The amount represents the survival of a severe stress over a period of three months in a combined stress scenario.

The structure of liquidity reserves is shown in the following table.

Liquid assets

in EUR thousand

	NLB Group		NLB	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Liquid assets				
Cash, cash balances at central banks, and other demand deposits at banks	1,256,481	1,299,014	570,010	617,039
Placements with banks	506,322	433,883	437,427	387,599
Trading book securities	59,164	68,757	59,164	68,757
Banking book securities	2,915,154	2,695,297	2,422,759	2,223,551
ECB eligible loans	717,503	849,080	717,503	849,080
Total liquid assets	**5,454,624**	**5,346,031**	**4,206,863**	**4,146,026**

As at 31.12.2017, 74.6% (31.12.2016: 75.8%) of debt securities in the banking book of NLB Group were government securities (including government guaranteed bonds – GGB), and 18.0% (31.12.2016: 20.8%) were senior unsecured bonds.

The purpose of banking book securities is to provide liquidity, along with stabilisation of the interest margin and interest rate risk management simultaneously. When managing the portfolio, NLB Group uses conservative principles, particularly with respect to the portfolio's structure in terms of issuers' ratings and asset class. The framework for managing the banking book securities are the Policy for managing debt securities in the Financial markets' banking book and the Policy for Managing Domestic (Slovene) Corporate Debt Securities in Large Corporates, which clearly define the objectives and characteristics of the associated portfolio.

The ECB-eligible credit claims comprise loans which fulfil the high eligibility criteria set by the ECB itself and for domestic loans are specified in the general terms about execution of monetary policy framework (Part 4) adopted by the Bank of Slovenia. NLB is the only member of NLB Group that complies with the conditions set by the Eurosystem to classify as an eligible counterparty. This is why these ECB credit claims are included among liquidity reserves.

Members of NLB Group manage their liquid assets on a decentralised basis in compliance with the local liquidity regulation and valid policies of NLB Group.

b) Encumbered assets

in EUR thousand

2017	NLB Group				NLB			
	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities
Loans on demand	-	-	986,785	-	-	-	426,284	-
Equity instruments	-	-	58,085	58,085	-	-	47,482	47,482
Debt securities	63,341	69,441	2,911,079	2,951,137	62,625	68,725	2,419,298	2,459,356
Loans and advances other than loans on demand	58,763	-	7,429,754	-	53,964	-	5,034,224	-
Other assets	-	-	729,938	-	-	-	668,955	-
Total	**122,104**		**12,115,641**		**116,589**		**8,596,243**	

in EUR thousand

2016	NLB Group				NLB			
	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities
Loans on demand	-	-	1,038,402	-	-	-	488,520	-
Equity instruments	-	-	79,580	79,580	-	-	69,318	69,318
Debt securities	94,340	102,049	2,670,448	2,716,271	94,340	102,049	2,197,968	2,243,792
Loans and advances other than loans on demand	44,557	-	7,364,061	-	37,987	-	5,249,814	-
Other assets	-	-	747,623	-	-	-	640,019	-
Total	**138,897**		**11,900,114**		**132,327**		**8,645,639**	

c) Collateral received - unencumbered

The nominal amount of collateral received or own debt securities issued not available for encumbrance is shown in the table below:

in EUR thousand

	NLB Group		NLB	
	2017	2016	2017	2016
Equity instruments	193,439	174,680	180,034	161,636
Loans and advances other than loans on demand	118,179	127,851	29,024	39,846
Other assets	7,415,905	7,380,987	3,763,844	3,755,558
Total	**7,727,523**	**7,683,518**	**3,972,902**	**3,957,040**

d) Source of encumbrance

in EUR thousand

	NLB Group				NLB			
	2017		2016		2017		2016	
	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral
Derivatives	33,529	53,964	35,755	37,987	33,529	53,964	35,755	37,987
Deposits and loans	5,277,263	63,341	5,099,974	94,340	5,276,547	62,625	5,099,974	94,340
Other securities of encumbrance	4,570	4,799	6,570	6,570	-	-	-	-
Total	**5,315,362**	**122,104**	**5,142,299**	**138,897**	**5,310,076**	**116,589**	**5,135,729**	**132,327**

As at 31.12.2017, NLB Group and NLB had a large share of unencumbered assets. On the NLB Group level the amount of encumbered assets equalled EUR 122.1 million, relating to the deposit guarantee scheme and to secure funding received from international financial organisations.

e) Non-derivative cash flows

The tables below illustrate the cash flows from non-derivative financial instruments by residual maturities at the end of the year. The amounts disclosed in the table are the undiscounted contractual cash flows determined on the basis of spot rates at the end of the reporting period.

in EUR thousand

	NLB Group					
31.12.2017	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Financial liabilities and credit-related commitments						
Financial liabilities designated at fair value through profit or loss	-	-	635	-	-	635
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	40,270	-	91	241	-	40,602
- borrowings from banks and central banks	1,713	1,054	24,459	84,451	172,238	283,915
- due to customers	7,731,796	410,400	1,083,863	633,462	60,026	9,919,547
- borrowings from other customers	968	3,207	9,413	42,712	24,499	80,799
- subordinated liabilities	-	470	13,331	7,951	11,511	33,263
- other financial liabilities	96,322	4,367	10,330	-	-	111,019
Credit risk related commitments	559,723	169,374	398,157	224,571	111,659	1,463,484
Non-financial guarantees	33,400	36,611	108,823	174,670	73,525	427,029
Total	**8,464,192**	**625,483**	**1,649,102**	**1,168,058**	**453,458**	**12,360,293**
Total financial assets	**2,369,713**	**623,597**	**2,198,452**	**4,662,531**	**3,158,566**	**13,012,859**

in EUR thousand

31.12.2016	NLB Group Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial liabilities and credit-related commitments						
Financial liabilities designated at fair value through profit or loss	-	-	1,457	554	-	2,011
Financial liabilities measured at amortised cost						-
- deposits from banks and central banks	41,947	167	-	222	-	42,336
- borrowings from banks and central banks	4,984	7,015	172,540	137,280	56,492	378,311
- due to customers	6,912,469	461,621	1,349,330	704,753	59,223	9,487,396
- borrowings from other customers	1,343	3,276	10,960	45,228	30,170	90,977
- debt securities in issue	-	-	282,348	-	-	282,348
- subordinated liabilities	-	532	2,193	23,569	12,013	38,307
- other financial liabilities	98,829	3,522	7,668	276	-	110,295
Credit risk related commitments	511,700	185,749	402,635	242,572	91,378	1,434,034
Non-financial guarantees	17,217	38,617	103,531	191,815	65,970	417,150
Total	**7,588,489**	**700,499**	**2,332,662**	**1,346,269**	**315,246**	**12,283,165**
Total financial assets	**2,422,252**	**744,482**	**2,308,621**	**4,488,567**	**2,782,468**	**12,746,390**

in EUR thousand

31.12.2017	NLB Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial liabilities and credit-related commitments						
Financial liabilities designated at fair value through profit or loss	-	-	635	-	-	635
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	72,072	-	-	-	-	72,072
- borrowings from banks and central banks	85	700	18,127	73,935	171,768	264,615
- due to customers	5,798,144	256,865	570,680	137,951	53,610	6,817,250
- borrowings from other customers	-	-	2	5,716	8	5,726
- other financial liabilities	67,530	3,703	301	-	-	71,534
Credit risk related commitments	470,604	151,287	266,874	140,326	48,615	1,077,706
Non-financial guarantees	27,411	29,058	83,344	155,612	44,244	339,669
Total	**6,435,846**	**441,613**	**939,963**	**513,540**	**318,245**	**8,649,207**
Total financial assets	**1,147,586**	**385,419**	**1,445,862**	**3,269,949**	**2,656,192**	**8,905,008**

in EUR thousand

31.12.2016	NLB Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial liabilities and credit-related commitments						
Financial liabilities designated at fair value through profit or loss	-	-	1,457	554	-	2,011
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	74,977	-	-	-	-	74,977
- borrowings from banks and central banks	3,173	5,211	161,423	118,333	55,868	344,008
- due to customers	5,205,105	314,863	780,567	270,662	55,392	6,626,589
- borrowings from other customers	-	-	-	4,265	9	4,274
- debt securities in issue	-	-	282,348	-	-	282,348
- other financial liabilities	65,854	2,930	-	-	-	68,784
Credit risk related commitments	437,335	165,656	274,160	166,079	31,489	1,074,719
Non-financial guarantees	14,225	32,702	83,194	171,579	43,740	345,440
Total	**5,800,669**	**521,362**	**1,583,149**	**731,472**	**186,498**	**8,823,150**
Total financial assets	**1,250,372**	**534,380**	**1,614,007**	**3,317,296**	**2,248,475**	**8,964,530**

When determining the gap between the financial liabilities and financial assets in the maturity bucket of up to one month, it is necessary to be aware of the fact that financial liabilities include total demand deposits, and that NLB may apply a stability weight of 60% to demand deposits when ensuring compliance with the central bank's regulations concerning calculation of the liquidity position. To ensure NLB Group's and NLB's liquidity, and based on its approach to risk, in previous years NLB Group compiled a substantial amount of high-quality liquid investments, mostly government securities and selected loans, which are accepted as adequate financial assets by the ECB.

Liabilities and credit-related commitments are included in maturity buckets based on their residual contractual maturity.

f) An analysis of the statement of financial position by residual maturity

in EUR thousand

	NLB Group					
31.12.2017	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Cash, cash balances at central banks, and other demand deposits at banks	1,256,481	-	-	-	-	1,256,481
Trading assets	13,025	55,060	5	2,438	1,661	72,189
Financial assets designated at fair value through profit or loss	-	102	-	-	4,901	5,003
Available-for-sale financial assets	209,496	122,418	471,898	804,389	668,292	2,276,493
Derivatives - hedge accounting	1,188	-	-	-	-	1,188
Loans and advances						
- debt securities	-	-	1,896	-	80,237	82,133
- loans and advances to banks	176,371	28,837	304,431	468	-	510,107
- loans and advances to customers	600,801	338,179	1,226,362	2,967,158	1,779,833	6,912,333
- other financial assets	64,608	91	1,160	218	-	66,077
Held-to-maturity financial assets	4,512	40,233	18,024	282,908	264,035	609,712
Fair value changes of hedged in portfolio hedge of interest rate risk	98	-	-	352	269	719
Non-current assets and disposal group classified as held for sale	-	-	11,631	-	-	11,631
Property and equipment	-	-	-	17,708	170,647	188,355
Investment property	-	-	-	45,300	6,538	51,838
Intangible assets	-	-	-	14,036	20,938	34,974
Investments in associates, and joint ventures	-	-	-	-	43,765	43,765
Current income tax assets	-	-	2,795	-	-	2,795
Deferred income tax assets	-	-	-	18,389	214	18,603
Other assets	5,862	1,128	32,988	53,221	150	93,349
Total assets	**2,332,442**	**586,048**	**2,071,190**	**4,206,585**	**3,041,480**	**12,237,745**
Trading liabilities	9,502	-	-	-	-	9,502
Financial liabilities designated at fair value through profit or loss	-	-	635	-	-	635
Derivatives - hedge accounting	25,529	-	-	-	-	25,529
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	40,270	-	91	241	-	40,602
- borrowings from banks and central banks	1,655	1,012	23,474	82,015	171,460	279,616
- due to customers	7,729,809	406,897	1,069,764	613,155	58,753	9,878,378
- borrowings from other customers	863	2,917	8,395	39,665	22,446	74,286
- subordinated liabilities	-	167	12,213	5,000	9,970	27,350
- other financial liabilities	96,322	4,367	10,330	-	-	111,019
Liabilities of disposal group classified as held for sale	-	-	440	-	-	440
Provisions	1,104	561	36,437	49,994	543	88,639
Current income tax liabilities	1,062	564	1,268	-	-	2,894
Deferred income tax liabilities	670	-	111	198	117	1,096
Other liabilities	5,728	173	2,817	878	-	9,596
Total liabilities	**7,912,514**	**416,658**	**1,165,975**	**791,146**	**263,289**	**10,549,582**
Credit risk related commitments	559,723	169,374	398,157	224,571	111,659	1,463,484
Non-financial guarantees	33,400	36,611	108,823	174,670	73,525	427,029
Total liabilities and credit-related commitments	**8,505,637**	**622,643**	**1,672,955**	**1,190,387**	**448,473**	**12,440,095**

in EUR thousand

	NLB Group					
31.12.2016	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Cash, cash balances at central banks, and other demand deposits at banks	1,299,014	-	-	-	-	1,299,014
Trading assets	19,226	49,085	9,168	10,220	-	87,699
Financial assets designated at fair value through profit or loss	3,949	-	-	734	2,011	6,694
Available-for-sale financial assets	200,080	243,215	454,698	735,882	438,278	2,072,153
Derivatives - hedge accounting	217	-	-	-	-	217
Loans and advances						
- debt securities	-	-	1,891	-	83,424	85,315
- loans and advances to banks	115,030	42,157	276,758	1,592	-	435,537
- loans and advances to customers	682,223	301,455	1,372,325	2,858,422	1,697,642	6,912,067
- other financial assets	58,801	281	1,460	472	-	61,014
Held-to-maturity financial assets	4,471	63,056	17,200	297,206	229,516	611,449
Fair value changes of hedged in portfolio hedge of interest rate risk	164	-	-	180	334	678
Non-current assets and disposal group classified as held for sale	-	-	4,263	-	-	4,263
Property and equipment	-	-	-	23,368	173,481	196,849
Investment property	-	-	-	43,999	39,664	83,663
Intangible assets	-	-	-	10,818	23,152	33,970
Investments in associates, and joint ventures	-	-	240	-	43,008	43,248
Current income tax assets	490	244	2,124	30	-	2,888
Deferred income tax assets	-	-	-	7,553	182	7,735
Other assets	40,419	655	23,257	27,314	2,913	94,558
Total assets	**2,424,084**	**700,148**	**2,163,384**	**4,017,790**	**2,733,605**	**12,039,011**
Trading liabilities	18,791	-	-	-	-	18,791
Financial liabilities designated at fair value through profit or loss			1,457	554		2,011
Derivatives - hedge accounting	29,024	-	-	-	-	29,024
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	41,947	165	-	222	-	42,334
- borrowings from banks and central banks	4,855	6,920	171,008	133,715	55,271	371,769
- due to customers	6,909,677	456,725	1,331,996	681,072	57,677	9,437,147
- borrowings from other customers	1,298	2,987	9,868	41,616	27,850	83,619
- debt securities in issue	-	-	277,726	-	-	277,726
- subordinated liabilities	-	166	177	16,938	9,864	27,145
- other financial liabilities	98,829	3,522	7,668	276	-	110,295
Provisions	912	827	35,886	62,474	815	100,914
Current income tax liabilities	1,522	284	1,340	-	-	3,146
Deferred income tax liabilities	-	-	-	614	113	727
Other liabilities	6,975	152	1,093	483	-	8,703
Total liabilities	**7,113,830**	**471,748**	**1,838,219**	**937,964**	**151,590**	**10,513,351**
Credit risk related commitments	511,700	185,749	402,635	242,572	91,379	1,434,035
Non-financial guarantees	17,217	38,617	103,531	191,815	65,969	417,149
Total liabilities and credit-related commitments	**7,642,747**	**696,114**	**2,344,385**	**1,372,351**	**308,938**	**12,364,535**

in EUR thousand

	NLB					
31.12.2017	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Cash, cash balances at central banks, and other demand deposits at banks	570,010	-	-	-	-	570,010
Trading assets	13,016	55,060	5	2,438	1,661	72,180
Financial assets designated at fair value through profit or loss	-	-	-	-	634	634
Available-for-sale financial assets	18,190	50,856	384,130	663,277	661,309	1,777,762
Derivatives - hedge accounting	1,188	-	-	-	-	1,188
Loans and advances						
- debt securities	-	-	1,896	-	80,237	82,133
- loans and advances to banks	105,585	23,902	314,626	7,257	10,952	462,322
- loans and advances to customers	404,586	199,815	638,382	1,947,576	1,397,118	4,587,477
- other financial assets	37,639	91	509	150	-	38,389
Held-to-maturity financial assets	4,512	40,233	18,024	282,908	264,035	609,712
Fair value changes of hedged in portfolio hedge of interest rate risk	98	-	-	352	269	719
Non-current assets and disposal group classified as held for sale	-	-	2,564	-	-	2,564
Property and equipment	-	-	-	12,453	74,598	87,051
Investment property	-	-	-	9,257	-	9,257
Intangible assets	-	-	-	13,225	10,686	23,911
Investments in subsidiaries, associates and joint ventures	-	-	-	31,532	325,345	356,877
Current income tax assets	-	-	2,196	-	-	2,196
Deferred income tax assets	-	-	-	19,758	-	19,758
Other assets	3,547	-	5,145	-	-	8,692
Total assets	**1,158,371**	**369,957**	**1,367,477**	**2,990,183**	**2,826,844**	**8,712,832**
Trading liabilities	9,398	-	-	-	-	9,398
Financial liabilities designated at fair value through profit or loss	-	-	635	-	-	635
Derivatives - hedge accounting	25,529	-	-	-	-	25,529
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	72,072	-	-	-	-	72,072
- borrowings from banks and central banks	85	666	17,312	71,687	170,997	260,747
- due to customers	5,797,927	256,230	568,109	136,144	52,557	6,810,967
- borrowings from other customers	-	-	2	5,716	8	5,726
- other financial liabilities	67,530	3,703	301	-	-	71,534
Provisions	358	437	25,024	44,998	-	70,817
Other liabilities	3,072	10	221	878	-	4,181
Total liabilities	**5,975,971**	**261,046**	**611,604**	**259,423**	**223,562**	**7,331,606**
Credit risk related commitments	470,604	151,287	266,874	140,326	48,615	1,077,706
Non-financial guarantees	27,411	29,058	83,344	155,612	44,244	339,669
Total liabilities and credit-related commitments	**6,473,986**	**441,391**	**961,822**	**555,361**	**316,421**	**8,748,981**

in EUR thousand

	NLB					
31.12.2016	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	617,039	-	-	-	-	617,039
Trading assets	19,220	49,085	9,168	10,220	-	87,693
Financial assets designated at fair value through profit or loss	-	-	-	-	2,011	2,011
Available-for-sale financial assets	27,709	195,730	371,601	569,219	429,835	1,594,094
Derivatives - hedge accounting	217	-	-	-	-	217
Loans and advances						
- debt securities	-	-	1,891	-	83,424	85,315
- loans and advances to banks	76,786	28,708	289,795	1,816	10,951	408,056
- loans and advances to customers	481,337	177,014	832,452	2,080,704	1,272,087	4,843,594
- other financial assets	35,400	29	492	230	-	36,151
Held-to-maturity financial assets	4,471	63,056	17,200	297,206	229,516	611,449
Fair value changes of hedged in portfolio hedge of interest rate risk	164	-	-	180	334	678
Non-current assets and disposal group classified as held for sale	-	-	1,788	-	-	1,788
Property and equipment	-	-	-	16,588	73,908	90,496
Investment property	-	-	-	8,151	-	8,151
Intangible assets	-	-	-	9,883	13,462	23,345
Investments in subsidiaries, associates and joint ventures	-	-	79	38,361	308,284	346,724
Current income tax assets	-	-	2,124	-	-	2,124
Deferred income tax assets	-	-	-	10,622	-	10,622
Other assets	3,423	-	4,996	-	-	8,419
Total assets	**1,265,766**	**513,622**	**1,531,586**	**3,043,180**	**2,423,812**	**8,777,966**
Trading liabilities	18,787	-	-	-	-	18,787
Financial liabilities designated at fair value through profit or loss	-	-	1,457	554	-	2,011
Derivatives - hedge accounting	29,024	-	-	-	-	29,024
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	74,977	-	-	-	-	74,977
- borrowings from banks and central banks	3,167	5,140	160,295	115,212	54,653	338,467
- due to customers	5,204,618	313,155	776,673	266,779	54,165	6,615,390
- borrowings from other customers	-	-	-	4,265	9	4,274
- debt securities in issue	-	-	277,726	-	-	277,726
- other financial liabilities	65,854	2,930	-	-	-	68,784
Provisions	166	475	25,730	53,175	-	79,546
Other liabilities	3,626	7	70	483	-	4,186
Total liabilities	**5,400,219**	**321,707**	**1,241,951**	**440,468**	**108,827**	**7,513,172**
Credit risk related commitments	437,335	165,656	274,160	166,079	31,489	1,074,719
Non-financial guarantees	14,225	32,702	83,194	171,579	43,740	345,440
Total liabilities and credit-related commitments	**5,851,779**	**520,065**	**1,599,305**	**778,126**	**184,056**	**8,933,331**

g) Derivative cash flows

The table below illustrates cash flows from derivatives, broken down into the relevant maturity buckets based on residual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows prepared on the basis of spot rates on the reporting date.

in EUR thousand

	NLB Group					
31.12.2017	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Foreign exchange derivatives						
- Forwards						
- Outflow	(7,112)	(14,222)	(76,426)	-	-	(97,760)
- Inflow	7,120	14,240	76,483	-	-	97,843
- Swaps						
- Outflow	(83,863)	(57,151)	-	-	-	(141,014)
- Inflow	83,904	57,233	-	-	-	141,137
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,156)	(2,160)	(8,995)	(44,240)	(36,237)	(92,788)
- Inflow	330	1,006	4,341	26,782	39,799	72,258
- Caps and floors						
- Outflow	-	-	-	(277)	-	(277)
- Inflow	-	-	-	277	-	277
Total outflow	**(92,131)**	**(73,533)**	**(85,421)**	**(44,517)**	**(36,237)**	**(331,839)**
Total inflow	**91,354**	**72,479**	**80,824**	**27,059**	**39,799**	**311,515**

in EUR thousand

	NLB Group					
31.12.2016	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Foreign exchange derivatives						
- Forwards						
- Outflow	(118,175)	(11,542)	(70,553)	-	-	(200,270)
- Inflow	118,256	11,541	70,625	-	-	200,422
- Swaps						
- Outflow	(52,543)	(3,205)	(1,329)	-	-	(57,077)
- Inflow	52,656	3,202	1,330	-	-	57,188
- Futures						
- Outflow	(2,386)	-	-	-	-	(2,386)
- Inflow	2,400	-	-	-	-	2,400
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(809)	(1,411)	(9,409)	(29,866)	(18,562)	(60,057)
- Inflow	348	957	6,205	13,729	10,018	31,257
Total outflow	**(173,913)**	**(16,158)**	**(81,291)**	**(29,866)**	**(18,562)**	**(319,790)**
Total inflow	**173,660**	**15,700**	**78,160**	**13,729**	**10,018**	**291,267**

in EUR thousand

	NLB					
31.12.2017	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Foreign exchange derivatives						
- Forwards						
- Outflow	(6,718)	(14,115)	(76,345)	-	-	(97,178)
- Inflow	6,727	14,131	76,399	-	-	97,257
- Swaps						
- Outflow	(83,863)	(57,151)	-	-	-	(141,014)
- Inflow	83,904	57,233	-	-	-	141,137
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,156)	(2,160)	(8,995)	(44,240)	(36,237)	(92,788)
- Inflow	330	1,006	4,341	26,782	39,799	72,258
- Caps and floors						
- Outflow	-	-	-	(277)	-	(277)
- Inflow	-	-	-	277	-	277
Total outflow	**(91,737)**	**(73,426)**	**(85,340)**	**(44,517)**	**(36,237)**	**(331,257)**
Total inflow	**90,961**	**72,370**	**80,740**	**27,059**	**39,799**	**310,929**

in EUR thousand

	NLB					
31.12.2016	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Foreign exchange derivatives						
- Forwards						
- Outflow	(116,500)	(11,542)	(70,553)	-	-	(198,595)
- Inflow	116,581	11,541	70,625	-	-	198,747
- Swaps						
- Outflow	(52,543)	(3,205)	(1,329)	-	-	(57,077)
- Inflow	52,656	3,202	1,330	-	-	57,188
- Futures						
- Outflow	(2,386)	-	-	-	-	(2,386)
- Inflow	2,400	-	-	-	-	2,400
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(809)	(1,411)	(9,409)	(29,866)	(18,562)	(60,057)
- Inflow	349	957	6,205	13,729	10,018	31,258
Total outflow	**(172,238)**	**(16,158)**	**(81,291)**	**(29,866)**	**(18,562)**	**(318,115)**
Total inflow	**171,986**	**15,700**	**78,160**	**13,729**	**10,018**	**289,593**

6.4. Management of non-financial risks

a) Operational risk

When assuming operational risks, NLB Group follows the guideline that such risks may not materially impact its operations and, therefore, the risk appetite for operational risks is low to moderate. Currently, the complexity of NLB Group operations is on a moderate level, although it constantly reduces risk through the divestment of non-core activities. The Group has set up a system of collecting loss events, identification, assessment, and management of operational risks, all with the aim of ensuring quality management of operational risks.

All core members of NLB Group monitor the upper limit of tolerance to operational risk, defined as the limit amount of net loss that an individual member still allows in its operations. If the sum of net loss exceeds the tolerance limit, a special treatment of major loss events is required and, if necessary, takes additional measures for the prevention of the same or similar loss events. The critical limit of loss events is also defined, representing the limit above which the member considers a possible increase in the capital requirement for operational risk within ICAAP and other possible risk management measures. The key risk indicators are regularly monitored (at least quarterly) within NLB Group's Risk Profile. In addition, the Bank has developed a special methodology for monitoring key risk indicators which could indicate increasing of operational risk. The indicators are defined at the level of the Bank.

As the highest authority in the area of operational risk management, NLB appointed an Operational Risk Committee. Relevant operational risk committees were also appointed at other NLB Group banks. The management board serves in this role at other subsidiaries. The main task of the aforementioned bodies is to discuss the most significant operational risks and loss events, and to monitor and support the effective management of operational risks within an individual entity. All NLB Group entities included in the consolidation have adopted relevant documents that are in line with NLB standards. In core members, these documents are in line with the development of operational risk management and regularly updated. The whole NLB Group uses uniform software support, which is also regularly upgraded.

In NLB Group, the reported incurred net loss arising from loss events in 2017 was lower than in the previous year, and represents a relatively small part of the capital requirement for operational risk. In general, considerable attention is paid to reporting loss events and defining operational risks in all segments. To treat major loss events appropriately and as soon as possible, the Bank has introduced an escalation scale for reporting loss events to the top levels of decision-making at NLB and the Supervisory Board of NLB. Additional attention is paid to the reporting of potential loss events in order to improve the internal controls, and thus minimise those and similar events.

Through comprehensive identification of operational risks, possible future losses are identified, estimated, and appropriately managed. The major operational risks are actively managed with the measures taken to reduce them. An operational risk profile is prepared once a year on the basis of the operational risk identification. Special emphasis is put on the most topical risks, among which in particular are those with a low probability of occurrence and very high potential financial influence. For this purpose the Bank has developed the methodology of stress testing for operational risk. The methodology is a combination of modelling loss event data and scenario analysis for exceptional, but plausible events. Scenario analysis are made based on experience and knowledge of experts from various critical areas.

The capital requirement for operational risk is calculated using the basic indicator approach at NLB Group level and using the standardised approach at the NLB level.

b) Business Continuity Management (BCM)

In NLB Group, business continuity management is carried out to protect lives, goods, and reputation. Business continuity plans are prepared to be used in the event of natural disasters, IT disasters, and undesired effects of the environment to mitigate their consequences.

The concept of the action plan that is prepared each year is such that the activities contribute to the upgrading or improvement of the system of business continuity management. The basis for modernising the business continuity plans is the regular annual analysis of the impact on operations (BIA). On its basis, the adequacy of the plans for office buildings and IT plans is checked. The best indicator of the adequacy of the business continuity plans is testing. In 2017, 38 tests were carried out at NLB (32 internal ones and six with external business partners). No major deviations were discovered.

In NLB Group, know-how and methodologies are transferred to the members (except small members). The members have adopted appropriate documents which are in line with the standards of NLB and revised in accordance with the development of business continuity management. The activity of the members is monitored throughout the year, and expert assistance is provided if necessary. For more efficient functioning of the business continuity management system in NLB Group, training courses and visits to individual banking members are also provided. In 2017, NLB thus carried out a training course for members of the Crisis Management Team, the Crisis Teams of office buildings and Head Business Continuity Coordinator of NLB Belgrade. Upon IT disasters/failures and "not IT" disasters (floods, very strong wind) the Bank successfully used the IT plans, instructions for manual procedures, and Office Building Plans, and thus also ensured business operations in emergency situations.

c) Management of other types of non-financial risks – capital risk, strategic risks, reputation risk, and profitability risk

Risks not included in the calculation of capital requirements by the regulatory approach but which are also important for NLB Group are adequately discussed in the context of the internal capital adequacy assessment process (ICAAP). NLB has established the relevant methodologies for identifying and assessing specific types of risk (capital, strategic, reputation, and profitability risk); the methodologies are subject to regular review. The calculation of internal capital requirements for non-financial risks is made quarterly at the NLB Group level. If a certain risk is assessed as a key risk, capital requirements are created. Individual capital requirements for non-financial risks are calculated by certain NLB Group banks in accordance with their national regulations. Significant and material changes in the calculation of capital requirements for individual NLB Group entities could discretionarily result in an increase in relevant capital requirements at NLB Group level.

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

Fair value is the price that would be received when selling 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. 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 in 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 prices quoted for similar assets or liabilities in active markets and prices quoted for identical or similar assets, and liabilities in 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.

Wherever possible, fair value is determined as an observable market price in an active market for an identical asset or liability. An active market is a market in 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 in active markets are determined as the market price of a unit (e.g. 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. These 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 the 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 at Level 1, fair value is determined based on valuation reports provided by certified valuators. Valuations are prepared in accordance with the International Valuation Standards (IVS).

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

in EUR thousand

	NLB Group				NLB			
31.12.2017	**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	59,164	12,454	571	72,189	59,164	12,445	571	72,180
Debt instruments	59,164	-	-	59,164	59,164	-	-	59,164
Derivatives	-	12,454	571	13,025	-	12,445	571	13,016
Derivatives - hedge accounting	-	1,188	-	1,188	-	1,188	-	1,188
Financial assets designated at fair value through profit or loss	5,003	-	-	5,003	634	-	-	634
Debt instruments	102	-	-	102	-	-	-	-
Equity instruments	4,901	-	-	4,901	634	-	-	634
Financial assets available-for-sale	1,915,634	355,428	5,431	2,276,493	1,586,927	188,982	1,853	1,777,762
Debt instruments	1,914,963	308,346	-	2,223,309	1,586,447	144,467	-	1,730,914
Equity instruments	671	47,082	5,431	53,184	480	44,515	1,853	46,848
Financial liabilities								
Financial instruments held for trading	-	9,502	-	9,502	-	9,398	-	9,398
Derivatives	-	9,502	-	9,502	-	9,398	-	9,398
Derivatives - hedge accounting	-	25,529	-	25,529	-	25,529	-	25,529
Financial liabilities designated at fair value through profit or loss	-	635	-	635	-	635	-	635
Non-financial assets								
Investment properties	-	51,838	-	51,838	-	9,257	-	9,257
Non-current assets and disposal group classified as held for sale	-	11,631	-	11,631	-	2,564	-	2,564
Non-financial assets impaired during the year								
Recoverable amount of property, plant, and equipment	-	6,867	-	6,867	-	436	-	436
Recoverable amount of intangible asset				-				-
Recoverable amount of investments in subsidiaries, associates, and joint ventures	-	-	-	-	-	332	413	745

in EUR thousand

	NLB Group				NLB			
31.12.2016	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets								
Financial instruments held for trading	49,747	37,547	405	87,699	49,747	37,541	405	87,693
Debt instruments	49,747	19,010	-	68,757	49,747	19,010	-	68,757
Derivatives	-	18,537	405	18,942	-	18,531	405	18,936
Derivatives - hedge accounting	-	217	-	217	-	217	-	217
Financial assets designated at fair value through profit or loss	6,694	-	-	6,694	2,011	-	-	2,011
Debt instruments	734	-	-	734	-	-	-	-
Equity instruments	5,960	-	-	5,960	2,011	-	-	2,011
Financial assets available-for-sale	1,648,721	417,527	5,903	2,072,151	1,330,150	262,134	1,810	1,594,094
Debt instruments	1,627,608	370,924	-	1,998,532	1,309,223	217,564	-	1,526,787
Equity instruments	21,113	46,603	5,903	73,619	20,927	44,570	1,810	67,307
Financial liabilities								
Financial instruments held for trading	-	18,791	-	18,791	-	18,787	-	18,787
Derivatives	-	18,791	-	18,791	-	18,787	-	18,787
Derivatives - hedge accounting	-	29,024	-	29,024	-	29,024	-	29,024
Financial liabilities designated at fair value through profit or loss	-	2,011	-	2,011	-	2,011	-	2,011
Non-financial assets								
Investment properties	-	83,662	-	83,662	-	8,151	-	8,151
Non-current assets and disposal group classified as held for sale	-	4,263	-	4,263	-	1,788	-	1,788
Non-financial assets impaired during the year								
Recoverable amount of property, plant, and equipment	-	4,762	-	4,762	-	967	-	967
Recoverable amount of investments in subsidiaries, associates, and joint ventures	-	-	-	-	-	16,663	20,198	36,861

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.

					Derivatives		
Fair value hierarchy	**Equities**	**Equity stake**	**Funds**	**Fixed income**	**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 in level 1)	valuation model	valuation model
3	valuation model	valuation model	valuation model	valuation model	valuation model (underlying in level 3)		
Transfers	*from level 1 to level 3*		*from level 1 to level 3*	*from level 1 to level 2*	*from level 2 to level 3*		
	equity excluded from exchange market		fund management stops publishing regular valuation	fixed income excluded from exchange market	underlying excluded from exchange market		
	from level 1 to level 3		*from level 3 to level 1*	*from level 1 to level 2*	*from level 3 to level 2*		
	companies in insolvency proceedings		fund management starts publishing regular valuation	fixed income not liquid (no trading for 6 months)	underlying included into exchange market		
	from level 3 to level 1			from level 1 to level 3 and from level 2 to level 3			
	equity included to exchange market			companies in insolvency proceedings			
				from level 2 to level 1 and from level 3 to level 1			
				start trading with fixed income on exchange market			
				from level 3 to level 2			
				until valuation parameters are confirmed on ALCO (at least on quarterly basis)			

For 2017 and 2016, neither NLB Group nor NLB had any significant transfers of financial instruments between levels of valuation.

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

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

- debt securities: bonds not quoted on active markets and valuated by a valuation model;
- 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 the 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. The disposal group classified as held for sale represents a subsidiary NLB Nov Penziski Fond, Skopje (note 5.8).

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

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

- debt securities: structured debt securities from inactive emerging markets;
- equities: mainly Slovenian 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 mentioned in second bullet: 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 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% 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 input data that other market participants would use.

Movements of financial assets and liabilities at Level 3

in EUR thousand

	Financial instruments held for trading		Financial assets available-for-sale	Total financial assets
NLB Group	**Debt instruments**	**Derivatives**	**Equity instruments**	
Balance as at 1.1.2016	**993**	**114**	**9,960**	**11,067**
Exchange differences	(37)	-	29	(8)
Valuation:				
- through profit or loss	-	291	(178)	113
- recognised in other comprehensive income	-	-	1,431	1,431
Increases	-	-	1,066	1,066
Decreases	(956)	-	(6,405)	(7,361)
Balance as at 31.12.2016	**-**	**405**	**5,903**	**6,308**
Exchange differences	-	-	(271)	(271)
Valuation:				
- through profit or loss	-	166	(26)	140
- recognised in other comprehensive income	-	-	235	235
Decreases		-	(410)	(410)
Balance as at 31.12.2017	**-**	**571**	**5,431**	**6,002**

in EUR thousand

	Financial instruments held for trading		Financial assets available-for-sale	Total financial assets
NLB	**Debt instruments**	**Derivatives**	**Equity instruments**	
Balance as at 1.1.2016	**993**	**114**	**6,874**	**7,981**
Exchange differences	(37)	-	-	(37)
Valuation:				
- through profit or loss	-	291	(178)	113
- recognised in other comprehensive income	-	-	453	453
Increases	-	-	1,066	1,066
Decreases	(956)	-	(6,405)	(7,361)
Balance as at 31.12.2016	**-**	**405**	**1,810**	**2,215**
Valuation:				
- through profit or loss	-	166	(26)	140
- recognised in other comprehensive income	-	-	241	241
Decreases		-	(172)	(172)
Balance as at 31.12.2017	**-**	**571**	**1,853**	**2,424**

NLB Group and NLB recognise the effects from the valuation of trading instruments in the income statement item ‘Gains Less Losses from Financial Assets and Liabilities not classified at Fair Value through Profit or Loss’ and exchange differences recognised in the income statement item ‘Foreign Exchange Translation Gains Less Losses.’

Effects from the valuation of available-for-sale financial assets are recognised in the income statement item ‘Impairment Charge’ and in the accumulated other comprehensive income item ‘Available-for-Sale Financial Assets.’

In 2017, NLB Group and NLB recognised the following unrealised gains or losses for financial instruments that were at Level 3 as at 31.12.2017:

in EUR thousand

	NLB Group		NLB	
31.12.2017	**Trading assets**	**Available-for-sale financial assets**	**Trading assets**	**Available-for-sale financial assets**
Items of Income statement				
Gains/(losses) from financial assets and liabilities held for trading	166	-	166	-
Item of Other comprehensive income				
Available-for-sale financial assets	-	337	-	334

in EUR thousand

	NLB Group		NLB	
31.12.2016	**Trading assets**	**Available-for-sale financial assets**	**Trading assets**	**Available-for-sale financial assets**
Items of Income statement				
Gains/(losses) from financial assets and liabilities held for trading	291	-	291	-
Impairment charge	-	178	-	178
Item of Other comprehensive income				
Available-for-sale financial assets	-	1,364	-	386

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

in EUR thousand

	NLB Group				NLB			
	31.12.2017		**31.12.2016**		**31.12.2017**		**31.12.2016**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Loans and advances								
- debt securities	82,133	79,974	85,315	78,953	82,133	79,974	85,315	78,953
- loans and advances to banks	510,107	523,943	435,537	434,958	462,322	468,599	408,056	415,771
- loans and advances to customers	6,912,333	6,494,021	6,912,067	6,962,419	4,587,477	4,584,217	4,843,594	4,884,828
- other financial assets	66,077	66,077	61,014	61,014	38,389	38,389	36,151	36,151
Held-to-maturity investments	609,712	658,029	611,449	671,344	609,712	658,029	611,449	671,344
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	40,602	40,608	42,334	42,314	72,072	72,072	74,977	74,977
- borrowings from banks and central banks	279,616	287,165	371,769	377,037	260,747	267,866	338,467	348,331
- due to customers	9,878,378	9,892,052	9,437,147	9,461,925	6,810,967	6,817,618	6,615,390	6,626,851
- borrowings from other customers	74,286	74,677	83,619	83,851	5,726	5,728	4,274	4,258
- debt securities in issue	-	-	277,726	280,278	-	-	277,726	280,278
- subordinated liabilities	27,350	26,923	27,145	28,777	-	-	-	-
- other financial liabilities	111,019	111,019	110,295	110,295	71,534	71,534	68,784	68,784

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

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

Deposits and borrowings
The fair value of sight deposits and overnight deposits equals their carrying value. However, their actual value for 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 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.

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

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

in EUR thousand

	NLB Group				NLB			
31.12.2017	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Loans and advances								
- debt securities	-	79,974	-	79,974	-	79,974	-	79,974
- loans and advances to banks	-	523,943	-	523,943	-	468,599	-	468,599
- loans and advances to customers	-	6,494,021	-	6,494,021	-	4,584,217	-	4,584,217
- other financial assets	-	66,077	-	66,077	-	38,389	-	38,389
Held-to-maturity investments	658,029	-	-	658,029	658,029	-	-	658,029
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	40,608	-	40,608	-	72,072	-	72,072
- borrowings from banks and central banks	-	287,165	-	287,165	-	267,866	-	267,866
- due to customers	-	9,892,052	-	9,892,052	-	6,817,618	-	6,817,618
- borrowings from other customers	-	74,677	-	74,677	-	5,728	-	5,728
- subordinated liabilities	-	26,923	-	26,923	-	-	-	-
- other financial liabilities	-	111,019	-	111,019	-	71,534	-	71,534

in EUR thousand

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

6.6. Offsetting financial assets and financial liabilities

NLB Group has entered into foreign exchange netting arrangements with certain banks and companies. Cash flows from all FX derivatives with counterparties that are due on the same day are settled on a net basis, i.e. a single cash flow for each currency. Assets and liabilities related to these FX netting arrangements are not presented in a net amount in the statement of financial position because netting rules apply to cash flows and not to an instrument as a whole.

In accordance with the European Market Infrastructure Regulation (EMIR), NLB Group also novated certain standardised derivative financial instruments to a central counterparty in 2013. A system of daily margins assures the mitigation and collateralisation of exposures, as well as the daily settlement of cash flows for each currency.

in EUR thousand

31.12.2017	NLB Group and NLB			
	Amounts not set-off on the statement of financial position			
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	13,633	4,301	875	8,457
Derivatives - liabilities	34,253	4,301	29,267	685

in EUR thousand

31.12.2016	NLB Group and NLB			
	Amounts not set-off on the statement of financial position			
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	18,746	5,335	300	13,111
Derivatives - liabilities	39,663	5,335	31,180	3,148

NLB Group and NLB have no financial assets/liabilities set off in the statement of financial position.

7. Analysis by segment for NLB Group

a) Segments

in EUR thousand

	NLB Group							
2017	**Corporate banking in Slovenia**	**Retail banking in Slovenia**	**Financial markets in Slovenia**	**Foreign strategic markets**	**Non-core markets and activities**	**Other activities**	**Unallocated**	**Total**
Total net income	73,919	140,719	39,645	191,655	40,904	4,307	-	491,149
Net income from external customers	78,301	141,059	30,880	193,264	40,717	4,416	-	488,638
Intersegment net income	(4,383)	(340)	8,764	(1,609)	187	(109)	-	2,511
Net interest income	42,888	72,768	32,490	144,585	16,785	(201)	-	309,316
Net interest income from external customers	47,271	73,440	23,694	146,596	18,419	(103)	-	309,316
Intersegment net interest income	(4,383)	(672)	8,796	(2,011)	(1,633)	(98)	-	-
Administrative expenses	(39,287)	(90,455)	(11,414)	(87,881)	(20,447)	(9,933)	-	(259,418)
Depreciation and amortisation	(4,295)	(10,310)	(999)	(9,322)	(1,280)	(1,595)	-	(27,802)
Reportable segment profit/(loss) before impairment and provision charge	30,337	39,954	27,232	94,452	19,177	(7,221)	-	203,929
Other net gains/(losses) from equity investments in subsidiaries, associates, and joint ventures	-	4,621	159	-	(928)	-		3,852
Impairment and provisions charge	22,475	(2,923)	(55)	7,552	12,930	(10,449)	-	29,530
Profit/(loss) before income tax	52,811	41,652	27,336	102,004	31,179	(17,670)	-	237,311
Owners of the parent	52,811	41,652	27,336	93,759	31,179	(17,670)	-	229,066
Non-controlling interests	-	-	-	8,245	-	-	-	8,245
Income tax	-	-	-	-	-	-	(3,997)	(3,997)
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**225,069**
Reportable segment assets	2,055,734	2,204,045	3,508,467	3,851,214	391,308	183,212	-	12,193,980
Investments in associates, and joint ventures	-	43,765	-	-	-	-	-	43,765
Reportable segment liabilities	1,122,742	5,542,818	501,609	3,264,781	19,287	98,346	-	10,549,582
Additions to non-current assets	5,357	12,768	778	8,722	1,357	1,627	-	30,609

in EUR thousand

2016	NLB Group							
	Corporate banking in Slovenia	Retail banking in Slovenia	Financial markets in Slovenia	Foreign strategic markets	Non-core markets and activities	Other activities	Unallocated	Total
Total net income	75,043	133,584	47,703	179,370	26,243	17,831	-	479,775
Net income from external customers	83,335	126,269	43,186	179,370	29,433	18,181	-	479,773
Intersegment net income	(8,292)	7,315	4,518	-	(3,190)	(351)	-	-
Net interest income	45,891	71,222	48,536	136,909	15,404	(656)	-	317,305
Net interest income from external customers	54,183	63,907	44,018	136,909	18,594	(306)	-	317,305
Intersegment net interest income	(8,292)	7,315	4,518	-	(3,190)	(351)	-	-
Administrative expenses	(40,159)	(90,794)	(11,118)	(87,477)	(21,884)	(13,758)	-	(265,191)
Depreciation and amortisation	(4,394)	(10,350)	(1,035)	(8,013)	(2,290)	(2,262)	-	(28,345)
Reportable segment profit/(loss) before impairment and provision charge	30,490	32,440	35,550	83,880	2,069	1,812	-	186,239
Other net gains/(losses) from equity investments in subsidiaries, associates, and joint ventures	-	5,159	-	-	(153)	-		5,006
Impairment and provisions charge	(2,680)	(10,245)	53	(16,290)	(20,857)	(10,626)	-	(60,645)
Profit/(loss) before income tax	27,810	27,354	35,602	67,590	(18,941)	(8,815)	-	130,600
Owners of the parent	27,810	27,354	35,602	61,982	(18,941)	(8,815)	-	124,992
Non-controlling interests	-	-	-	5,608	-	-	-	5,608
Income tax	-	-	-	-	-	-	(14,975)	(14,975)
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**110,017**
Reportable segment assets	2,338,698	2,074,736	3,375,667	3,540,474	502,610	163,577	-	11,995,763
Investments in associates, and joint ventures	-	43,248	-	-	-	-	-	43,248
Reportable segment liabilities	1,198,058	5,229,761	907,159	3,038,921	57,935	81,518	-	10,513,351
Additions to non-current assets	2,305	7,286	363	7,882	2,928	463	-	21,227

Segment reporting is presented in accordance with the strategy on the basis of the organisational structure used in management reporting of NLB Group's results.

NLB Group's segments are business units that focus on different customers and markets. They are managed separately because each business unit requires different strategies and service levels.

Other NLB Group members are, based on their business activity, included in only one segment. The business activities of NLB are divided into several segments. Interest income is reallocated between segments on the basis of multiple internal transfer rates (fund transfer pricing – FTP).

Description of NLB Group's segments:

- Retail banking in Slovenia represents banking with individuals in NLB and assets management – NLB Skladi. It also includes the contribution to the financial result of the joint venture NLB Vita and the associates Skupna pokojninska družba and Bankart;
- Corporate banking in Slovenia, which includes: operations with large (key), medium-sized (mid-market), micro and small businesses, and Intensive Care and Non-performing loans;
- Financial markets in Slovenia, which include treasury activities, asset liability management, trading in financial instruments, brokerage, and custody of securities, as well as financial advisory;
- Foreign strategic markets represent all business activities of NLB Group members in strategic markets of NLB Group (Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia and Serbia), except leasing entities;
- Non-strategic markets and activities represent total activities of NLB Group members in non-strategic markets of NLB Group (Croatia, Germany, Switzerland, and Czech Republic) and all leasing entities. It also includes the operating result of non-financial entities (NLB Propria, Prospera Plus) and the performance of the Internal restructuring unit of NLB; and
- Other represents items of NLB income statement not related to reportable segments.

NLB Group is primarily a financial group, and net interest income represents the majority of its net revenues. NLB Group's main indicator of a segment's efficiency is net profit before tax.

There was no income from transactions with a single external customer that amounted to 10% or more of NLB Group's income.

b) Geographical information

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

in EUR thousand

	Revenues		Net income		Profit/(loss) before income tax		Income tax	
NLB Group	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Slovenia	328,111	348,961	289,894	297,495	121,015	70,094	5,008	(7,854)
South East Europe	243,213	234,014	195,934	176,148	112,403	60,900	(8,999)	(7,115)
Macedonia	86,397	83,364	66,214	61,824	46,261	28,533	(4,756)	(2,755)
Serbia	25,401	21,585	23,784	18,822	5,180	1,733	(59)	(152)
Montenegro	28,629	30,186	21,900	16,484	4,766	(794)	386	(116)
Croatia	137	181	337	(125)	(1,208)	(3,250)	-	(1)
Bosnia and Herzegovina	67,908	65,882	54,578	51,698	41,796	22,098	(3,103)	(2,802)
Bulgaria	-	-	-	-	-	84	-	-
Kosovo	34,741	32,816	29,121	27,445	15,608	12,496	(1,467)	(1,289)
Western Europe	494	1,127	(159)	2,105	2,018	(137)	(6)	(6)
Germany	8	19	96	474	3,915	(248)	-	-
Switzerland	486	1,108	(255)	1,631	(1,897)	111	(6)	(6)
Czech Republic	2	1	2,969	(4)	1,875	(257)	-	-
Total	**571,820**	**584,103**	**488,638**	**475,744**	**237,311**	**130,600**	**(3,997)**	**(14,975)**

The column 'Revenues' includes interest and similar income, dividend income, and fee and commission income. The column 'Net Income' includes net interest income, dividend income, net fee and commission income, the net effect of financial instruments, foreign exchange translation, effect on derecognition of assets, and net operating income.

in EUR thousand

NLB Group	Non-current assets 31.12.2017	Non-current assets 31.12.2016	Total assets 31.12.2017	Total assets 31.12.2016	Number of employees 31.12.2017	Number of employees 31.12.2016
Slovenia	189,928	225,643	8,293,381	8,393,754	2,922	3,065
South East Europe	128,768	130,949	3,913,015	3,602,358	3,102	3,104
Macedonia	32,320	33,448	1,235,163	1,147,375	901	891
Serbia	24,394	24,822	406,959	316,023	447	424
Montenegro	29,686	29,476	466,155	478,682	319	342
Croatia	1,923	2,568	29,312	27,164	12	16
Bosnia and Herzegovina	26,876	27,222	1,190,435	1,116,169	942	942
Kosovo	13,569	13,413	584,991	516,945	481	489
Western Europe	236	247	31,140	39,742	5	6
Germany	218	222	1,876	2,782	1	1
Switzerland	18	25	29,264	36,960	4	5
Czech Republic	-	891	209	3,157	-	-
Total	**318,932**	**357,730**	**12,237,745**	**12,039,011**	**6,029**	**6,175**

The table below presents data on NLB Group members before intercompany eliminations and consolidation journals.

in EUR thousand

	Revenues 2017	Revenues 2016	Net income 2017	Net income 2016	Profit/(loss) before income tax 2017	Profit/(loss) before income tax 2016	Income tax 2017	Income tax 2016
Slovenia	398,851	390,240	353,327	333,099	191,115	52,829	3,167	(4,554)
South East Europe	243,566	234,257	179,911	179,677	98,698	66,530	(8,005)	(7,083)
Macedonia	86,447	83,422	65,520	61,078	46,079	28,739	(4,756)	(2,755)
Serbia	25,570	21,748	23,523	19,235	5,076	2,304	935	(119)
Montenegro	28,680	30,199	7,633	21,073	(8,693)	4,456	386	(116)
Croatia	192	152	(50)	(695)	(1,205)	(3,378)	-	(1)
Bosnia and Herzegovina	67,936	65,921	54,203	51,228	41,777	22,087	(3,103)	(2,803)
Bulgaria	-	-	-	-	-	(230)	-	-
Kosovo	34,741	32,815	29,082	27,758	15,664	12,552	(1,467)	(1,289)
Western Europe	650	1,197	(569)	1,455	2,151	(4,958)	(6)	(6)
Germany	9	20	87	466	3,916	(247)	-	-
Switzerland	641	1,177	(656)	989	(1,765)	(4,711)	(6)	(6)
Czech Republic	1	107	294	2	189	(257)	-	-
Total	**643,068**	**625,801**	**532,963**	**514,233**	**292,153**	**114,144**	**(4,844)**	**(11,643)**

8. Related-party transactions

A related party is a person or entity that is related to NLB Group in such a manner that it has control or joint control, has a significant influence, or is a member of the key management personnel of the reporting entity. Related parties of NLB Group and NLB include: key management personnel (Management Board, other key management personnel and their family members); the Supervisory Board; companies in which members of the Management Board, key management personnel, or their family members have control, joint control, or a significant influence; the ultimate parent; subsidiaries, associates, and joint ventures.

A number of banking transactions are entered into with related parties in the normal course of business. The volume of related-party transactions and the outstanding balances are as follows:

in EUR thousand

	Management Board and other Key management personnel		Family members of the Management Board and other key management personnel		Companies in which members of the Management Board, key management personnel or their family members have control, joint control or a significant influence		Supervisory Board	
NLB Group and NLB	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Loans issued								
Balance at 1.1.	2,110	1,953	492	468	371	375	-	2
Increase	1,180	1,367	245	445	385	368	500	-
Decrease	(1,269)	(1,210)	(324)	(421)	(514)	(372)	(65)	(2)
Balance at 31.12.	**2,021**	**2,110**	**413**	**492**	**242**	**371**	**435**	**-**
Interest income	36	41	8	9	7	9	10	-
Deposits received								
Balance at 1.1.	2,079	2,158	697	729	480	106	130	223
Increase	2,653	3,038	692	725	504	464	660	146
Decrease	(2,751)	(3,117)	(620)	(757)	(391)	(90)	(550)	(239)
Balance at 31.12.	**1,981**	**2,079**	**769**	**697**	**593**	**480**	**240**	**130**
Interest expense	(9)	(14)	(3)	(4)	-	-	-	(1)
Other financial liabilities	**2,408**	**1,536**	**-**	**-**	**7**	**2**	**-**	**-**
Guarantees issued and credit commitments	**224**	**248**	**76**	**83**	**116**	**147**	**31**	**3**
Fee income	11	13	4	6	10	9	2	-
Other income	-	2	-	-	-	-	-	-
Other expenses	(5)	(2)	-	-	(77)	-	-	-

Ultimate parent company of NLB is the Republic of Slovenia.

in EUR thousand

	NLB Group		NLB	
	Ultimate parent		Ultimate parent	
	2017	2016	2017	2016
Loans issued				
Balance at 1.1.	178,589	227,341	173,160	220,646
Increase	5,531	7,520	5,416	7,355
Decrease	(56,339)	(56,272)	(54,917)	(54,841)
Balance at 31.12.	**127,781**	**178,589**	**123,659**	**173,160**
Interest income	4,137	5,896	4,022	5,732
Deposits received				
Balance at 1.1.	70,005	110,001	70,005	110,001
Increase	5	12,803,693	5	12,803,693
Decrease	(70,010)	(12,843,689)	(70,010)	(12,843,689)
Balance at 31.12.	**-**	**70,005**	**-**	**70,005**
Interest expense	(5)	(5)	(5)	(5)
Investments in securities				
Balance at 1.1.	934,336	891,576	869,941	845,039
Exchange difference on opening balance	1	-	-	-
Increase	768,063	390,860	692,835	366,845
Decrease	(803,950)	(345,457)	(739,302)	(339,544)
Valuation	3,061	(2,643)	2,888	(2,399)
Balance at 31.12.	**901,511**	**934,336**	**826,362**	**869,941**
Interest income	21,130	28,019	20,891	27,224
Other financial assets	**18**	**153**	**18**	**1**
Other financial liabilities	**8**	**6**	**8**	**6**
Guarantees issued and credit commitments	**932**	**849**	**932**	**849**
Fee income	174	129	174	129
Fee expense	(41)	(39)	(41)	(39)
Other income	58	5	58	5
Other expense	(106)	(1)	(106)	(1)

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

in EUR thousand

NLB Group and NLB	Amount of significant transactions concluded during the year		Number of significant transactions concluded during the year	
	2017	2016	2017	2016
Loans	117,924	158,136	1	1
Commitments to extend credit	-	140,000	-	2

	Year-end balance of all significant transactions		Number of significant transactions at year-end	
	2017	2016	2017	2016
Loans	575,024	770,407	5	5
Debt securities classified as loans and advances	82,133	85,315	1	1
Borrowings, deposits, and business accounts	135,006	135,020	2	3
Commitments to extend credit	-	140,000	-	2

	Effects in income statement during the year	
	2017	2016
Interest income from loans	4,933	3,796
Interest income from debt securities classified as loans and receivables	(526)	16,425
Interest expense from borrowings, deposits, and business accounts	(93)	(225)
Interest income from commitments to extend credit	-	894

in EUR thousand

	Associates		Joint ventures	
NLB Group	**2017**	**2016**	**2017**	**2016**
Loans issued				
Balance at 1.1.	1,418	1,625	19,857	93,823
Increase	134	124	210	109,548
Decrease	(256)	(331)	(15,734)	(183,514)
Balance at 31.12.	**1,296**	**1,418**	**4,333**	**19,857**
Interest income	42	48	59	932
Impairment	22	16	1,767	9,730
Deposits received				
Balance at 1.1.	5,838	1,179	5,198	6,036
Exchange difference on opening balance	-	-	31	(37)
Increase	3,030	6,945	139,077	182,990
Decrease	(3,910)	(2,286)	(137,450)	(183,791)
Balance at 31.12.	**4,958**	**5,838**	**6,856**	**5,198**
Interest expense	-	-	(19)	(25)
Debt securities in issue	**-**	**-**	**-**	**-**
Interest expense	-	(17)	-	-
Other financial assets	**27**	**30**	**347**	**141**
Impairment	-	-	(1)	(1)
Other financial liabilities	**1,109**	**927**	**103**	**92**
Interest expense	-	-	(43)	-
Guarantees issued and credit commitments	**38**	**40**	**29**	**28**
Fee income	140	126	4,155	3,689
Fee expense	(11,547)	(11,502)	(1,894)	(2,055)
Other income	224	233	132	580
Other expense	(1,004)	(1,092)	(13)	(89)

in EUR thousand

	Subsidiaries		Associates		Joint ventures	
NLB	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Loans issued						
Balance at 1.1.	320,724	381,746	1,418	1,625	19,822	93,799
Increase	250,537	105,439	134	124	140	109,508
Decrease	(293,197)	(166,461)	(256)	(331)	(15,690)	(183,485)
Balance at 31.12.	**278,064**	**320,724**	**1,296**	**1,418**	**4,272**	**19,822**
Interest income	6,369	7,453	42	48	57	931
Impairment	17,697	(9,272)	22	16	1,767	9,730
Deposits						
Balance at 1.1.	28,431	3,438	-	-	-	-
Increase	451,462	298,795	-	-	-	-
Decrease	(443,423)	(273,802)	-	-	-	-
Balance at 31.12.	**36,470**	**28,431**	**-**	**-**	**-**	**-**
Interest income	30	9	-	-	-	-
Deposits received						
Balance at 1.1.	54,556	59,407	5,838	1,179	4,443	3,438
Increase	12,988,335	11,271,052	3,030	6,945	75,571	77,034
Decrease	(12,986,762)	(11,275,903)	(3,910)	(2,286)	(75,159)	(76,029)
Balance at 31.12.	**56,129**	**54,556**	**4,958**	**5,838**	**4,855**	**4,443**
Interest expense	(88)	(29)	-	-	(3)	-
Debt securities in issue	**-**	**-**	**-**	**-**	**-**	**-**
Interest expense	-	-	-	(17)	-	-
Other financial assets	**730**	**723**	**27**	**30**	**347**	**140**
Impairment	-	11	-	-	(1)	(1)
Other financial liabilities	**61**	**296**	**1,008**	**849**	**25**	**1**
Interest expense	-	-	-	-	(43)	-
Guarantees issued and credit commitments	**25,718**	**26,729**	**38**	**40**	**28**	**27**
Income/(expense) provisons for guaranties and commitments	(322)	442	-	-	-	-
Received loan commitments and financial guarantees	**1,000**	**500**	**-**	**-**	**-**	**-**
Fee income	5,723	4,336	140	126	4,041	3,419
Fee expense	(45)	(75)	(10,178)	(10,182)	(983)	(1,427)
Other income	525	527	224	233	132	540
Other expense	(1,298)	(2,830)	(754)	(845)	(13)	(89)

Key management compensation

The performance of key management is defined by financial and non-financial criteria. They are entitled to the annual variable part of the salary based on their achievement of the financial and non-financial performance criteria, which encompass the goals of NLB Group or NLB, the goals of the organisational unit, and the personal goals of the employee performing special work.

Members of the Management Board are entitled to a contractual gross salary considering the limitations of the Slovenian and European legislation.

Simultaneously, under the contract, members of the Management Board are entitled to a performance bonus based on criteria set by the Supervisory Board. Each year, the Supervisory Board determines the criteria of remuneration upon the adoption of the Bank's annual business plan.
The Supervisory Board determines the performance bonuses with the conclusion of each business year. In accordance with the legislation, the annual performance bonus cannot in any case exceed 30 percent of gross salaries in a business year of members of the Management Board. In addition, members of the Management Board are entitled to performance bonuses only proportionally, depending on their actual employment in the Bank for the period for which the performance bonus relates. The first 50 percent of the performance bonus is due for payment within 15 days of the General Meeting of Shareholders that voted on use of the previous year's profit and the discharge of the Management Board. Payment of the remaining 50 percent of the performance bonus is deferred.

Upon the conclusion of the General Meeting of Shareholders, members of the Supervisory Board receive payment for their performance and attendance, while the previously mentioned amounts are limited to a decision of the General Meeting of Shareholders, and are in full compliance with the applicable recommendations of corporate governance.

in EUR thousand

	Management Board		Other key management personnel		Supervisory Board	
NLB Group and NLB	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Short-term benefits	633	504	4,686	4,866	237	245
Cost refunds	5	4	105	112	50	74
Long-term bonuses:						
- severance pay	-	-	25	-	-	-
- other benefits	6	5	73	76	-	-
- variable part of payments	63	78	673	499	-	-
Total	**707**	**591**	**5,562**	**5,553**	**287**	**319**

Short-term benefits include:

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

The reimbursement of cost comprises food allowances and travel expenses.

Payments to individual members of the Management Board

in EUR

Member		2017	2016
Blaž Brodnjak 01.12.2012	Short-term benefits:		
	- gross salary and holiday allowance	140,565	137,586
	- benefits and other short-term bonuses	2,349	3,049
	Costs refunds	1,193	1,267
	Long-term bonuses:		
	- other benefits	1,409	1,410
	- variable part of payments	20,447	19,621
	Total	**165,963**	**162,933**
Andreas Burkhardt 18.09.2013	Short-term benefits:		
	- gross salary and holiday allowance	140,565	137,586
	- benefits and other short-term bonuses	20,372	26,148
	Costs refunds	1,077	1,157
	Long-term bonuses:		
	- other benefits	1,409	1,410
	- variable part of payments	20,447	19,621
	Total	**183,870**	**185,922**
Archibald Kremser 31.07.2013	Short-term benefits:		
	- gross salary and holiday allowance	140,565	137,586
	- benefits and other short-term bonuses	18,753	19,150
	Costs refunds	1,132	1,151
	Long-term bonuses:		
	- other benefits	1,409	1,410
	- variable part of payments	20,447	19,621
	Total	**182,306**	**178,918**
Laszló Pelle 26.10.2016	Short-term benefits:		
	- gross salary and holiday allowance	140,565	13,570
	- benefits and other short-term bonuses	29,379	3,278
	Costs refunds	1,224	115
	Long-term bonuses:		
	- other benefits	1,409	470
	- variable part of payments	2,036	-
	Total	**174,613**	**17,433**
Janko Medja 2.10.2012 - 5.2.2016	Short-term benefits:		
	- gross salary and holiday allowance	-	25,033
	- benefits and other short-term bonuses	-	166
	Costs refunds	-	538
	Long-term bonuses:		
	- other benefits	-	235
	- variable part of payments	-	19,621
	Total	**-**	**45,593**

The above table shows earnings paid to individuals in the year when they were members of the Management Board.

Payments to individual members of the Supervisory Board

in EUR

Member		2017	2016
Andreas Klingen 22.06.2015	Session fees	5,335	7,370
	Annual compensation	28,858	25,744
	Costs refunds	10,356	13,833
Primož Karpe 11.02.2016	Session fees	6,270	6,600
	Annual compensation	37,661	28,585
	Costs refunds	5,796	5,591
Laszlo Zoltan Urban 11.02.2016	Session fees	5,610	5,280
	Annual compensation	21,149	16,563
	Costs refunds	6,276	5,341
Alexander Bayr 04.08.2016	Session fees	5,830	1,650
	Annual compensation	21,490	7,440
	Costs refunds	10,206	3,564
David Eric Simon 04.08.2016	Session fees	6,490	1,375
	Annual compensation	27,092	8,750
	Costs refunds	16,916	1,958
Peter Groznik 08.09.2017	Session fees	1,375	-
	Annual compensation	6,483	-
	Costs refunds	90	-
Simona Kozjek 08.09.2017	Session fees	1,155	-
	Annual compensation	6,483	-
	Costs refunds	-	-
Vida Šeme Hočevar 08.09.2017	Session fees	1,595	-
	Annual compensation	8,257	-
	Costs refunds	151	-
David Kastelic 4.8.2016 - 8.9.2017	Session fees	4,015	1,155
	Annual compensation	15,500	8,750
	Costs refunds	-	-
Matjaž Titan 4.8.2016 - 21.4.2017	Session fees	2,805	1,430
	Annual compensation	6,937	8,750
	Costs refunds	44	-
Uroš Ivanc 12.6.2013 - 7.4.2017	Session fees	2,310	6,930
	Annual compensation	7,073	25,096
	Costs refunds	44	404

in EUR

Member		2017	2016
Sergeja Slapničar 12.6.2013 - 20.3.2017	Session fees	1,430	7,370
	Annual compensation	6,117	27,547
	Costs refunds	345	898
Tit A. Erker 12.6.2013 - 3.8.2016	Session fees	-	5,720
	Annual compensation	-	14,826
	Costs refunds	-	38,598
Janko Gedrih 10.2.2016 - 15.4.2016	Session fees	-	1,045
	Annual compensation	-	6,261
	Costs refunds	-	180
Anton Macuh 10.2.2016 - 15.4.2016	Session fees	-	1,485
	Annual compensation	-	3,324
	Costs refunds	-	60
Anton Ribnikar 10.2.2016 - 15.4.2016	Session fees	-	1,705
	Annual compensation	-	4,499
	Costs refunds	-	267
Miha Košak 12.6.2013 - 10.2.2016	Session fees	-	1,210
	Annual compensation	-	3,950
	Costs refunds	-	3,536
Gorazd Podbevšek 12.6.2013 - 10.2.2016	Session fees	-	1,210
	Annual compensation	-	3,362
	Costs refunds	-	-

The above table shows earnings paid to individuals in the year when they were members of the Supervisory Board.

9. Events after the reporting date

In March 2018, NLB received a letter from ECB on ECB's intention to adopt the decision to restrict distributions by NLB to its shareholders and to require a Contingent Capital Plan. More details are disclosed in note 5.23.

In March 2018, NLB Group sold its subsidiary NLB Nov Penziski Fond, Skopje and realised profit in amount of EUR 12 million on NLB Group and EUR 9 million on NLB.

NLB Group Chart as at 31 December 2017

Nova Ljubljanska banka d.d., Ljubljana

Core members

Banks

Foreign countries

NLB Banka, Beograd	99.997% 99.997%
NLB Banka, Sarajevo	97.35% 97.35%
NLB Banka, Podgorica	99.83% 99.83%
NLB Banka, Prishtina	81.21% 81.21%
NLB Banka, Banja Luka	99.85% 99.85%
NLB Banka, Skopje	86.97% 86.97%

Financial institutions

Slovenia

NLB Skladi, Ljubljana	100% 100%
NLB Vita, Ljubljana	50% 50%
Skupna pokojninska družba, Ljubljana	28.13% 28.13%

Foreign countries

NLB Nov penziski fond, Skopje***	51% 100%

NLB Banka, Skopje — 49% — NLB Nov penziski fond, Skopje***

Companies

Slovenia

Bankart, Ljubljana	39.44% 39.44%

Foreign countries

NLB Srbija, Beograd	100% 100%
NLB Crna Gora, Podgorica	100% 100%

The chart shows voting rights shares. The Group includes entities according to the definition in the Financial Conglomerates Act (Article 2).

Subsidiary Associate Joint venture

Company Name	%	direct share
	%	indirect share at the group level

Notes:
* Contractual based influence on management of the company
** NLB InterFinanz Praha - from 1 January 2018 in liquidation
*** NLB Nov penziski fond, Skopje - on 12 December 2017 the Agreement for the Sale and Purchase of Shares was signed, on 14 March 2018 closing of the sales process
**** 90% direct ownership Prvi Faktor, Ljubljana in liquidation, 5% NLB, 5% SID banka d.d.

Non-core members

Financial institutions

Slovenia

NLB Leasing, Ljubljana in liquidation	100%	100%
— **Optima Leasing, Zagreb** in liquidation	100%	100%
Prvi faktor, Ljubljana in liquidation	50%	50%
— **Prvi faktor, Beograd** in liquidation****	90%	95%
— **Prvi faktor, Sarajevo** in liquidation	100%	100%
— **Prvi faktor, Zagreb** in liquidation	100%	100%

Foreign countries

NLB InterFinanz, Zürich in liquidation	100%	100%
— **NLB InterFinanz, Beograd** in liquidation	100%	100%
— **NLB InterFinanz Praha, Prague** in liquidation**	100%	100%
NLB Lizing, Skopje in liquidation	100%	100%
NLB Leasing, Sarajevo	100%	100%
NLB Leasing, Beograd in liquidation	100%	100%
NLB Leasing, Podgorica in liquidation	100%	100%
LHB AG, Frankfurt	100%	100%
Sophia Portfolio BV*	0%	0%

Companies

Slovenia

NLB Propria, Ljubljana in liquidation	100%	100%
Prospera plus, Ljubljana in liquidation	100%	100%
PRO-REM, Ljubljana in liquidation	100%	100%
— **BH-RE, Sarajevo**	100%	100%
— **OL Nekretnine, Zagreb** in liquidation	100%	100%
ARG Nepremičnine, Horjul	75%	75%

Foreign countries

CBS Invest, Sarajevo	100%	100%
REAM, Podgorica	100%	100%
REAM, Beograd	100%	100%
REAM, Zagreb	100%	100%
SR-RE, Beograd	100%	100%
Tara Hotel, Budva	12.71%	100%
SPV 2 DOO Beograd	100%	100%

Organizational Structure of NLB as at 31 December 2017

Management Board

- CEO
  - Strategy and Business Development
  - Legal and Secretariat
  - Communication
  - Human Resources and Organization Development
  - Internal Audit
  - Compliance and Integrity
  - Group Steering
- CRO
  - Global Risk
  - Credit Risk - Corporate and Retail
  - Evaluation and Control
  - Restructuring
  - Workout and Legal Support
  - Non-Strategic Corporate
- CFO
  - Group Real Estate Asset Management
  - Controlling
  - Financial Accounting
  - Financial Markets
  - Investment Banking and Custody
- CMO
  - Sales Development and Management
  - Small Enterprises
  - Large Corporates
  - Mid Corporates
  - Trade Finance Services
  - Private Banking
  - NLB Contact Centre
  - Distribution Network
    - Distribution Network Back Office
    - Area Branch Osrednjeslovenska - Jug
    - Area Branch Osrednjeslovenska - Sever
    - Area Branch Domžale, Kamnik in Zasavje
    - Area Branch Savinjsko - Koroška
    - Area Branch Podravsko - Pomurska
    - Area Branch Dolenjska, Bela krajina in Posavje
    - Area Branch Primorska, Goriška in Notranjska
- COO
  - Procurement and CREM
  - Innovation Management and Business Analysis
  - Information System Development
  - Data Management
  - IT Infrastructure
  - Accounts Administration and Payroll
  - Payments Processing
  - Cash Processing
  - Treasury and Financial Markets Processing
  - Corporate Banking Processing
  - Retail Banking Processing

Understanding of the tasks and responsibilities of Global Risk, Compliance and Integrity and Internal Audit is taken into account in acccordance to the definitions of the (currently valid) Banking Act-ZBan.

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Archibald Kremser, Member of the Management Board
Andreas Burkhardt, Member of the Management Board
László Pelle, Member of the Management Board

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