

Semi
Annual
Report

JUNE 2018

H1

NLB Group strategic members overview

NLB Group

349

Number of branches

1,825,802

Number of
active clients

104.8

Result after tax
(consolidated, in EUR million)

12,516.2

Total assets
(consolidated, in EUR million)



Slovenia

NLB, Ljubljana

108

Number of branches

8,908.3

Total assets (in EUR million)

688,498

Number of active clients

23.2%

Market share by total assets

103.3

Result after tax (in EUR million)



Bosnia and Herzegovina

NLB Banka, Banja Luka

58

Number of branches

693.1

Total assets (in EUR million)

221,709

Number of active clients

18.8%

Market share* by total assets

9.8

Result after tax (in EUR million)

*Market share in the Republic of Srpska as at 31 March 2018

NLB Skladi, Ljubljana

1,250

Assets under management (in EUR million)

30.8%

Market share* (mutual funds)

2.1

Result after tax (in EUR million)

* Market share of assets under management in mutual funds

NLB Banka, Sarajevo

38

Number of branches

548.5

Total assets (in EUR million)

137,206

Number of active clients

5.2%

Market share* by total assets

5.5

Result after tax (in EUR million)

* Market share in the Federation of Bosnia and Herzegovina as at 31 March 2018.

NLB Vita, Ljubljana

453.6

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

14.8%

Market share*

3.98

Result after tax (in EUR million)

* Market share in traditional life insurance.



Macedonia

NLB Banka, Skopje

52

Number of branches

1,230.6

Total assets (in EUR million)

384,513

Number of active clients

16.2%

Market share* by total assets

22.6

Result after tax (in EUR million)

* Market share as at 31 March 2018.



Kosovo

NLB Banka, Prishtina

44

Number of branches

616.2

Total assets (in EUR million)

199,420

Number of active clients

16.0%

Market share* by total assets

7.4

Result after tax (in EUR million)

* Market share as at 31 March 2018.



Serbia

NLB Banka, Beograd

31

Number of branches

417.3

Total assets (in EUR million)

134,556

Number of active clients

1.4%

Market share* by total assets

2.5

Result after tax (in EUR million)

* Market share as at 31 March 2018.



Montenegro

NLB Banka, Podgorica

18

Number of branches

469.2

Total assets (in EUR million)

59,900

Number of active clients

10.9%

Market share* by total assets

5.5

Result after tax (in EUR million)

* Market share as at 31 March 2018.

Note:

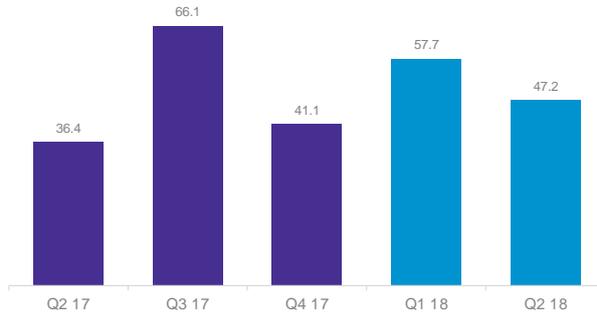
The result after tax data in the figure above shows the Group members' standalone result, and not their contribution to the consolidated result after tax. An active client is a client who has for a period not shorter than one month any investment-saving product with a positive balance, or loan/deposit/guarantee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

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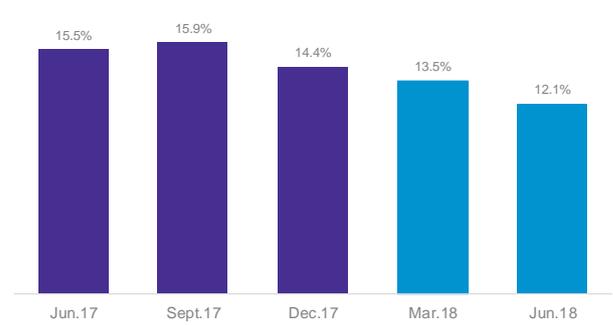
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Figures at a glance of NLB Group

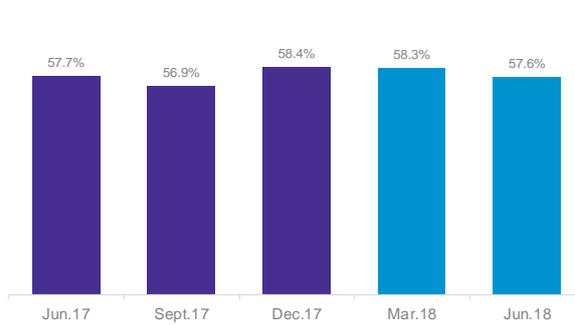
Profit a.t. - quarterly (in EUR million)



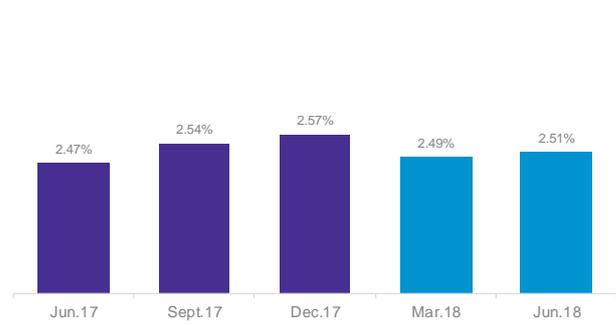
ROE a.t. - YtD (in %)



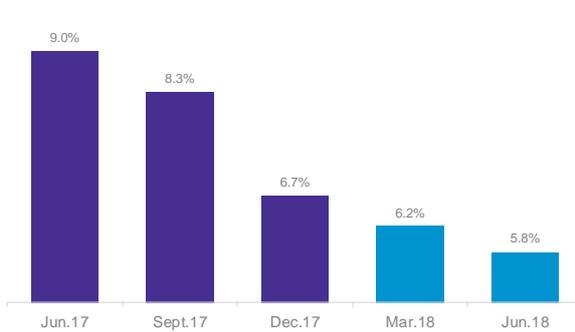
Cost/income ratio (CIR) - YtD (in %)



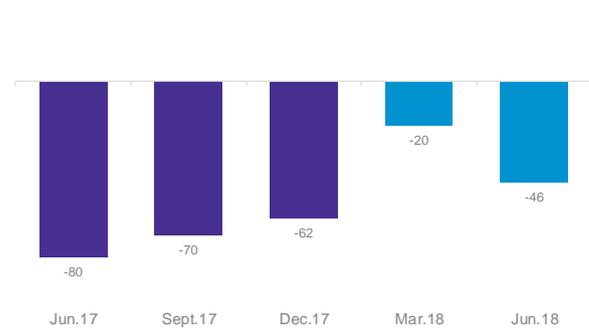
Interest margin - YtD (in %)



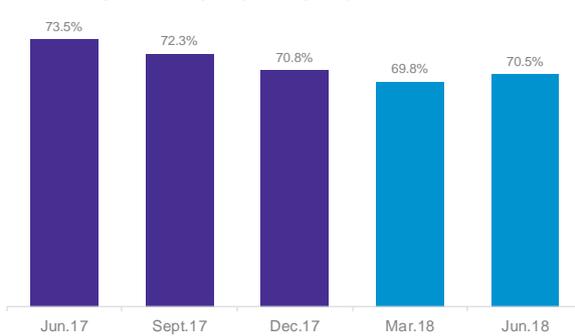
Non-performing exposure (NPE) - YtD (in %)



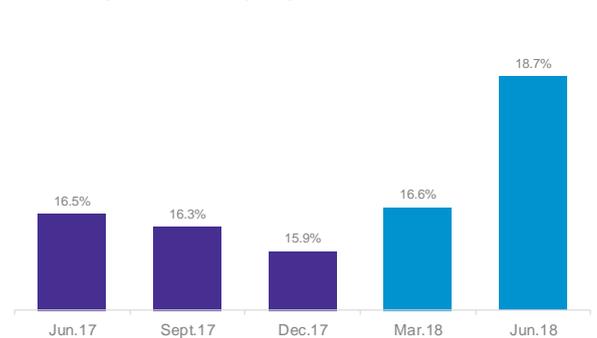
Cost of risk net - YtD (in bp)



Loan to deposit ratio (LTD) - YtD (in %)



Total capital ratio - YtD (in %)



Key financial caption of NLB Group

Table 1: Key financial caption of NLB Group

in EUR million / % / bps	1-6 2018	1-6 2017	Change YoY	Q2 18	Q1 18	Q2 17
Key Income statement data (in EUR million)						
Net operating income	243.0	241.1	1%	112.7	130.4	110.1
Net interest income	151.7	148.6	2%	76.7	75.0	73.2
Net non-interest income	91.4	92.5	-1%	36.0	55.4	36.9
Costs	-140.0	-139.1	1%	-70.6	-69.4	-71.6
Result before impairments and provisions	103.1	102.0	1%	42.1	61.0	38.5
Impairments and provisions	14.4	25.6	-44%	11.6	2.8	1.1
Result after tax	104.8	117.9	-11%	47.2	57.7	36.4
Key financial indicators						
Return on equity after tax (ROE a.t.)	12.1%	15.5%	-3.4 p.p.			
Return on assets after tax (ROA a.t.)	1.7%	2.0%	-0.3 p.p.			
RORAC a.t. ¹	15.8%	24.2%	-8.4 p.p.			
Interest margin (on interest bearing assets) ²	2.51%	2.47%	0.04 p.p.	2.52%	2.49%	2.42%
Interest margin (on total assets - BoS ratio)	2.45%	2.47%	-0.02 p.p.	2.46%	2.44%	2.43%
Cost-to-income ratio (CIR)	57.6%	57.7%	-0.1 p.p.	62.6%	53.2%	65.0%
Cost-to-income ratio (CIR) normalised ³	60.6%	59.7%	0.8 p.p.	62.6%	58.7%	64.0%
Cost of Risk Net (bps) ⁴	-46	-80	34 b.p.			

	30 June 2018	31 Dec 2017	30 June 2017	Change YoY	Change YtD
Key financial position statement data (in EUR million)					
Total assets	12,516	12,238	12,070	4%	2%
Loans to customers (gross)	7,612	7,641	7,826	-3%	0%
Loans to customers (net)	7,059	6,994	6,974	1%	1%
o/w Key business activities	6,589	6,425	6,346	4%	3%
Deposits from customers	10,018	9,879	9,491	6%	1%
Total equity	1,797	1,654	1,538	17%	9%
Other key financial indicators					
LTD (Loans to customers/Deposits from customers) ⁵	70.5%	70.8%	73.5%	-3.0 p.p.	-0.3 p.p.
Common Equity Tier 1 Ratio*	18.7%	15.9%	16.5%	2.2 p.p.	2.8 p.p.
Total capital ratio*	18.7%	15.9%	16.5%	2.2 p.p.	2.8 p.p.
Total risk exposure amount (RWA)	8,693	8,547	8,007	9%	2%
NPL - Gross (in EUR million)	752	844	1,181	-36%	-11%
NPL coverage ratio ⁶	64.0%	62.2%	65.4%	-1.4 p.p.	1.8 p.p.
NPL coverage ratio ⁷	73.7%	77.5%	76.1%	-2.4 p.p.	-3.8 p.p.
Share of non-performing loans (NPL) in all loans	8.3%	9.2%	12.6%	-4.4 p.p.	-0.9 p.p.
NPL ratio - Net ⁸	3.2%	3.8%	4.8%	-1.6 p.p.	-0.6 p.p.
NPE ratio ⁹	5.8%	6.7%	9.0%	-3.2 p.p.	-0.9 p.p.
Employees					
Number of employees	5,956	6,029	6,142	-3.0%	-1.2%

¹ RORAC a.t. = profit a.t./average capital requirement normalized at 15.38% RWA for 2018 and onw ards, 14.75% before

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

³ Without non-recurring revenues and restructuring costs

⁴ Cost of risk NET = Credit impairments and provisions (annualised level) /average net loans to non-banking sector

⁵ Net loans to customers /Deposits from customers

⁶ NPL Coverage ratio = Coverage of gross non-performing loans w ith impairments for non-performing loans

⁷ NPL Coverage ratio = Coverage of gross non-performing loans w ith impairments for all loans

⁸ NPL ratio - Net = Net non performing loans/Net loan portfolio

⁹ EBA definition

*31 Dec 2017 envisaging dividend payment in 100% of net profit after tax of the Bank (EUR 189 million)

30 June 2018 including undistributed dividend (EUR 189 million) and IFRS 9 implementation effect (EUR 44 million)

International credit ratings NLB	30 June 2018	31 December 2017	Outlook
Standard & Poor's	BB+	BB	Developing
Fitch	BB	BB	Rating watch evolving

Definitions and glossary of selected terms

ALM	Asset and Liability Management
CET 1	Common Equity Tier 1
CFO	Chief Financial Officer
CIR	Cost-to-Income Ratio
COO	Chief Operating Officer
CRO	Chief Risk Officer
DGS	Deposit Guarantee Scheme
EBA	European Banking Authority
ECB	European Central Bank
FX	Foreign Exchange
GDP	Gross Domestic Product
IAS 39	International Accounting Standard 39
ICAAP	Internal Capital Adequacy Assessment Process
IFRS 9	International Financial Reporting Standard 9
ILAAP	Internal Liquidity Adequacy Assessment Process
LCR	Liquidity Coverage Ratio
LTD	Loan-to-Deposit Ratio
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
QR	Quick Response
ROE	Return on Equity
RORAC	Return on Risk-Adjusted Capital
RoS	Republic of Slovenia
RWA	Risk Weighted Assets
SEE	South-Eastern Europe
SME	Small and Medium-sized Enterprises
SREP	Supervisory Review and Evaluation Process
SSH	Slovenian Sovereign Holding
The Group	NLB Group

Macroeconomic environment

The global economy continues to enjoy enviable growth this year even though it has slowed. Thus, developed countries in particular noted a drop in the unemployment rate, resulting in a growth in salaries. Higher prices of crude oil and food boosted inflation, particularly in the Q2 2018. Thus, US inflation came close to three per cent in May, while in the Euro area it reached a new high in more than a year at the end of H1 2018. The growth in US inflation ensured the US Central Bank's (FED) increase of the key interest rate already twice this year to the psychological level of two per cent. It is increasingly probable that it will be increased twice more this year, further expanding the divergence between the European and the US interest rates. The significant growth in oil prices (WTI) on the global markets by more than 23% in H1 2018 will continue to have a positive impact on the growth in consumer prices. Following the notable growth last year, stock markets mostly recorded losses in H1 2018 as a result of many factors, the most significant among them being the normalisation of monetary policies and the existing trade dispute between the USA and other countries, and with China in particular. Further deterioration of the situation in international trade and the increase in the import tariffs will have a negative impact on the global economy and increase the volatility of stock markets. Despite the growth in consumer prices and the gradual normalisation of monetary policies, the yields of government bonds in Europe in particular lagged behind the yields recorded at the beginning of this year. The only exception was Italy, where the growth in government bonds was related to the parliamentary elections in June. Unlike European bonds, the yields of US bonds grew in the period concerned, mostly because of the increase in the key interest rate.

In H1 2018, the European economy recorded positive economic growth, although somewhat lower than in H1 2017. The Purchasing Managers' Index (PMI) dropped from the record value reached in December 2017 over the next six months to the values recorded at the end of 2016, and remain within the range indicated by the growth in the Euro economy. At its June meeting, the ECB reduced the forecast of this year's economic growth from the March level of 2.4% to 2.1%, while the forecasted growth for the next two years remained unchanged, namely 1.9% and 1.7% for 2019 and 2020, respectively. At the same time, the ECB extended the redemption of securities until at least the end of this year, planning to redeem securities in a total value of EUR 15 billion per month in the period from October 2018 until the end of the year, which is one half of the current value. The key interest rates are planned to remain unchanged at least until the end of summer 2019. Annual inflation grew to 2% in June 2018, which is the highest level since the beginning of 2017, while the core inflation remains relatively low, at around 1%. It is expected that the favourable conditions of financing will continue to stimulate business investments, and will increase companies' profitability and demand. The risks outside the Euro area are above all related to increased protectionism, which could negatively affect foreign trade. Nevertheless, an increase in global demand is expected, which will have a soothing effect on euro foreign trade. The developments in the Euro area in the first half of the year were marked by the Italian elections and the June aggravation of the migration situation, which is closely connected with the new Italian government. The migration issues and different views of the countries on how to solve this problem seem to be the key internal political risk of the Euro area.

In H1 2018, the Slovenian economy continued to record encouraging economic growth YoY (4.2%), which nevertheless slowed down somewhat compared to the growth at the end of 2017 (6.3%). The economic growth was mostly driven by final consumption of households and gross investments, while the positive impact of the external trade balance was somewhat reduced. Favourable conditions on the labour market, as well as the economic and consumer sentiment in the last half-year also show a positive macroeconomic

picture in the period that will follow. The rate of survey-based unemployment dropped by 1.2 percentage points YoY to 5.2% at the end of H1 2018. The number of unemployed persons is closing in on the pre-crisis level. In H1 2018, the economic climate was more than two percentage points higher YoY, mostly because of increased consumer confidence and confidence in the construction sector. The latter is also related to a rather lively market in residential real estate, which in Q1 2018 remained at the level of past quarters in terms of the number of transactions. With high demand and relatively favourable lending conditions, the prices of residential real estate grew by 13.4% YoY. Consumer prices also increased, specifically by 1.5% p.a. in H1 2018, while June growth was 2.1%.

In H1 2018, the profit of the Slovenian banking system was 26.5% higher YoY. Return on equity (ROE) before tax increased to 14.0%. The share of NPLs continued to decrease, dropping by 0.7 basis points YtD, to 2.9%. The interim growth in non-bank crediting was 5.6% YoY, of which growth in loans to non-financial companies was 2.5% and loans to households 6.7%. With continued favourable economic growth, both household and corporate loans are also expected to continue growing, while the segment of housing loans will be affected by the continued deficit of new real estate on the market. Specifically, the Housing Fund of the Republic of Slovenia will no longer build apartments for sale, but only offer apartments for rent, which will be an additional blow to the number of newly-constructed units. It is expected that the relatively low level of indebtedness of Slovenian households and the growing dynamics of consumption will somewhat mitigate the reduced growth in housing loans. Interest rates, particularly those on mortgage loans, grew only slightly in Q2 2018, while interest rates on consumer loans remained practically unchanged.



Business Report

Key developments of NLB Group:

EUR 104.8 million

Profit after tax

In H1 2018 the Group realised profit after tax in the amount of EUR 104.8 million, a decrease of 11% YoY, mostly due to lower release of credit impairments and provisions.

5%

Continued loan growth in Strategic foreign markets (5% YtD) and in retail loan balances in Slovenia (2% YtD).

41%

Strategic foreign markets continued to perform well and contributed 41% to the NLB Group result.

18.7%

Total capital ratio

At the end of H1 2018, the capital ratios (CET 1 and total capital ratio) of the Group remained very strong, reaching 18.7%, and were well above regulatory thresholds.

5%

Fee and commission income increase

Total Net operating income totalled EUR 243.0 million, an increase of 1% YoY (EUR 241.1 million) based on higher net interest income (2% YoY) and fee and commission income (5% YoY).

5.8%

NPE

Further improvement of loan portfolio quality was also shown in the additional reduction of NPLs in H1 2018. The NPL ratio thus decreased to 8.3%, while the NPE ratio fell to 5.8%.

57.6%

CIR stood 57.6% and normalised CIR* at 60.6%, which is stable or 0.8 p.p. higher YoY, respectively.

* Without non-recurring revenues and restructuring costs.

-2%

Recurring profit before impairments and provisions amounted to EUR 91.0 million, a decrease of 2% YoY (EUR 1.7 million), mainly due to higher costs.

Financial performance of NLB Group

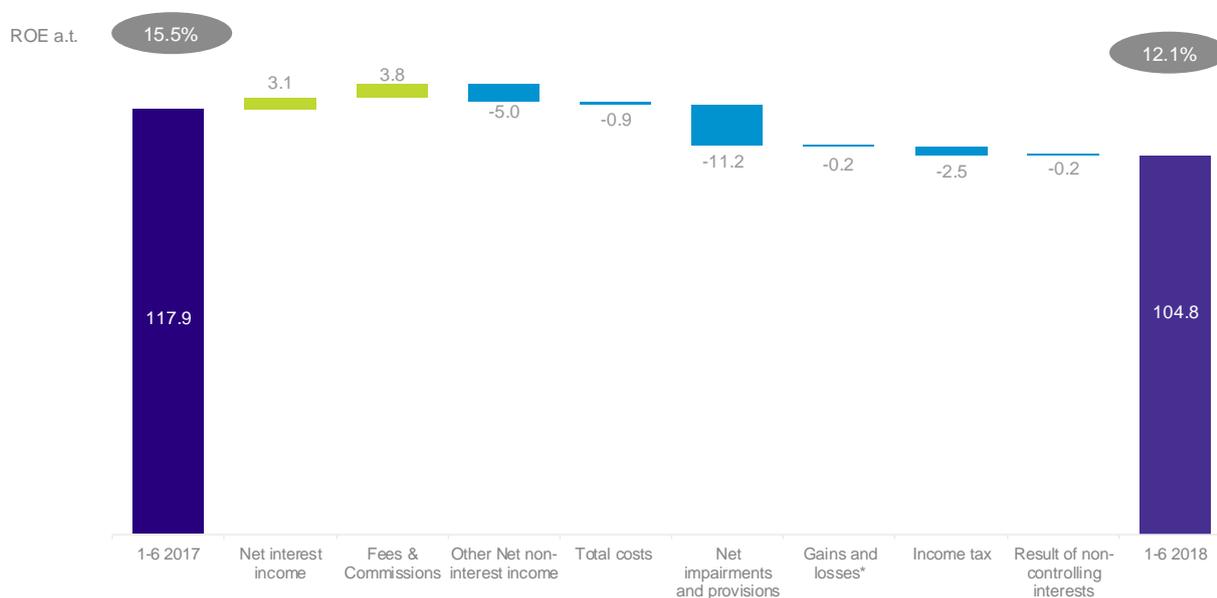
Table 2: Income statement of NLB Group

in EUR million	NLB Group						
	1-6 2018	1-6 2017	Change YoY	Q2 18	Q1 18	Q2 17	Change QoQ
Net interest income	151.7	148.6	2%	76.7	75.0	73.2	2%
Net fee and commission income	79.6	75.8	5%	40.2	39.3	38.4	2%
Dividend income	0.1	0.1	-	0.1	0.0	0.1	-
Net income from financial transactions	6.7	17.2	-61%	3.9	2.7	3.0	45%
Net other income	5.1	-0.5	-	-8.2	13.3	-4.6	-
Net non-interest income	91.4	92.5	-1%	36.0	55.4	36.9	-35%
Total net operating income	243.0	241.1	1%	112.7	130.4	110.1	-14%
Employee costs	-80.9	-80.4	1%	-40.6	-40.3	-40.8	1%
Other general and administrative expenses	-45.4	-44.9	1%	-23.1	-22.3	-23.9	4%
Depreciation and amortisation	-13.6	-13.8	-1%	-6.8	-6.8	-6.9	1%
Total costs	-140.0	-139.1	1%	-70.6	-69.4	-71.6	2%
Result before impairments and provisions	103.1	102.0	1%	42.1	61.0	38.5	-31%
Impairments and provisions for credit risk	15.6	28.0	-44%	12.3	3.3	2.6	271%
Other impairments and provisions	-1.2	-2.4	-48%	-0.7	-0.5	-1.5	42%
Impairments and provisions	14.4	25.6	-44%	11.6	2.8	1.1	312%
Gains less losses from capital investments in subsidiaries, associates, and joint ventures	2.5	2.7	-7%	1.4	1.2	1.6	15%
Profit before income tax	120.0	130.4	-8%	55.0	65.0	41.3	-15%
Income tax	-10.6	-8.1	31%	-6.3	-4.3	-3.3	49%
Result of non-controlling interests	4.5	4.4	4%	1.5	3.0	1.6	-49%
Profit for the period	104.8	117.9	-11%	47.2	57.7	36.4	-18%

Profit

In H1 2018 the Group generated EUR 104.8 million of profit after tax, EUR 13.1 million or 11% less YoY, mostly due to lower release of credit impairments and provisions compared to H1 2017. That is, in Q1 2017 EUR 21 million of poll provisions were released with a strong, positive effect on profit in H1 2017.

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

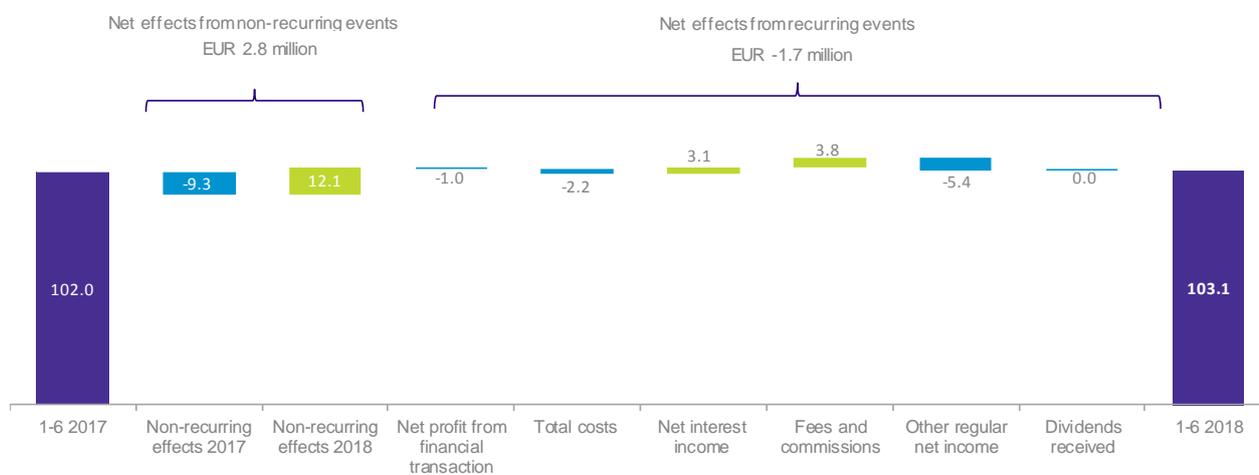


* Gains less losses from capital investments in subsidiaries, associates, and joint ventures.

The Group's result in H1 2018 is based on the following key drivers:

- Non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje in the positive amount of EUR 12.2 million;
- Higher net interest income on the Group level (EUR 3.1 million, or 2%); mainly due to the decrease of interest expenses;
- Higher net fee and commission income by EUR 3.8 million, or 5%; strong growth was realised in the Retail segment in Slovenia and in Strategic foreign markets;
- Lower net other income due to lower income from services provided by the bank to other clients (EUR 1.4 million), a higher payment to DGS (EUR 1.0 million) in 2018, and higher received bonuses from insurance companies in 2017;
- Lower release of impairments and provisions by EUR 11.2 million, or 44% due to the release of pool provisions in Q1 2017;
- Negative cost of risk (-46 b.p.) due to released net credit impairments and provisions in the amount of EUR 16.2 million.

Figure 2: Profit before impairments and provisions (in EUR million)

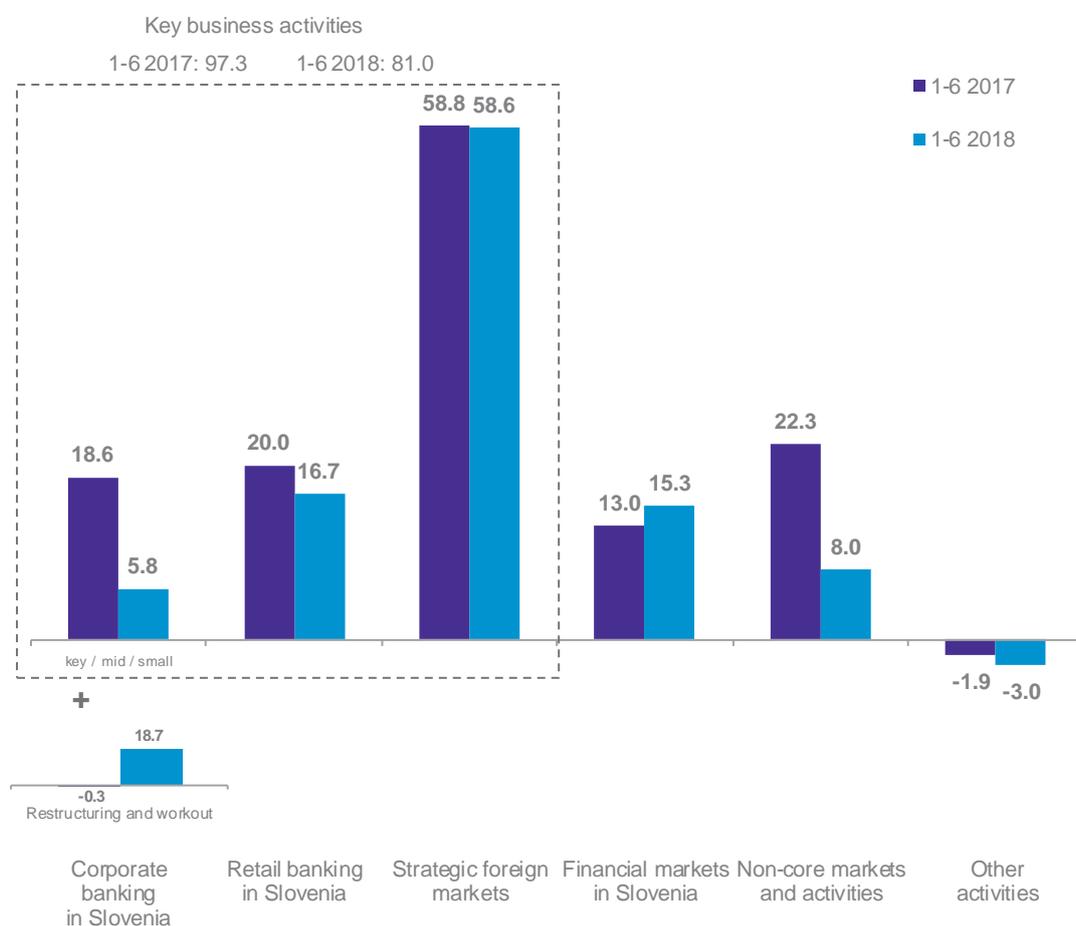


Profit before impairments and provisions (including non-recurring items¹) was EUR 103.1 million, with EUR 1.1 million or 1% higher YoY. The increase in costs and lower other net non-interest income was partially offset by an increase in net interest income and net fees and commissions.

Notes:

¹ Non-recurring items in H1 2017: positive effects from non-core equity participation (EUR 9.5 million), a court settlement with Zavarovalnica Triglav (EUR 1.2 million), and the negative effect of restructuring costs (EUR 1.4 million). Non-recurring items in the H1 2018: the positive effect from the sale of core subsidiary NLB Nov penziski fond, Skopje (EUR 12.2 million), and the negative effect of restructuring costs (EUR 0.1 million).

Figure 3: Profit before tax of NLB Group by segments (in EUR million)



In H1 2018, the Corporate segment recorded an increase in profit before tax of 35%, mostly due to higher release of credit impairments and provisions in Restructuring and Workout (EUR 15.3 million). The profit before tax of Key/Mid/Small corporates was lower by EUR 12.8 million or 69% YoY, mostly due to lower operating income (EUR 2.8 million) and higher credit impairments and provisions (EUR 9.9 million). In H1 2018, the Retail banking in Slovenia realised profit after tax in the amount of EUR 16.7 million, a decrease of 16% YoY, mostly due to higher costs and credit impairments and provisions compared to H1 2017. An important drop in profit was also recorded on Non-core markets and activities, due to one-offs in H1 2017². The Strategic foreign market segment includes the positive effect from non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje in the amount of EUR 12.2 million. All Group subsidiary banks in the SEE market generated a profit, contributing EUR 49.4 million (41%)³ to the Group profit before tax in H1 2018 (H1 2017: EUR 59.7 million, 46%), lower by EUR 10.3 million mostly due to lower release of credit impairments and provisions in 2018.

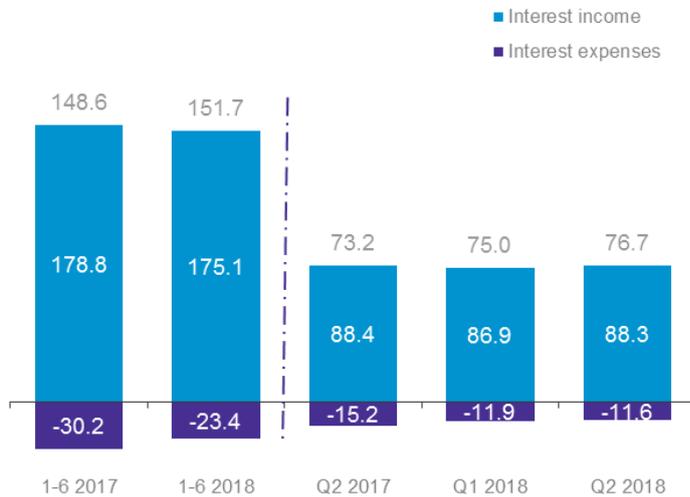
Notes:

² Non-recurring items in H1 2017: the positive effects from non-core equity participation (EUR 9.5 million), a court settlement with Zavarovalnica Triglav (EUR 1.2 million).

³ On NLB Banka, Skopje, the positive effect from non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje in the amount of EUR 8.5 million is excluded.

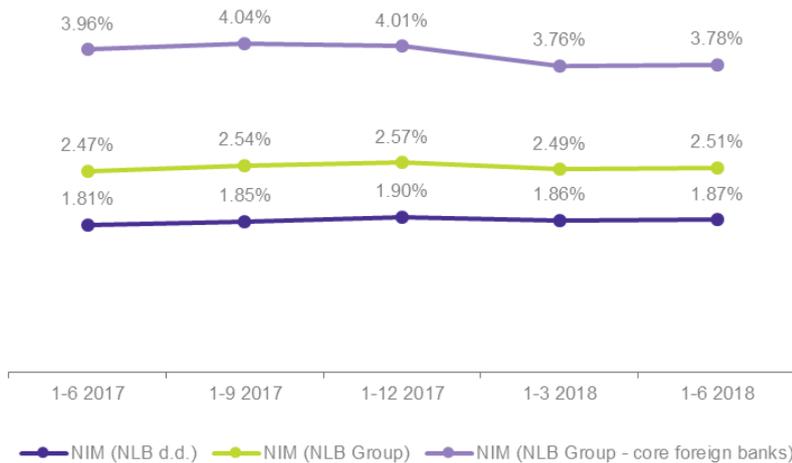
Net interest income

Figure 4: Net interest income of NLB Group (in EUR million)



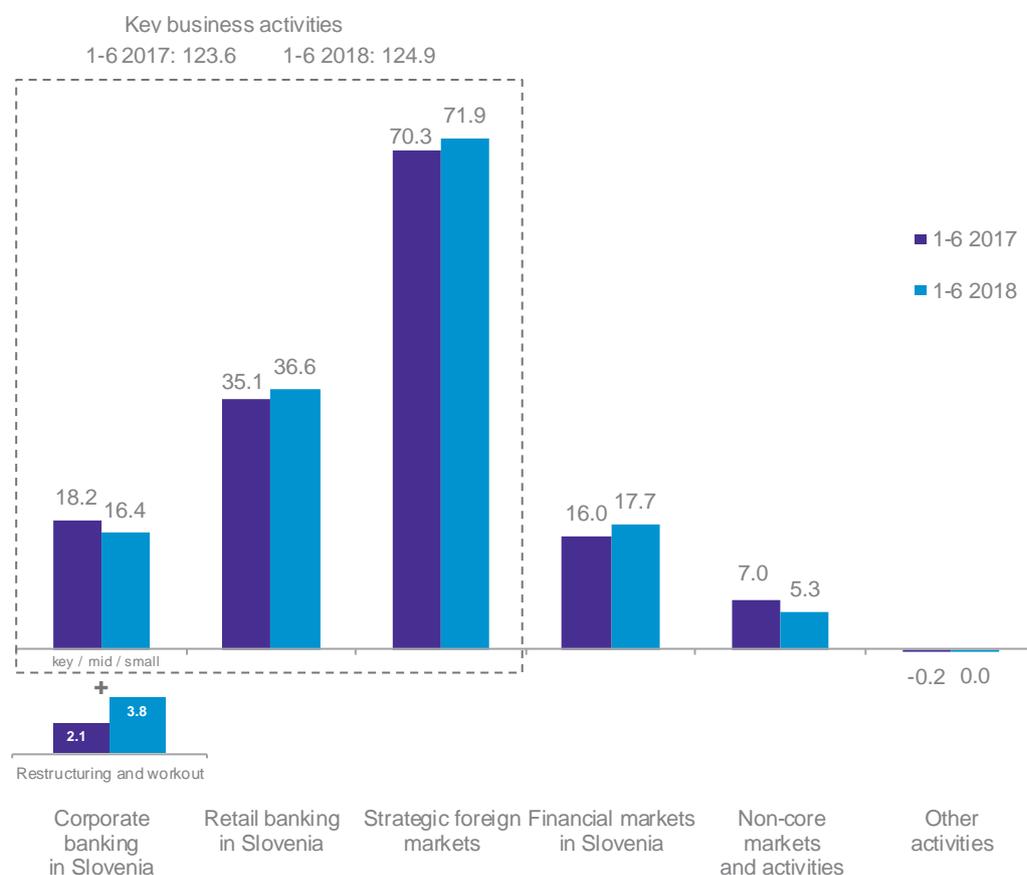
Net interest income increased by EUR 3.1 million, or 2% in H1 2018 compared to the same period of last year and totaled EUR 151.7 million, which was supported by stable or higher net interest income in all segments except in non-core markets and activities (EUR 1.7 million, or a 24% lower) and in the reduction of the interest expenses of the Bank, attributed in large part to the maturity of the Bank’s bond in July 2017 (bond in the amount of EUR 300 million issued in July 2014).

Figure 5: Net interest margin of NLB Group (in %)



Net interest margin of the Group increased by 0.02 p.p. to 2.51% in Q2 2018, due to higher interest margins in core foreign banks and in the Bank.

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

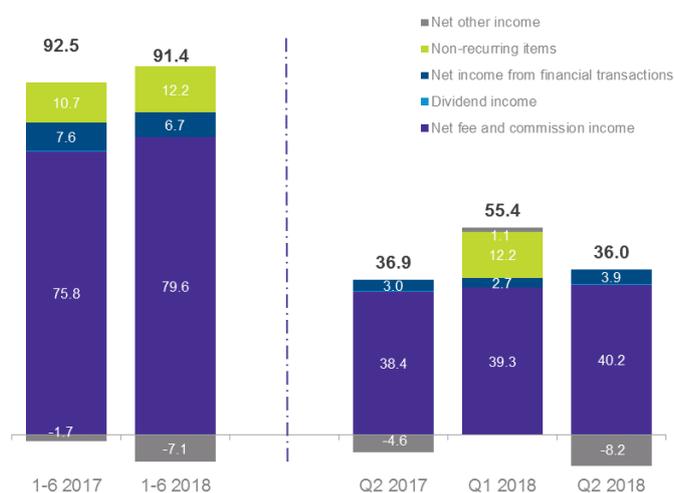


Net interest income of Key business activities in H1 2018 increased by EUR 1.3 million, or 1% YoY:

- Net interest income in Key/Mid/Small corporates in Slovenia decreased by EUR 1.8 million, or 10%, mainly due to lower loan volume in the Key corporate clients segment;
- Net interest income in Retail banking in Slovenia increased by EUR 1.4 million, or 4% as a result of the increase in loans volume and rising active interest rates on new production;
- In Strategic foreign markets net interest income improved by EUR 1.6 million, or 2%, due to YoY increase of loans volume of 10%, or EUR 243.9 million;
- Net interest income in Financial markets in Slovenia increased by EUR 1.7 million, or 11%, due to the lower costs of refinancing;
- Lower contributions in net interest income was evident in Non-core markets and activities as a result of the reduction of operations according to the Restructuring plan.

Net non-interest income

Figure 7: Net non-interest income of NLB Group (in EUR million)



Net non-interest income decreased compared to H1 2017 and totaled to EUR 91.4 million, which includes non-recurring income from the sale of NLB Nov penziski fond, Skopje in the amount of EUR 12.2 million (non-recurring income in H1 2017 amounted to EUR 10.7 million).

Regular net non-interest income (excluding non-recurring income⁴) totaled to EUR 79.2 million and decreased by EUR 2.6 million, or 3% YoY due to the following factors:

- Lower net profit from financial transactions by EUR 1.0 million due to the selling of some debt securities in February 2017 with a positive effect of EUR 1.8 million.
- Lower net other income by EUR 5.4 million, of which EUR 1.4 million due to lower income from services provided by the bank to other clients, EUR 1.0 million higher payment to DGS, and EUR 0.6 million EUR negative effect related to enforceable court decisions in connection with litigation started by Croatian bank regarding transferred old foreign currency deposits, deposited with Ljubljanska banka Zagreb Branch before dissolution of the former Socialist Federal Republic of Yugoslavia (SFRY) in H1 2018, and also due to higher received bonuses from an insurance company in 2017 in the Bank.
- Higher net fee and commission income for EUR 3.8 million was attributed to an increase in basic accounts (EUR 2.0 million), investment banking (EUR 0.9 million), and cards and ATM operations (EUR 1.4 million).

Notes:

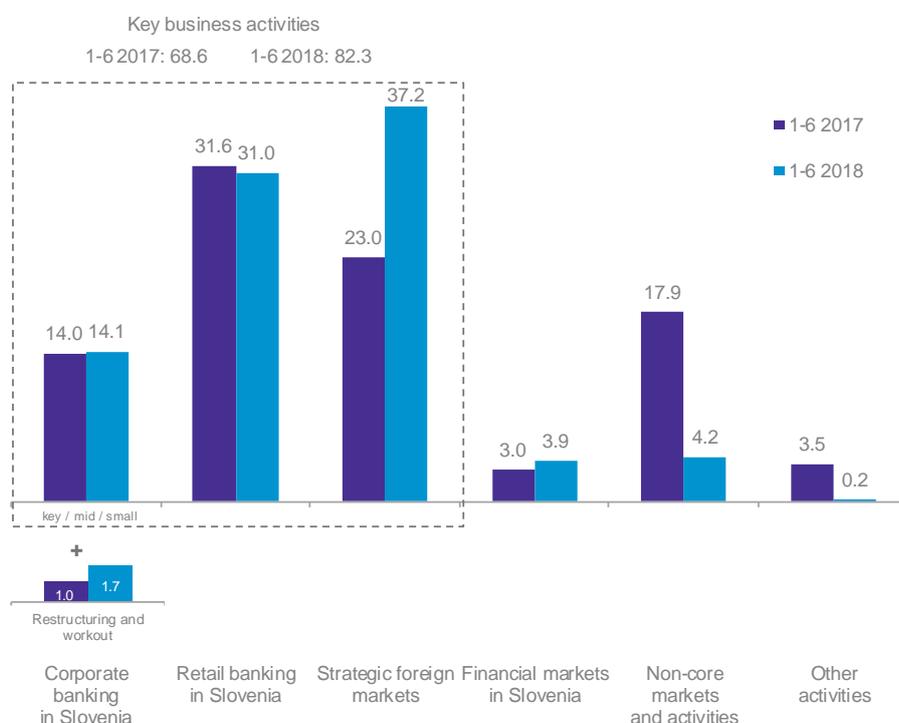
⁴ Non-recurring income in the H1 2017: the positive effect from the sale of non-core equity participation (EUR 9.5 million), and a court settlement with Zavarovalnica Triglav (EUR 1.2 million).

Non-recurring income in the H1 2018: the positive effect from the sale of core subsidiary NLB Nov penziski fond, Skopje (EUR 12.2 million).

Table 3: Net fees and commission income of the NLB Group by type of transaction (in EUR million)

in EUR million	NLB Group						
	1-6 2018	1-6 2017	Change		Quarters		
			YoY	%	Q2 18	Q1 18	Q2 17
Net fees and commissions	79.6	75.8	3.8	5%	40.2	39.3	38.4
Payment transactions	24.9	25.2	-0.4	-1%	12.8	12.1	13.0
Cards and ATM operations	12.2	10.8	1.4	13%	6.0	6.2	5.6
Basic accounts	23.0	21.0	2.0	10%	11.9	11.1	10.8
Guarantees	5.2	5.4	-0.3	-5%	2.6	2.6	2.7
Investment banking	2.7	1.9	0.9	45%	1.1	1.7	0.9
Investment funds	8.2	8.3	-0.1	-1%	3.9	4.3	4.2
Bancassurance	2.1	2.1	0.0	2%	1.1	1.0	1.0
Other	1.2	1.0	0.2	22%	0.9	0.3	0.2

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



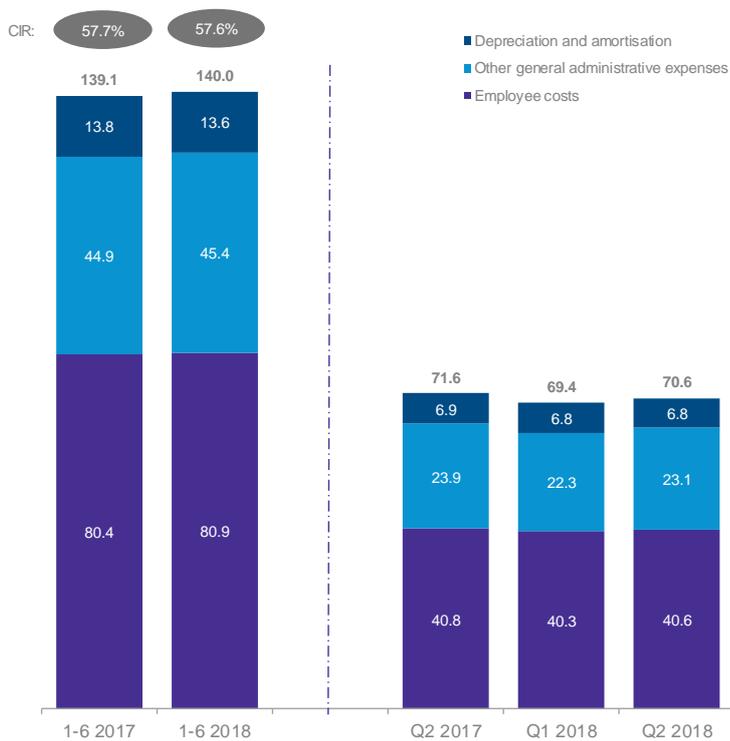
Net non-interest income of Key business activities increased by EUR 13.6 million, or 20% YoY, almost exclusively due to the contribution of the Strategic foreign markets:

- Strategic foreign markets net non-interest income increased substantially by EUR 14.3 million, or 62% YoY, of which EUR 12.2 million represents non-recurring income from the sale of the NLB Nov penziski fond, Skopje;
- Corporate banking in Slovenia realised EUR 14.1 million of net non-interest income, of which EUR 13.7 million were net fees and commission income;
- Retail banking in Slovenia recorded a decrease in net non-interest income of EUR 0.7 million (2%) with an increase of net fees and commission (6%) mainly related to basic accounts and card operation business (due to the new currency exchange fee for card operations introduced at the beginning of 2018);
- Financial markets in Slovenia recorded an increase in net non-interest income by EUR 0.9 million, mostly due to lower expenses for SRF (EUR 1.4 million).

- Non-core markets and activities contribution to the Group's net non-interest income was significantly lower compared to H1 2017 (EUR 13.6 million less), mainly due to the H1 2017 non-recurring events (EUR 10.7 million; refer to note 4) which had positive impact on the result.

Total costs

Figure 9: Total costs of NLB Group (in EUR million)



Total costs amounted to EUR 140.0 million (of which EUR 0.1 million were costs of restructuring), and are thus by EUR 0.9 million, or 1% higher YoY. A major growth was recorded in costs related to accelerated marketing/promotion and business consulting, but was offset by the decrease of the restructuring costs (EUR 1.3 million, or 91%).

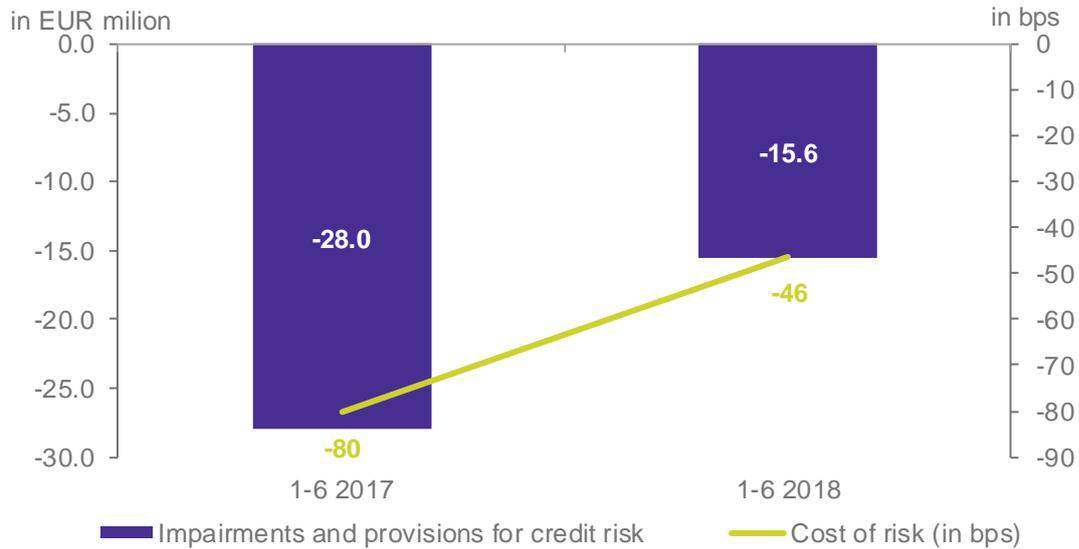
CIR decreased by 0.1 p.p. to 57.6%, while CIR normalised⁵ increased by 0.8 p.p. to 60.6%.

Notes:

⁵ Non-recurring items from note 1 are excluded.

Net impairments and provisions for credit risk

Figure 10: NLB Group impairments and provisions for credit risk and cost of risk (in bps)



In H1 2018 impairments and provisions for credit risk were net released in the amount of EUR 15.6 million (EUR 12.4 million lower YoY) as a result of a successful restructuring of some major exposures and the recovery of non-performing loans. The release in H1 2017 was to a large extent affected by the release of pool provisions in the approx. amount of EUR 21 million in that period, mainly in the corporate client segment. Consequently, the cost of risk increased from -80 bps to -46 bps.

Financial position of NLB Group⁶

Table 4: Statement of the financial position of NLB Group

in EUR million	NLB Group			Change YoY	Change YtD
	30 June 2018	31 Dec 2017	30 June 2017		
Cash, cash balances at central banks, and other demand deposits at banks	1,298.7	1,256.5	1,288.7	1%	3%
Loans to banks	453.7	510.1	450.8	1%	-11%
Loans to customers	7,059.0	6,994.5	6,974.2	1%	1%
Gross loans	7,611.9	7,641.2	7,826.0	-3%	0%
- Corporate	3,621.6	3,705.0	3,911.0	-7%	-2%
- Individuals	3,588.0	3,470.2	3,327.6	8%	3%
- State	402.3	466.0	587.4	-32%	-14%
Impairments and deviations from fair value	-552.9	-646.8	-851.9	-35%	-15%
Financial assets (securities)	3,214.1	2,963.4	2,828.1	14%	8%
- Trading	67.5	72.2	120.4	-44%	-7%
- Non-trading	3,146.7	2,891.2	2,707.7	16%	9%
Investments in subsidiaries, associates, and joint ventures	42.3	43.8	40.9	4%	-3%
Property and equipment, investment property	235.8	240.2	275.0	-14%	-2%
Intangible assets	32.7	35.0	36.8	-11%	-7%
Other assets	179.8	194.4	175.1	3%	-7%
Total assets	12,516.2	12,237.7	12,069.6	4%	2%
Deposits from customers	10,018.0	9,879.0	9,491.2	6%	1%
- Corporate	2,203.6	2,260.1	2,102.1	5%	-2%
- Individuals	7,548.4	7,362.9	7,044.9	7%	3%
- State	266.0	256.0	344.3	-23%	4%
Deposits from banks and central banks	39.1	40.6	62.8	-38%	-4%
Debt securities in issue	0.0	0.0	282.0	-	-
Borrowings	333.6	353.9	390.7	-15%	-6%
Other liabilities	275.9	248.7	246.5	12%	11%
Subordinated liabilities	15.0	27.4	27.3	-45%	-45%
Equity	1,796.7	1,653.6	1,538.0	17%	9%
Non-controlling interests	37.9	34.6	31.1	22%	9%
TOTAL LIABILITIES AND EQUITY	12,516.2	12,237.7	12,069.6	4%	2%

Total assets increased by EUR 278.5 million in H1 2018 YtD, and totaled EUR 12,516.2 million. The increase was driven mainly by the continued inflows of deposits from individuals (EUR 185.5 million).

At the end H1 2018, the total gross loans to the non-banking sector amounted to EUR 7,611.9 million, and were on the same level as at the end of 2017 (EUR 29.3 million lower YtD).

The share of customers' deposits continued to increase and accounted for 94% of the total funding of the Group at the end of H1 2018. The YtD increase derives from deposits from individuals (EUR 185.5 million, or 3%), while corporate deposits decreased (EUR 56.5 million, or 2%).

At the end of H1 2018, the LTD ratio (net) was 70.5% on the Group level; a decrease of 0.3 p.p. YtD as a result of the growth, but still a moderate demand for loans and increased deposits.

Notes:

⁶ On 1 January 2018, the IFRS 9 was implemented, therefore the data from 1 January 2018 onwards are not totally comparable with previous years.

Figure 11: Total assets by country (in %)⁷

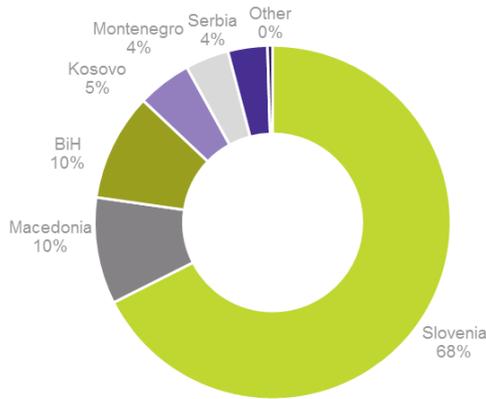
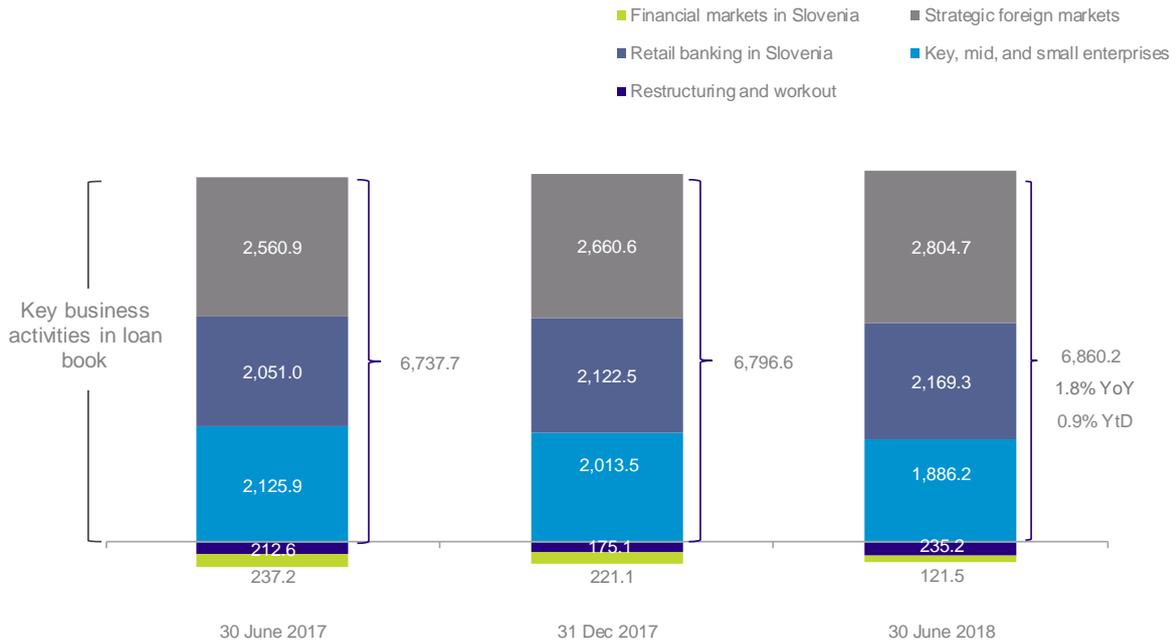


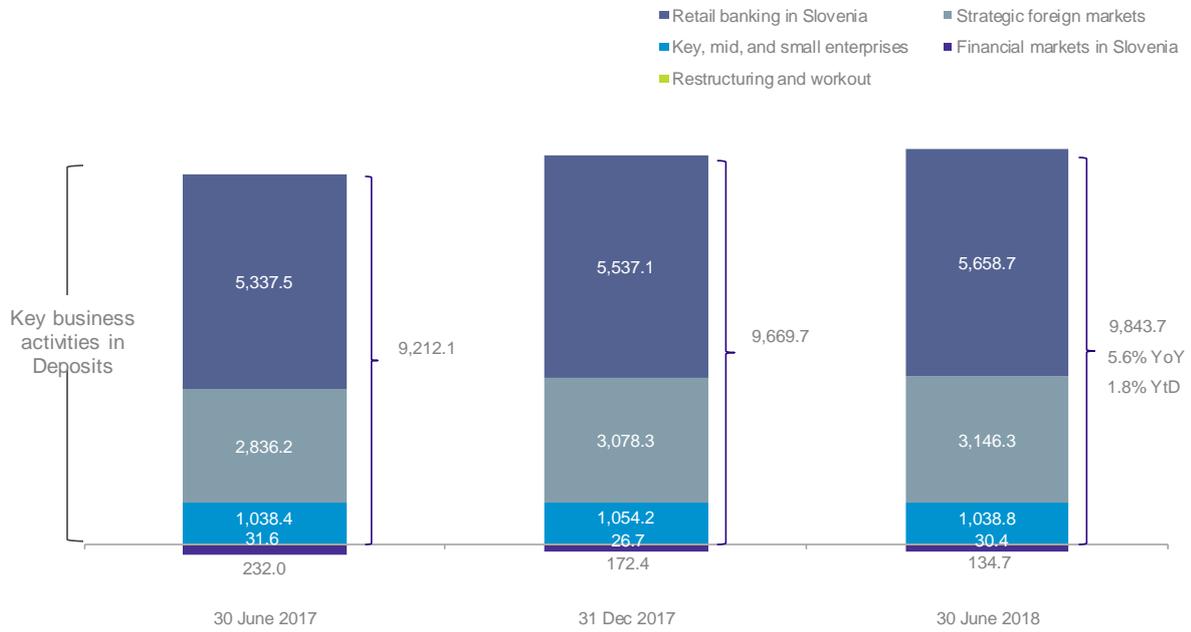
Figure 12: Gross loans to customers by core segment (in EUR million)



Notes:

⁷ Geographical analysis based on location of assets of the Group.

Figure 13: Deposits from customers by core segment (in EUR million)



Deposits from customers in Key business activities increased by 6% YoY. On the YtD basis, a slight decrease of deposits was recorded in the Key/mid/small enterprises segment in Slovenia (EUR 15.5 million), while Strategic foreign markets and Retail banking in Slovenia recorded an increase in deposits (EUR 68.0 million and EUR 121.6 million, respectively).

Segment analysis

The Group monitors clients' operations in various segments that are defined in accordance with the Bank's long-term strategy and are divided into two major segments, i.e. Core and Non-core.

The Core markets and activities include:

- Retail banking in Slovenia, which includes banking with individuals and asset management, as well as the results of the jointly-controlled company NLB Vita and associated companies Skupna pokojninska družba and Bankart;
- Corporate banking in Slovenia, which includes banking with large (key), medium-sized, micro, and small companies. The results of operations with healthy companies (Sales), companies in restructuring, or defaulters (Restructuring and workout) are monitored separately within the segment;
- Financial markets in Slovenia, which include treasury activities, trading in financial instruments, and also presents the result of asset and liabilities management (ALM). Investment banking as a part of Financial markets in Slovenia that includes brokerage, custody of securities, as well as financial consulting is represented as a separate segment within Corporate banking in Slovenia;
- Strategic foreign markets, which include the operations of strategic Group companies on strategic markets (Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, and Serbia).

Non-core markets and activities include the operations of non-core Group members and the non-core part of the portfolio of the Bank.

Other activities (Other) include the categories whose operating results cannot be allocated to individual segments and include the costs of restructuring, and the expenses from vacant business premises.

Retail banking in Slovenia

Financial highlights

- Net interest income was still under pressure given the continued low interest rates environment; nevertheless, it increased (4% YoY) due to growth in retail loan portfolio and slow growth in interest rates on new loans.
- Net fees and commission income increased by 6% YoY mainly on basic accounts due to a new package offer for individuals and on card operations.
- Higher costs and additional impairments and provisions contributed to the lower profit before tax by 16% YoY.
- Growth of 2% YtD in loan balances and growth of 2% YtD in deposits volume.

Business highlights

- Mobile wallet NLB Pay, enabling clients to pay with their mobile phones, was launched.
- A new package offer for individuals was introduced to simplify banking services.
- The portal "Ustvarjam dom" (Creating home) was significantly upgraded.
- NLB Skladi (asset management company) market share exceeded 30%.

Table 5: Key financials of Retail banking in Slovenia

in EUR million consolidated		Retail banking in Slovenia						
	1-6 2018	1-6 2017	Change YoY	Q2 2018	Q1 2018	Q2 2017	Change QoQ	
Net interest income	36.6	35.1	1.4	4%	18.4	18.2	17.9	1%
Net non-interest income	31.0	31.6	-0.7	-2%	12.7	18.3	13.6	-30%
Total net operating income	67.5	66.7	0.8	1%	31.1	36.4	31.6	-15%
Total costs	-51.2	-49.4	1.7	3%	-25.7	-25.5	-25.1	1%
Result before impairments and provisions	16.4	17.3	-0.9	-5%	5.4	10.9	6.4	-50%
Impairments and provisions	-2.2	-0.1	2.1		-1.0	-1.2	-0.3	-22%
Net gains from investments in subsidiaries, associates, and JVs'	2.5	2.7	-0.2	-7%	1.4	1.2	1.6	15%
Result before tax	16.7	20.0	-3.3	-16%	5.8	10.9	7.8	-47%

	30 June 2018	31 Dec 2017	Change YtD	
Net loans to customers	2,143.8	2,083.9	59.9	3%
Gross loans to customers	2,169.3	2,122.5	46.9	2%
Housing loans	1,352.1	1,324.6	27.5	2%
Consumer loans	564.3	525.0	39.3	7%
Other	252.9	272.9	-20.0	-7%
Deposits from customers	5,658.7	5,537.1	121.6	2%

The Bank maintained a leading position, with a market share in retail lending of 23.5% (2017: 23.4%) and 30.4% (2017: 30.7%) in deposit-taking.

The Bank's mobile wallet NLB Pay app (launched in 2018) – contactless, simple, fast, and safe payments on contactless POS (in Slovenia and abroad), enables clients to pay with the NLB MasterCard and Maestro cards. This type of payment was very well accepted, and rated 4.7 on average in the app store by clients downloading the app. Since the implementation, 36,851 transactions have been performed. NLB Pay will also be gradually introduced by other Group banks.

Customer experience was improved on ATMs by introducing a service of execution of payment order only by scanning a QR code. The next step of the ATM technology for improving customer experience are contactless ATMs. The Bank was the first on the Slovenian market to offer this functionality to clients, already on one fifth of 114 Bank's ATMs. Currently, cash withdrawal and balance information are already possible – with further functionalities still to be offered to clients.

To ease personal finance management NLB Klik was updated with a counter of the remaining number of free services in the scope of the packages for individuals (Basic Package, Young Package, Active Package, and Premium Package) which were offered to clients earlier in 2018.

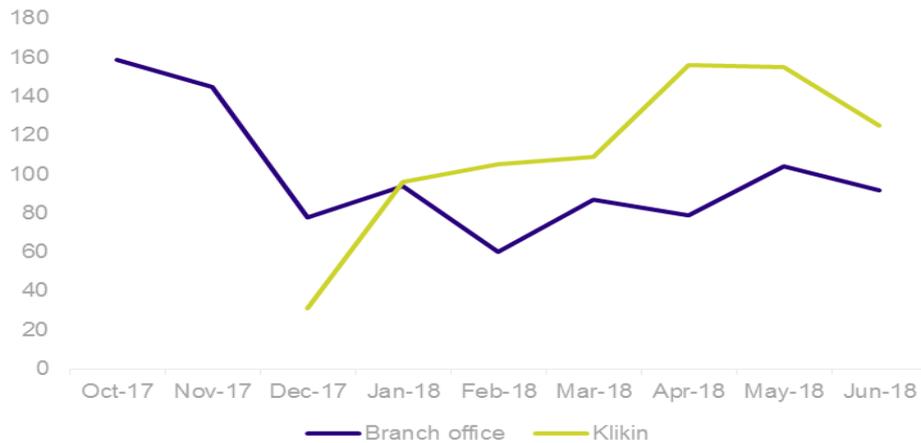
To enhance banking experience of the clients, the Bank offered a complete housing solution complementing financing with consultancy in the pre-sales stage and support in the after-sale stage of the housing loan. A portal "Ustvarjam dom" (Creating home) was upgraded to give clients access to special offers for the purchase of furnishings via the Bank's partners.

Through the NLB Welcome service a client of any of the banking subsidiary of the Group can use banking services of any other banking subsidiary. Such service enables an increase of overdraft on the accounts and credit cards, and money transfers. ATM's cash withdrawals are free of fees.

The use of mobile bank Klikin continues to grow, in H1 2018 gaining 34,130 new users (in total 142,081), and reaching 21.7% of all the Bank's customers at the end of H1 2018 (a 9.4 percentage point increase YoY). Klikin holds the number one position in Finance apps category both in the Apple App Store and Google Play Store, with ratings of 4.8 and 4.4, respectively. Following the Bank's digital agenda, several Klikin upgrades were performed in H1 2018, including Face ID log-in option, and chat and video call within the application. General information about the Bank can be received simply via video call or chat, and registered users can also carry out services such as blocking and unblocking of the mobile bank and payments, changing overdrafts, ordering activation codes, and other financial transactions and services.

'Express Loan,' which was implemented in Klikin at the end of 2017, was very well accepted among users. Fifty-nine percent of all Express Loans in H1 2018 were already concluded via Klikin rather than in NLB branch offices.

Figure 14: Express Loan (number of new loans)



NLB Skladi market share increased to 30.81% (H1 2017: 28.69%). Ranked first in the amount of net-inflows of EUR 38.36 million (H1 2017: EUR 44.74 million), the company remained the largest asset management company in Slovenia, and the largest mutual funds management company as well. Total assets under management in mutual funds and in discretionary portfolio were at the end H1 2018 EUR 1.25 billion (H1 2017: EUR 1.12 billion).

In H1 2018, NLB Vita charged EUR 38.94 million in gross written premium (a 12% increase YoY; H1 2017: EUR 34.86 million), with an estimated balance sheet of EUR 458 million (a 6% increase YoY, H1 2017: EUR 432 million). Market share of the insurance company, excluding pension companies, at the end of H1 2018 stood at 14.84% (H1 2017: 13.1%), which ranked NLB Vita third among classic life insurance products in Slovenia.

Corporate and Investment banking in Slovenia

Financial highlights

- The segment contributed EUR 24.5 million in profit before tax in H1 2018, showing an increase by EUR 6.3 million or 35% YoY, mainly due to higher release of impairments and provisions (EUR 5.4 million).
- Net operating income and costs remained stable YoY.
- A decrease in gross loans due to the size of matured loans in Key enterprises and prepayment of some larger exposures, while Small enterprises continued to grow (+12% YtD).

Business highlights

- Klikpro was upgraded with quick financing, video call, and chat functionalities.
- Successful organisation of the facilities to (re)finance Interblock Group's companies in Slovenia and the USA.
- Group-wide payment offer was launched for clients of the Group.
- NLB Business Account or Business Package can now be opened online.
- New package offer for companies was introduced.

Table 6: Key financials of Corporate banking of Slovenia

in EUR million consolidated		Corporate banking in Slovenia						
	1-6 2018	1-6 2017	Change YoY		Q2 2018	Q1 2018	Q2 2017	Change QoQ
Net interest income	20.2	20.3	-0.1	-1%	10.6	9.6	10.3	11%
Net non-interest income	15.8	14.9	0.9	6%	7.5	8.4	6.9	-11%
Total net operating income	36.0	35.3	0.7	2%	18.1	17.9	17.2	1%
Total costs	-21.4	-21.6	-0.2	-1%	-10.9	-10.5	-11.2	3%
Result before impairments and provisions	14.6	13.6	0.9	7%	7.2	7.4	6.0	-2%
Impairments and provisions	10.0	4.6	5.4	118%	11.1	-1.1	0.3	-
Result before tax	24.5	18.2	6.3	35%	18.2	6.3	6.4	190%

	30 June 2018	31 Dec 2017	Change YtD	
Net loans to customers	1,991.2	2,026.3	-35.1	-2%
Gross loans to customers	2,121.3	2,188.6	-67.2	-3%
- corporate	1,900.9	1,939.3	-38.4	-2%
-o/w Restructuring and Workout	229.3	168.6	60.7	36%
- state	220.5	248.7	-28.3	-11%
Deposits from customers	1,069.1	1,080.9	-11.8	-1%

The Bank has a 22.6% market share in corporate loans (2017: 20.8%), and 26.9% in trade finance (2017: 25.6%).

In the mobile bank Klikpro, which besides Face ID login and the possibility of video call and chat, the Bank is the first bank in Slovenia implementing 24/7 availability of financing with Express loan and Express overdraft in an amount of up to EUR 15,000. The approval process is completed within minutes. Klikpro users increased 96% YoY, covering 34% of all corporate clients by the end of H1 2018.

A new package offers for legal entities - NLB Business Start Basic, NLB Business Start Mobile, NLB Business Start Advanced, NLB Business Package Basic, and NLB Business Package Comprehensive – combine the most common every day banking products, and are tailored to different client segments' needs.

An order to open an NLB Business Account or any of the packages can be submitted online, and the rest is arranged by NLB client advisors.

The Bank is committed to the Western Balkans and is striving to become the regional champion. This was also proved by the NLB Business Forum (May 2018) organised by the Bank, which connects customer (existing and potential), and Group banks from the region to contribute to potential opportunities for Slovenian companies to explore potentials for growth and investment in infrastructure projects.

To cater to the Bank's clients operating in the region, all banking members of the Group jointly launched the Group payment offer for outgoing and incoming international payments of customers and legal entities operating in NLB Group's markets.

Table 7: Key financials of Investment banking and custody services of Slovenia

in million EUR consolidated	Investment banking							
	1-6 2018	1-6 2017	Change YoY	Q2 2018	Q1 2018	Q2 2017	Change QoQ	
Net non-interest income	4.4	4.1	0.3	8%	2.1	2.3	1.4	-8%
Total costs	-3.0	-2.9	0.1	4%	-1.5	-1.5	-1.4	0%
Result before tax	1.6	1.4	0.1	9%	0.7	0.9	0.1	-23%

Investment banking and custody services revenues increased YoY; fewer concluded interest rate hedge deals with clients were more than successfully compensated, with an almost 40% growth of brokerage fees and a 20% growth of custody fees.

At the end of 2018 H1, the total asset value under custody exceeded EUR 16.2 billion, a 12.33% increase YoY.

The Bank is unique on the Slovenian financial market in offering a broad spectrum of options to raise funds for its clients. A continuous track record of providing support and adjusting to clients' needs was enriched by the arranging of the issue of bonds for the GEN-I in the amount of EUR 20 million in June 2018. Additionally, the Bank led the organisation of the syndicated loan in the amount USD 72 million, and EUR 30 million for (re)financing of the Interblock Group companies in Slovenia and the USA. The project was closed at the end of June 2018.

Strategic foreign markets

Financial highlights

- Profit before tax amounted to EUR 58.6 million, and includes non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje in the positive amount of EUR 12.2 million. On the other hand, in H1 2017 the profit was positively affected by the release of impairments and provisions in the amount of EUR 12.5 million.
- Despite the competitive market environment and high pressure on interest rates, net interest income increased by 2% YoY.
- Strong growth in net non-interest income, especially in fees and commission income (7% YoY).
- The cost of risk remained low.
- Growth of 5% YtD in loan balances and growth of 2% YtD in deposits volume.

Business highlights

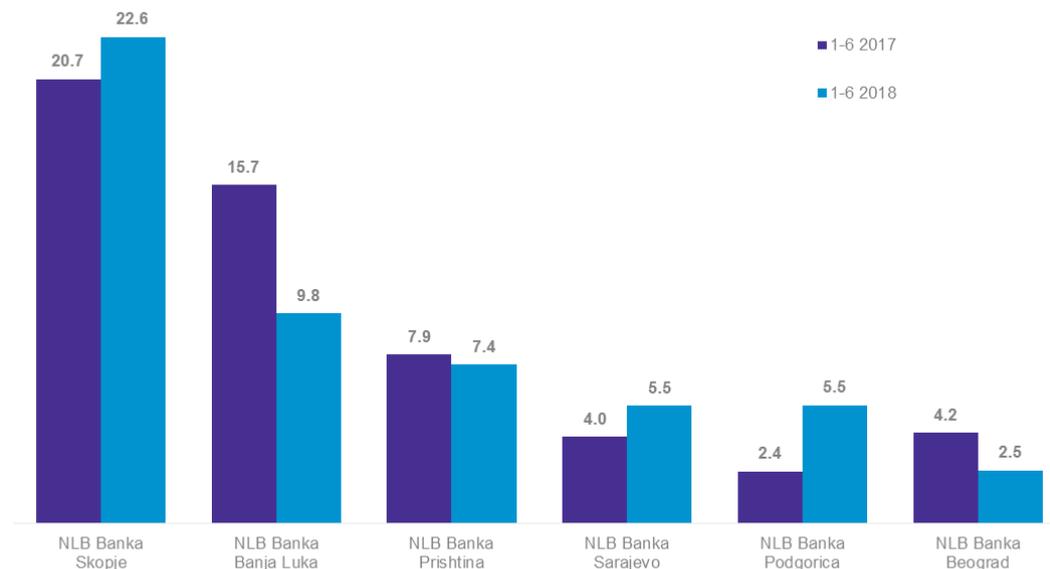
- The subsidiary banks generated a net profit partly as a result of strong loan production.
- 100% of the shares of NLB Nov penziski fond, Skopje were sold.
- The subsidiary banks received several awards.

Table 8: Key financials of Strategic foreign markets

in EUR million consolidated	Strategic foreign markets							
	1-6 2018	1-6 2017	Change YoY	Q2 2018	Q1 2018	Q2 2017	Change QoQ	
Net interest income	71.9	70.3	1.7	2%	36.4	35.5	35.4	2%
Net non-interest income	37.2	23.0	14.3	62%	12.7	24.6	12.2	-49%
Total net operating income	109.2	93.2	15.9	17%	49.1	60.1	47.6	-18%
Total costs	-49.1	-46.9	2.2	5%	-25.0	-24.1	-24.1	4%
Result before impairments and provisions	60.0	46.3	13.7	30%	24.0	36.0	23.5	-33%
o/w non-recurring items	12.2	-	-	-	-	12.2	-	-
Impairments and provisions	-1.5	12.5	-14.0	-	-4.4	3.0	-4.9	-
Result before tax	58.6	58.8	-0.2	0%	19.6	39.0	18.7	-50%
o/w Result of minority shareholders	-4.5	-4.4	-0.2	4%	-1.5	-3.0	-1.6	49%

	30 June 2018	31 Dec 2017	Change YtD	
Net loans to customers	2,575.5	2,393.5	182.0	8%
Gross loans to customers	2,804.7	2,660.6	144.1	5%
Deposits from customers	3,146.3	3,078.3	68.0	2%

Figure 15: Profit after tax of strategic NLB Group banks (on standalone basis) (in EUR million)



All subsidiary banks generated a profit before impairments and tax, and also a net profit after tax. That was partly the result of strong loan production. An additional positive impact on the NLB Group result and the result of NLB Banka, Skopje was due to the sale of NLB Nov penziski fond, Skopje.

Lending activity (gross loans) in the segment of the non-banking sector was intensified (5% YtD), especially by NLB Banka, Beograd (17% increase YtD) and NLB Banka, Prishtina (13% increase YtD).

NLB Banka Sarajevo is entering the bancassurance business. It obtained a licence from the Insurance Supervision Agency NADOS to serve as a sale agent for insurance products.

NLB Banka, Podgorica joined forces with NLB Banka, Banja Luka and coordinated the first joint cross-border financing at the subsidiary bank level, and provided credit support to a tourism project in Montenegro in the amount of EUR 7 million.

NLB Banka, Beograd continues to support its efforts in the niche business of agribusiness. The bank sponsored the 9th conference Agrobusiness Serbia, and the Agricultural fair in Šabac. For the 7th year in a row, the bank launched the NLB Organic project, a landmark project which recognises and awards the best organic production projects supporting environmental protection and sustainable development.

NLB Banka, Prishtina was awarded by EBRD for the most attractive bank for guarantees in Kosovo in 2017. The bank was also awarded for its contribution to the economic development and creation of jobs in Kosovo.

NLB Banka, Skopje was named the best bank in Macedonia for 2017, and received the Euromoney Award for Excellence 2018.

Financial markets in Slovenia⁸

Financial highlights

- Profit before tax amounted to EUR 13.7 million, an increase of 19% YoY.
- Higher net interest income due to lower costs of refinancing.
- Negative, but higher net non-interest income due to increased fees related to issuance of the Republic Slovenia bond.

Business highlights

- The Bank acted as one of the joint lead managers in the EUR 1.5 billion, 10-year benchmark bond issuance for the Republic of Slovenia.

Table 9: Key financials of Financial markets in Slovenia

in million EUR consolidated		Financial markets Slovenia						
	1-6 2018	1-6 2017	Change YoY	Q2 2018	Q1 2018	Q2 2017	Change QoQ	
Net interest income	17.6	15.8	1.8	11%	9.0	8.6	6.3	4%
Net non-interest income	-0.5	-1.1	0.5	49%	-0.4	-0.2	-2.2	-107%
Total net operating income	17.1	14.8	2.3	16%	8.6	8.5	4.1	2%
Total costs	-3.3	-3.2	0.2	5%	-1.7	-1.6	-1.6	7%
Result before impairments and provisions	13.7	11.6	2.1	18%	6.9	6.8	2.4	1%
Impairments and provisions	0.0	0.0	0.0	-	-0.1	0.0	0.0	-
Result before tax	13.7	11.6	2.1	19%	6.8	6.9	2.4	-1%

	30 June 2018	31 Dec 2017	Change YtD	
Gross loans to customers	121.3	221.1	-99.8	-45%
Borrowings	252.5	260.7	-8.2	-3%

Notes:

⁸ Investment banking as a part of Financial markets in Slovenia that includes brokerage, custody of securities, as well as financial consulting is represented as a separate segment within Corporate and Investment banking in Slovenia.

Non-core markets and activities

Financial highlights

- The Non-core result before tax was EUR 8.0 million – a significant drop YoY (64%) due to non-recurring income impacting the H1 2017 result⁹.
- The cost base was reduced by 16% YoY to EUR 9.4 million due to the continued divestment process.
- Segment assets decreased by 12% YtD.

Business highlights

- In H1 2018 the Group continued with the controlled wind-down of the remaining non-core segment, including credit business with foreign clients, operations of non-strategic Group members, the Bank's equity participations, as well as active management of real-estate assets (contributing to the reduction of the Group's NPLs).
- In addition to the 2017 achievements, non-strategic subsidiaries continued with the collections of claims, leading to a further decrease of the Group non-core assets.
- In Q2 2018 the liquidation of NLB Propria d.o.o., Ljubljana – in liquidation was successfully concluded and a new real estate company in Slovenia was established, namely S-REAM d.o.o., Ljubljana.

Table 10: Key financials of Non-core markets and activities

in EUR million consolidated		Non-core markets and activities						
	1-6 2018	1-6 2017	Change YoY		Q2 2018	Q1 2018	Q2 2017	Change QoQ
Net interest income	5.3	7.0	-1.7	-24%	2.3	3.1	8.4	-26%
Net non-interest income	4.2	17.9	-13.6	-76%	1.6	2.6	3.4	-37%
Total net operating income	9.6	24.8	-15.3	-61%	3.9	5.7	34.2	-31%
Total costs	-9.4	-11.2	-1.8	-16%	-4.7	-4.7	-7.6	2%
Result before impairments and provisions	0.2	13.7	-13.5	-99%	-0.8	0.9	26.6	-182%
o/w non-recurring items	-	10.7	-	-	-	-	5.8	-
Impairments and provisions	7.8	8.7	-0.8	-10%	5.5	2.3	11.5	142%
Result before tax	8.0	22.3	-14.3	-64%	4.8	3.2	38.2	48%

	30 June 2018	31 Dec 2017	Change YtD	
Segment assets	345.0	391.3	-46.4	-12%
Net loans to customers	227.1	269.9	-42.8	-16%
Gross loans to customers	395.0	448.5	-53.5	-12%
Investment Property and Property & Equipment received for repayment of loans	77.3	81.6	-4.3	-5%
Other assets	40.5	39.9	0.7	2%
Deposits from customers	9.2	10.2	-1.0	-10%

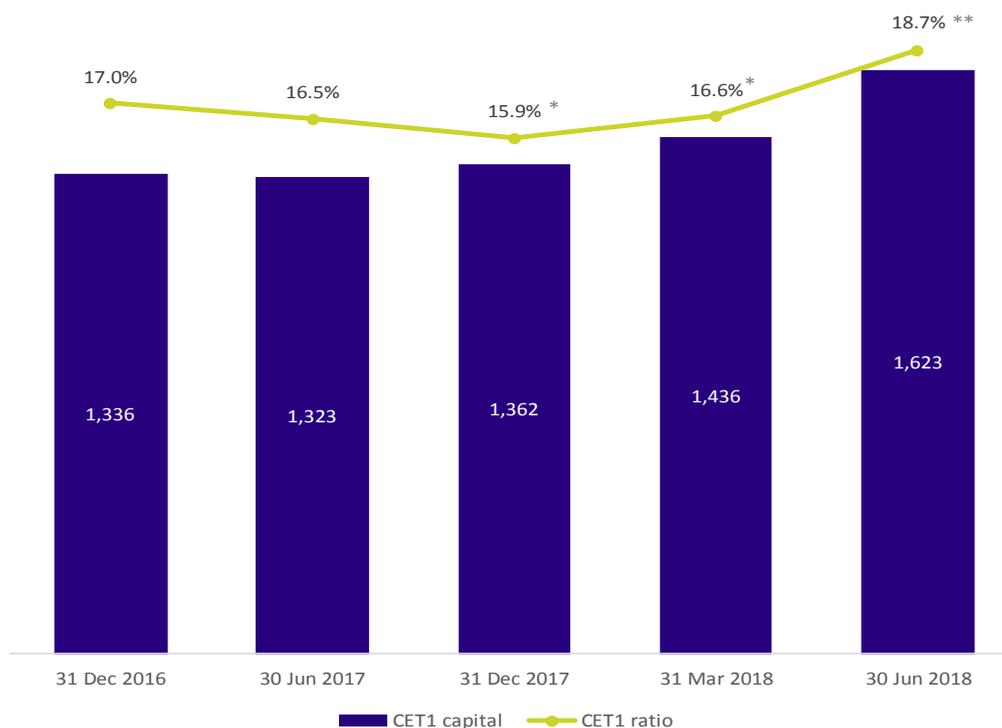
Notes:

⁹ Please refer to note 4.

Capital and Liquidity

Capital adequacy

Figure 16: NLB Group CET 1 capital (in EUR million) and CET 1 ratio (in %)



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

**Including undistributed dividend (EUR 189 million) and IFRS9 implementation effect (EUR 44 million).

In June 2018, the overall capital requirement (OCR) amounted to 13.375% for the Bank on the consolidated level, consisting of:

- 11.50% total SREP capital requirement (TSCR) (8% Pillar 1 requirement and 3.50% Pillar 2 requirement); and
- 1.875% CBR (1.875% Capital conservation buffer and 0% Countercyclical buffer).

The applicable OCR requirement for 2018 has increased from 12.75% in 2017 to 13.375%, due solely to the gradual phase-in of the capital conservation buffer as prescribed by law.

The capital of the Bank and the Group predominantly consists of the components of top quality common equity tier 1 (CET 1) capital, which is why all three capital ratios (CET 1 ratio, Tier 1 capital ratio, and the Total capital ratio) are the same. It remained strong, at a level which covers all current and announced regulatory capital requirements, including capital buffers and other currently known requirements, as well as the Pillar 2 Guidance. Moreover, it is within the stated risk appetite limit and above the EU average, as published by the EBA (Q4 2017: 16.2%).

At the end of June 2018, the capital ratios for NLB Group stood at 18.7% (or 2.8 percentage points higher than at the end of 2017), and for NLB at 26.2% (or 4.4 percentage points higher than at the end of 2017). The improvement of capital adequacy derives from higher capital, mainly due to unallocated NLB's profit for the year 2017 (EUR 189 million), the inclusion of the positive effect from the implementation of IFRS 9 (EUR 43.8 million for NLB Group and EUR 27.7 million for NLB), and the conclusion of transitional arrangements relevant until the end of 2017.

In September 2018, NLB applied to the ECB for formal approval for the distribution of dividends from retained earnings of NLB d.d. from fiscal year 2017 and retained earnings from previous years of NLB d.d. NLB also applied for the inclusion of the NLB's semi-annual profit in its CET1 capital on both the individual and consolidated basis.

Table 11: Total risk exposure (in EUR million) for NLB Group

	30 Jun 2018	31 Dec 2017	31 Dec 2016	YtD
Total risk exposure amount (RWA)	8,693	8,546	7,862	1.7%
RWA for credit risk	7,210	7,096	6,865	1.6%
RWA for market risks + CVA	529	501	105	5.8%
RWA for operational risk	953	949	893	0.5%

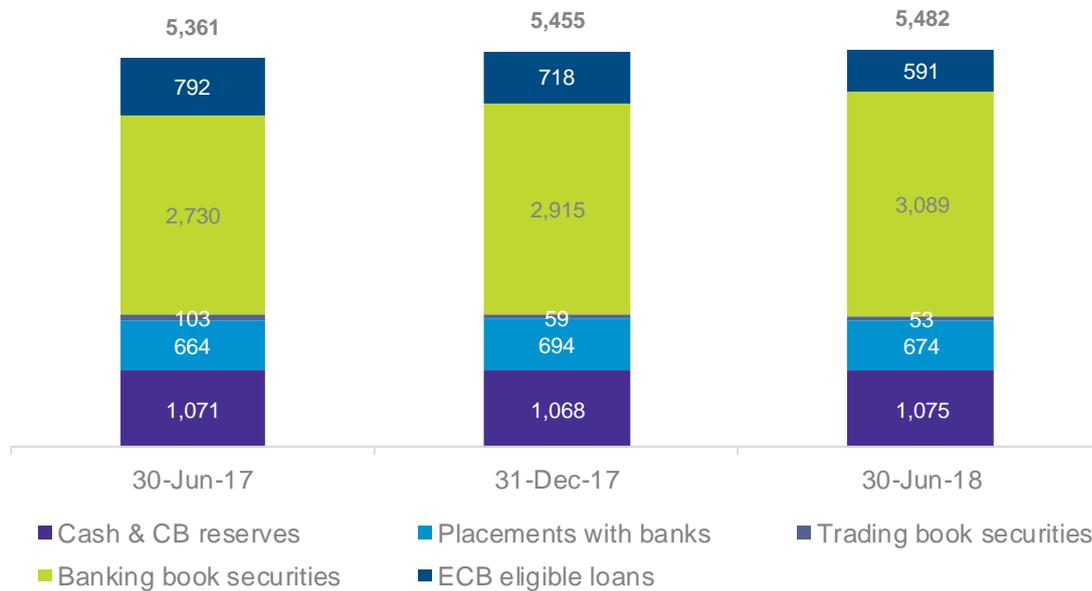
The RWA for credit risk increased (EUR 113 million YtD) mainly due to lower coverage by impairments and provisions resulting from the transition to IFRS 9 (mainly for corporate and retail exposures). Besides that, higher RWA on the retail segment (EUR 129 million) for consumer and housing loans and higher RWA for corporates (EUR 77 million, mainly in subsidiary banks) is a consequence of increased lending business. RWA for exposures to central banks, the central government, and institutions decreased (in a total amount of EUR 61 million). The increase in RWA for market risks and credit value adjustments (CVA) (EUR 29 million) is mainly the result of more open positions in domestic currencies of non-euro subsidiary banks. The increase in the RWA for operating risks (EUR 4 million) arises from the higher three-year average of income, which represents the basis for the calculation.

Liquidity

The liquidity position of the Group remains strong, with a LTD ratio of 70.5%, meeting liquidity indicators high above regulatory requirements, and confirming the low liquidity risk tolerance of the Group.

Liquid assets of the Group at the end of H1 2018 amounted to EUR 5.48 billion (43.8% of total assets; 2017 year-end: EUR 5.45 billion, 44.6% of total assets), of which EUR 0.42 billion (2017 year-end: EUR 0.43 billion) were encumbered for operational and regulatory purposes.

Figure 17: NLB Group liquid assets structure reflects a robust liquidity position (in EUR million)



The banking book securities portfolio, which represented 56.3% of the Group's liquid assets at the end of H1 2018 (2017 year-end: 54.5%), was dispersed appropriately in relation to issuers, countries, and remaining maturity, with the aim of managing liquidity and interest risk.

Driven by the low interest rate environment, the main change in the funding structure of the Group was the continued transformation of term-to-sight customer deposits, representing the key funding base. Share-of-sight customer deposits equaled 61.9% of total assets at the end of H1 2018 (2017 year-end: 59.9%).

Risk management

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

The activities related to International Financial Reporting Standard (IFRS) 9 requirements, which entered into force in the beginning of 2018 including methodological adaptations and anticipated quantitative impacts, were fully implemented at the end of the year 2017, and included internal validation and an external pre-audit methodological review. Due to very favorable macroeconomic trends and the improved quality of the credit portfolio, the cumulative effects on the Group basis in the amount of EUR 43.8 million (as at 1 January 2018) were recognised (as the difference between IFRS 9 and IAS 39), arising mainly from collective impairments. These effects strengthened the Group's capital basis in Q1 2018.

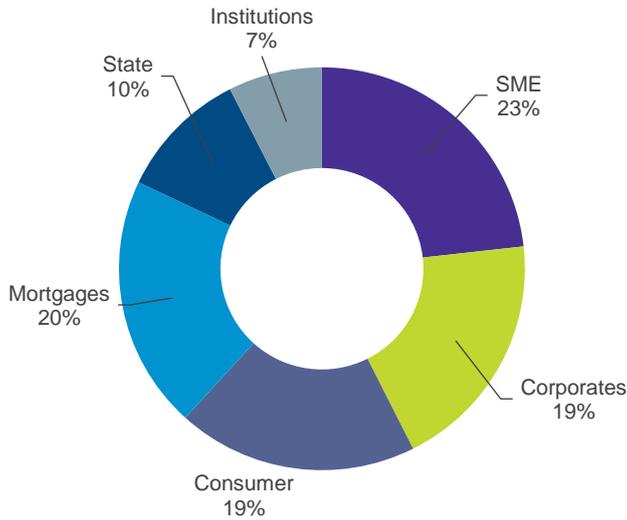
One of the key aims of Risk Management is to ensure that the Group's capital adequacy is managed prudently. The Group monitors its capital adequacy at both the Group and subsidiary bank levels within the framework of the established ICAAP process under normal conditions (regulatory capital adequacy) and stressed conditions. As at 30 June 2018, the Group had a solid level of capital adequacy (CET 1) of 18.7%, which is within the stated risk appetite limit. The reported capital adequacy ratio includes all retained earnings, of which included a EUR 43.8 million IFRS 9 implementation effect. In addition, the adjustment of treatment of the FX position on the consolidated level as result of a request by ECB is also influencing the capital adequacy ratio, referring to the treatment of structural positions arising from equity investments in non-euro subsidiary banks. In line with the Supervisory Review and Evaluation Process (SREP), both CET 1 and total capital requirement for the Group in 2018 are fulfilled in the current and fully loaded requirements.

The second key aim is to maintain a solid liquidity level and structure. The Group holds a strong liquidity position at both the Group and subsidiary bank levels, well above the risk appetite, with the liquidity coverage ratio (LCR) (according to the delegated act) of 304%, and unencumbered eligible reserves in the amount of EUR 5,058 million. Even if the stress scenario was to occur, the Group has sufficiently high liquidity reserves in place in the form of placements at the ECB, prime debt securities, and money market placements. The main funding base of the Group at the Group and individual subsidiary bank levels predominately entails customer deposits with a comfortable level of LTD in the amount of 70.5%, giving the Group the potential for further customer loan placements.

Preserving high credit portfolio quality represents the third and most important key aim, with a focus on the quality of new placements leading to a diversified portfolio of customers. The Group is actively present on the market, financing existing and new creditworthy clients. The lower indebtedness of companies 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.

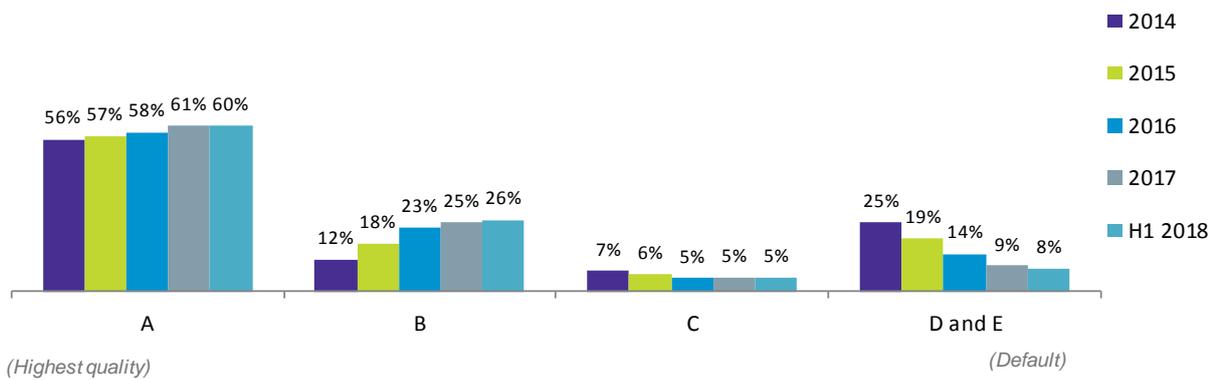
The current structure of credit portfolio (gross loans) consists of retail clients (39%), large corporate clients (19%), SMEs, and micro companies (23%), with the remainder of the portfolio made up of other liquid assets.

Figure 18: NLB Group structure of the credit portfolio by segment as at 30 June 2018



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

Figure 19: Structure of NLB Group credit portfolio by client credit ratings



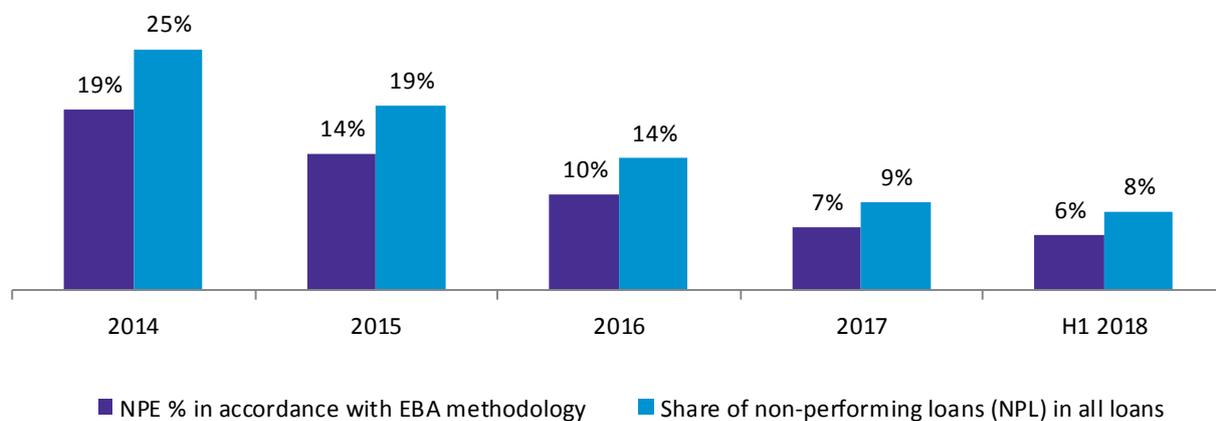
The Group’s primary objective is to provide comprehensive services to clients by utilising prudent risk management principles. The Group is constantly developing a wide range of advanced approaches supported by mathematical and statistical models in the area of credit risk assessment in line with best banking practices to further enhance existing risk management tools, while at the same time enabling faster responsiveness towards

clients. In H1 2018, efforts led to cumulatively very low new NPLs formation in the amount of EUR 27.8 million, of which only EUR 5.4 million from new business¹⁰, which represents less than 0.1% of the total portfolio. In addition, favorable macroeconomic environment across the region resulted in the negative cost of risk (arising mainly from NPL reduction), whose evolution was otherwise very stable and sustainable in line with strategic orientations.

The restructuring approaches built in the past are focused on the early detection of clients with potential financial difficulties (early warning mechanism) and their proactive treatment. The Group's strong commitment to reduce the NPE legacy is supported by precisely set targets and constantly monitoring progress. The existing non-performing credit portfolio stock in the Group was additionally reduced in the H1 2018 (in comparison with YE 2017) from EUR 844 million to EUR 752 million. The share of NPLs decreased in the H1 2018 (in comparison with YE 2017) from 9.2% to 8.3%, while the internationally more comparable NPE ratio based on EBA methodology fell from 6.7% to 5.8%.

The coverage ratio, which remains high at 73.7%, represents an important strength for the Group. The Group's direct NPL coverage ratio stands at 64%, which is well above the EU average published by the EBA (46.3% for Q1 2018). This means, similar as in the previous years, a further reduction of NPLs can be made without significantly influencing the cost of risk in the years ahead.

Figure 20: NLB Group NPE (NPE % by the EBA) and NPL ratio



Notes:

¹⁰ Refers to corporate loans issued since 2014 and retail loans issued since 2015.

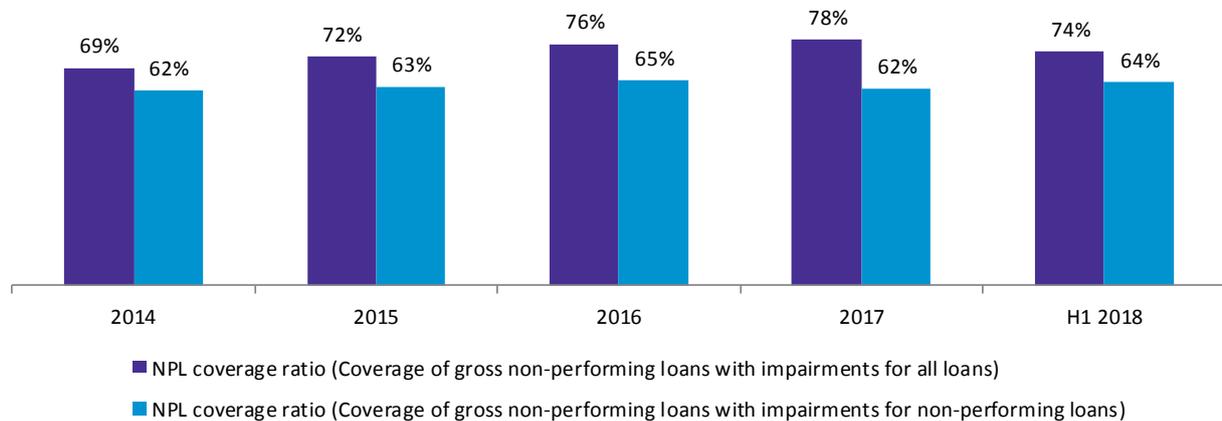
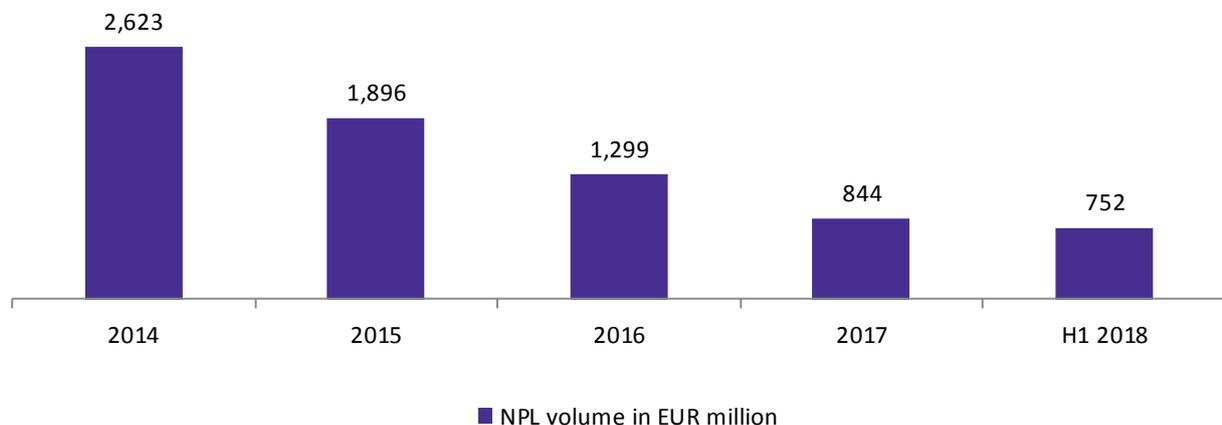
Figure 21: NLB Group Coverage ratio¹¹ and NPL Coverage ratio¹²

Figure 22: NLB Group NPL volume (in EUR million)



When considering market risks, the Group pursues the orientation that such risks should not significantly affect a single Group subsidiary or the whole Group's operations. The Group's net open FX position arising from transactional risk is very low and amounts to less than 1.34% of the total capital.

The exposure to interest rate risk on the Group level is relatively low, but has increased moderately in the recent period as a result of an excess liquidity position and a low interest rate environment. The Group's net interest income sensitivity in the case of a Euribor increase of 50 bps would amount to EUR 17.7 million, whereas a

Notes:

¹¹ The coverage of the gross NPL portfolio with impairments on the entire loan portfolio.

¹² The coverage of the gross NPL portfolio with impairments on the NPL portfolio.

decrease in exposure would be lower due to the zero floor clauses in place. Moreover, the basis point value (BPV) sensitivity (with inclusion of sight deposit allocation) of 200 bps equals 7.32% of capital.

In the area of operational risks, additional efforts were made regarding proactive prevention and the minimisation of potential damage in the future. Special attention was dedicated to the established stress-testing system, 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 are regularly monitored with the aim of improving the existing internal controls and reacting on time when necessary.

Corporate governance

Management Board of the Bank

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

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

In the first half of 2018, the Bank's Management Board was composed of: Blaž Brodnjak (member of the Management Board since 1 December 2012, Deputy President of the Management Board since 5 February 2016, and President of the Management Board since 6 July 2016, with a new five-year term of office as at 6 July 2016), and members: Archibald Kremser, member of the Management Board and CFO (as at 31 July 2013 and with a new five-year term of office as at 6 July 2016), Andreas Burkhardt, member of the Management Board and CRO (as of 18 September 2013 and with a new term of office as at 6 July 2016), and László Pelle, member of the Management Board and COO (as of 26 October 2016 and with a five-year term of office as at 26 October 2016). The 5-year terms of office of the President of the Management Board Blaž Brodnjak and the members of the Management Board Archibald Kremser and Andreas Burkhardt expire on 6 July 2021, and of the Management Board member László Pelle on 26 October 2021.

Supervisory Board

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

The composition of the Supervisory Board of the Bank remains unchanged since the 29th General Meeting of Shareholders held on 8 September 2017. At the General Meeting three new members to the Supervisory Board were elected, as follows: Vida Šeme Hočevar, Simona Kozjek, and Peter Groznik. All three candidates were assessed as Fit & Proper for the function. The Supervisory Board of the Bank currently consists of eight members, namely Primož Karpe, President; Andreas Klingen, Deputy President; and Alexander Bayr, David Eric Simon, László Urbán, Vida Šeme Hočevar, Simona Kozjek, and Peter Groznik (as members).

The General Assembly of the Bank

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

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

On 9 April 2018, the 30th General Meeting of Shareholders of the Bank was held, on which the rights of the Republic of Slovenia, as the sole shareholder of NLB d.d., were represented by the Slovenian Sovereign Holding, d.d. (SSH). The General Assembly of NLB provided the Management Board of the Bank with instructions how to act in the event of existing or potential new final judgements by Croatian courts against LB and NLB regarding the transferred foreign currency deposits and especially not to voluntarily settle the adjudicated amounts, and also gave some additional instructions on the usage of legal remedies.

On 27 June 2018, the 31st regular General Meeting of Shareholders of the Bank was held. The General Assembly took note of the 2017 Annual Report, Supervisory Board's Report on the Results of the 2017 Annual Report Review, and Information on Revenues of the NLB Management and Supervisory Board Members.

The General Assembly also decided on appropriation of distributable profit for 2017, and gave a discharge to the Management Board and Supervisory Board of the Bank for the business year 2017. The profit for appropriation of the Bank as at 31 December 2017 stands at EUR 270,626,683.47, and includes net profit of the business year 2017 in the amount of EUR 189,093,577.07. The General Assembly decided to keep the entire profit for appropriation in the amount of EUR 270,626,683.47 undistributed as retained profit.

The General Assembly also took note of the 2017 Internal Audit report and the opinion of the Supervisory Board of the Bank, and appointed Ernst & Young d.o.o., Ljubljana, as the auditor of the Bank for business years 2018, 2019, 2020, 2021, and 2022.

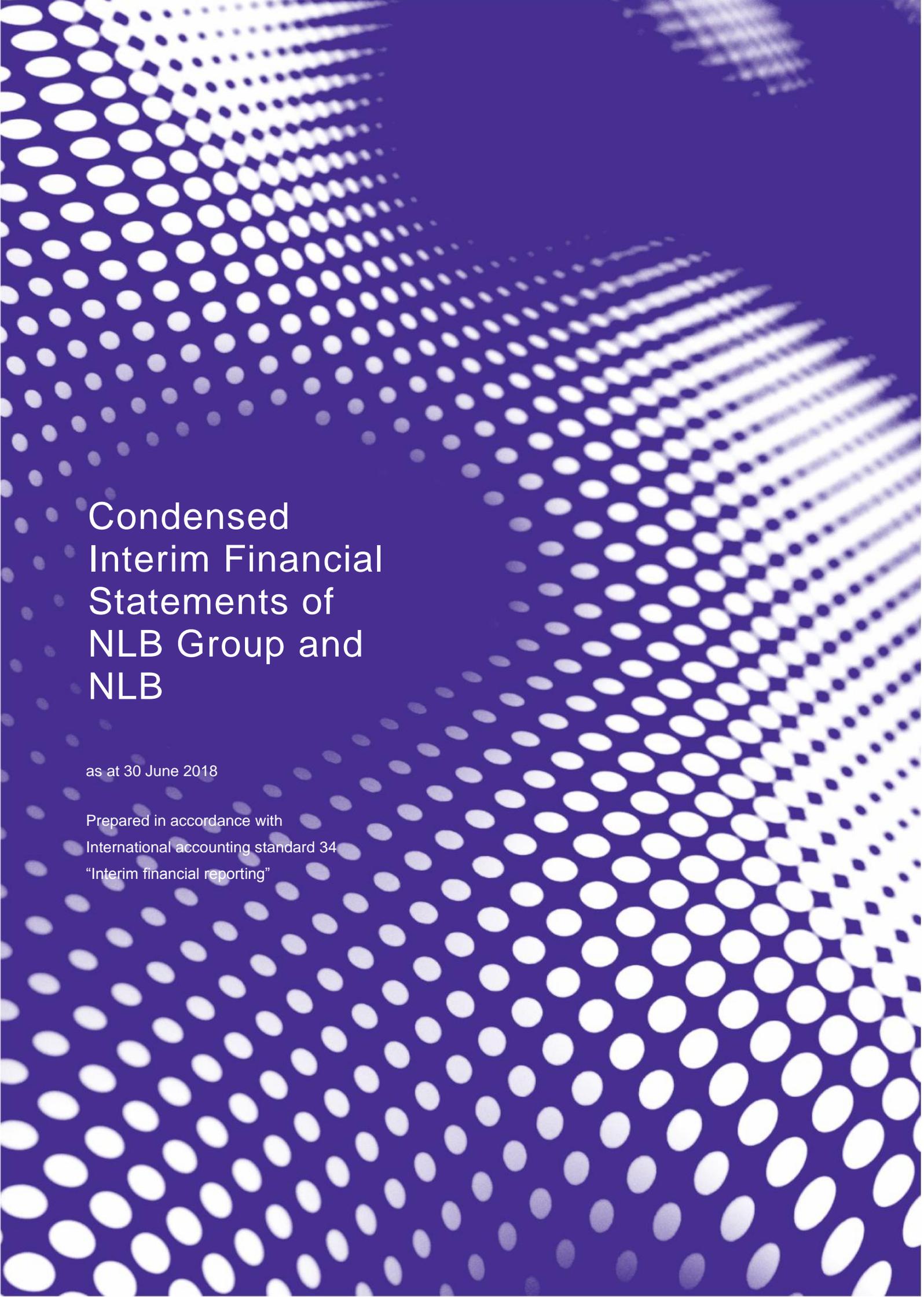
Events after 30 June 2018

- In September 2018, NLB applied to the ECB for formal approval for the distribution of dividends from retained earnings of NLB d.d. from fiscal year 2017 and retained earnings from previous years of NLB d.d. NLB also applied for the inclusion of the NLB's semi-annual profit in its CET1 capital on both the individual and consolidated basis.
- On 10 August 2018 the European Commission approved new commitment package for NLB within the State Aid process. The new commitment package was proposed by the RoS and includes deadlines to complete the sale of 75% minus one share of NLB. A first sale tranche of at least 50% plus one share is to be sold by the end of 2018 and the RoS is to reduce its stake in NLB to 25% plus one share by the end of 2019. If the RoS does not respect the deadlines foreseen, a divestiture trustee is to be appointed to take over the sales process.

Several existing commitments relating to NLB are prolonged until set deadlines specified in relation to the phases of the sale commitment (with the exception of the acquisition ban, which applies until the end of 2019).

The new commitment package also includes additional compensatory measures for NLB:

- NLB is to close additional bank branches in its home market,
- Unless RoS reduces its shareholding in NLB to 25% plus one share by the end of 2018, NLB will have to divest NLB Vita, and
- NLB is required to issue a Tier 2 instrument (subordinated debt).



Condensed Interim Financial Statements of NLB Group and NLB

as at 30 June 2018

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

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Independent auditor's report



This is a translation of the original report in Slovene language

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To the shareholder of Nova Ljubljanska Banka, d.d.

Introduction

We have reviewed the accompanying condensed separate interim financial statements of Nova Ljubljanska banka, d.d. ("the Bank") and condensed consolidated interim financial statements of NLB Group ("the Group") which comprise of the separate statement of financial position and consolidated statement of financial position as at 30 June 2018, the separate income statement and consolidated income statement, the separate statement of comprehensive income and consolidated statement of comprehensive income, the separate statement of changes in equity and consolidated statement of changes in equity, the separate statement of cash flows and consolidated statement of cash flows for the period then ended and a summary of significant accounting policies and other explanatory information ("interim financial information").

Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard (IAS 34), 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standard (IAS 34), 'Interim Financial Reporting', as adopted by the European Union.

Ljubljana, 7 September 2018


Janez Uranič
Director
Ernst & Young d.o.o.
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ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1
Simon Podvinski
Certified Auditor

Condensed income statement

in EUR thousand

	Notes	NLB Group		NLB	
		six months ended		six months ended	
		June	June	June	June
		2018	2017	2018	2017
		unaudited	unaudited restated	unaudited	unaudited restated
Interest income, using the effective interest method		171,503	174,867	85,366	89,429
Interest income, not using the effective interest method		3,625	3,879	3,663	3,879
Interest and similar income	4.1.	175,128	178,746	89,029	93,308
Interest and similar expenses	4.1.	(23,449)	(30,179)	(11,809)	(17,378)
Net interest income		151,679	148,567	77,220	75,930
Dividend income	4.2.	97	142	49,680	42,082
Fee and commission income	4.3.	105,997	100,630	65,276	62,459
Fee and commission expenses	4.3.	(26,438)	(24,877)	(14,992)	(13,905)
Net fee and commission income		79,559	75,753	50,284	48,554
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	4.4.	565	11,814	282	11,420
Gains less losses from financial assets and liabilities held for trading	4.5.	3,918	5,680	820	3,061
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	4.6.	1,641	-	2,588	-
Gains less losses from financial assets and liabilities designated at fair value through profit or loss		(56)	18	(56)	-
Fair value adjustments in hedge accounting		257	(1,374)	257	(1,374)
Foreign exchange translation gains less losses		326	1,022	(2)	170
Gains less losses on derecognition of assets other than held for sale		1,370	1,470	56	180
Other operating income	4.7.	8,310	12,890	3,810	7,032
Other operating expenses	4.8.	(16,765)	(15,101)	(10,360)	(8,830)
Administrative expenses	4.9.	(126,323)	(125,268)	(77,103)	(77,034)
Depreciation and amortisation		(13,642)	(13,787)	(8,715)	(8,936)
Provisions for other liabilities and charges	4.10.	3,378	5,229	628	4,382
Impairment charge	4.11.	10,993	20,391	11,342	11,517
Share of profit from investments in associates and joint ventures (accounted for using the equity method)		2,538	2,736	-	-
Gains less losses from non-current assets held for sale	4.12.	12,147	202	8,809	345
Profit before income tax		119,992	130,384	109,540	108,499
Income tax	4.13.	(10,603)	(8,093)	(6,205)	(3,181)
Profit for the period		109,389	122,291	103,335	105,318
Attributable to owners of the parent		104,847	117,919	103,335	105,318
Attributable to non-controlling interests		4,542	4,372	-	-
Earnings per share/diluted earnings per share (in EUR per share)		5.24	5.90	5.17	5.27

Condensed income statement – for three months ended June for NLB Group

in EUR thousand

	Notes	NLB Group	
		three months ended	
		June 2018	June 2017
		unaudited	unaudited restated
Interest income, using the effective interest method		86,231	86,018
Interest income, not using the effective interest method		2,027	2,371
Interest and similar income	4.1.	88,258	88,389
Interest and similar expenses	4.1.	(11,584)	(15,153)
Net interest income		76,674	73,236
Dividend income	4.2.	86	133
Fee and commission income	4.3.	54,390	51,819
Fee and commission expenses	4.3.	(14,163)	(13,467)
Net fee and commission income		40,227	38,352
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	4.4.	159	120
Gains less losses from financial assets and liabilities held for trading	4.5.	2,332	3,164
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	4.6.	1,021	-
Gains less losses from financial assets and liabilities designated at fair value through profit or loss		(50)	(62)
Fair value adjustments in hedge accounting		238	(451)
Foreign exchange translation gains less losses		240	193
Gains less losses on derecognition of assets other than held for sale		880	1,172
Other operating income	4.7.	3,994	5,490
Other operating expenses	4.8.	(13,068)	(11,340)
Administrative expenses	4.9.	(63,719)	(64,643)
Depreciation and amortisation		(6,848)	(6,913)
Provisions for other liabilities and charges	4.10.	1,203	2,928
Impairment charge	4.11.	10,360	(1,826)
Share of profit from investments in associates and joint ventures (accounted for using the equity method)		1,360	1,642
Gains less losses from non-current assets held for sale	4.12.	(51)	79
Profit before income tax		55,038	41,274
Income tax	4.13.	(6,346)	(3,286)
Profit for the period		48,692	37,988
Attributable to owners of the parent		47,164	36,364
Attributable to non-controlling interests		1,528	1,624

Condensed income statement – for three months ended June for NLB

in EUR thousand

	Notes	NLB	
		three months ended	
		June 2018	June 2017
		unaudited	unaudited restated
Interest income, using the effective interest method		42,989	43,124
Interest income, not using the effective interest method		2,038	2,371
Interest and similar income	4.1.	45,027	45,495
Interest and similar expenses	4.1.	(5,800)	(8,902)
Net interest income		39,227	36,593
Dividend income	4.2.	41,145	30,880
Fee and commission income	4.3.	33,375	32,019
Fee and commission expenses	4.3.	(7,901)	(7,665)
Net fee and commission income		25,474	24,354
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	4.4.	130	128
Gains less losses from financial assets and liabilities held for trading	4.5.	686	1,792
Gains less losses on non-trading financial assets mandatorily at fair value through profit or loss	4.6.	1,633	-
Gains less losses from financial assets and liabilities designated at fair value through profit or loss		(50)	-
Fair value adjustments in hedge accounting		238	(451)
Foreign exchange translation gains less losses		43	(429)
Gains less losses on derecognition of assets other than held for sale		144	(37)
Other operating income	4.7.	2,095	2,732
Other operating expenses	4.8.	(9,737)	(8,126)
Administrative expenses	4.9.	(38,804)	(39,670)
Depreciation and amortisation		(4,366)	(4,497)
Provisions for other liabilities and charges	4.10.	1,251	3,259
Impairment charge	4.11.	12,419	561
Gains less losses from non-current assets held for sale	4.12.	(51)	222
Profit before income tax		71,477	47,311
Income tax	4.13.	(4,638)	(919)
Profit for the period		66,839	46,392

Condensed statement of comprehensive income

		in EUR thousand			
		NLB Group		NLB	
		six months ended		six months ended	
	Note	June 2018	June 2017	June 2018	June 2017
		unaudited		unaudited	
Net profit for the period after tax		109,389	122,291	103,335	105,318
Other comprehensive income/(loss) after tax		(5,612)	(11,389)	(3,410)	(13,001)
<i>Items that will not be reclassified to income statement</i>					
Fair value changes of equity instruments measured at fair value through other comprehensive income		1,325	-	325	-
Share of other comprehensive income/(losses) of entities accounted for using the equity method		18	(2)	-	-
Income tax relating to components of other comprehensive income	5.16.	(54)	-	(53)	-
<i>Items that may be reclassified subsequently to income statement</i>					
Foreign currency translation		(1,554)	1,702	-	-
Translation gains/(losses) taken to equity		(1,554)	1,702	-	-
Debt instruments measured at fair value through other comprehensive income		(3,764)	-	(4,545)	-
Valuation gains/(losses) taken to equity		(4,006)	-	(4,559)	-
Transferred to income statement		242	-	14	-
Available-for-sale financial assets		-	(15,464)	-	(16,050)
Valuation gains/(losses) taken to equity		-	(3,661)	-	(4,630)
Transferred to income statement	4.4. and 4.11.	-	(11,803)	-	(11,420)
Share of other comprehensive income/(losses) of entities accounted for using the equity method		(2,800)	(801)	-	-
Income tax relating to components of other comprehensive income	5.16.	1,217	3,176	863	3,049
Total comprehensive income for the period after tax		103,777	110,902	99,925	92,317
Attributable to owners of the parent		99,324	106,450	99,925	92,317
Attributable to non-controlling interests		4,453	4,452	-	-

Condensed statement of comprehensive income – for three months ended June for NLB Group

	in EUR thousand	
	NLB Group	
	three months ended	
	June 2018	June 2017
	unaudited	unaudited
Net profit for the period after tax	48,692	37,988
Other comprehensive income after tax	(3,286)	827
<i>Items that will not be reclassified to income statement</i>		
Fair value changes of equity instruments measured at fair value through other comprehensive income	(164)	-
Share of other comprehensive income/(losses) of entities accounted for using the equity method	5	-
Income tax relating to components of other comprehensive income	(41)	-
<i>Items that may be reclassified subsequently to income statement</i>		
Foreign currency translation	(1,176)	1,142
Translation gains/(losses) taken to equity	(1,176)	1,142
Debt instruments measured at fair value through other comprehensive income	(1,500)	-
Valuation gains/(losses) taken to equity	(1,745)	-
Transferred to income statement	245	-
Available-for-sale financial assets	-	430
Valuation gains/(losses) taken to equity	-	539
Transferred to income statement	-	(109)
Share of other comprehensive income/(losses) of entities accounted for using the equity method	(978)	(864)
Income tax relating to components of other comprehensive income	568	119
Total comprehensive income for the period after tax	45,406	38,815
Attributable to owners of the parent	43,905	37,194
Attributable to non-controlling interests	1,501	1,621

Condensed statement of comprehensive income – for three months ended June for NLB

	in EUR thousand	
	NLB	
	three months ended	
	June	June
	2018	2017
	unaudited	unaudited
Net profit for the period after tax	66,839	46,392
Other comprehensive income after tax	(1,208)	186
<i>Items that will not be reclassified to income statement</i>		
Fair value changes of equity instruments measured at fair value through other comprehensive income	263	-
Income tax relating to components of other comprehensive income	(41)	-
<i>Items that may be reclassified subsequently to income statement</i>		
Debt instruments measured at fair value through other comprehensive income	(1,765)	-
Valuation gains/(losses) taken to equity	(1,768)	-
Transferred to income statement	3	-
Available-for-sale financial assets	-	230
Valuation gains/(losses) taken to equity	-	358
Transferred to income statement	-	(128)
Income tax relating to components of other comprehensive income	335	(44)
Total comprehensive income for the period after tax	65,631	46,578

Condensed statement of financial position

in EUR thousand

	Notes	NLB Group			NLB		
		30 Jun 2018	1 Jan 2018	31 Dec 2017	30 Jun 2018	1 Jan 2018	31 Dec 2017
		unaudited	unaudited	audited	unaudited	unaudited	audited
Cash, cash balances at central banks and other demand deposits at banks	5.1.	1,298,731	1,255,824	1,256,481	660,851	569,943	570,010
Financial assets held for trading	5.2.a)	67,458	72,189	72,189	67,459	72,180	72,180
Non-trading financial assets mandatorily at fair value through profit or loss	5.3.a)	25,752	31,404	-	25,746	31,239	-
Financial assets designated at fair value through profit or loss	5.3.b)	-	-	5,003	-	-	634
Financial assets measured at fair value through other comprehensive income	5.4.	1,876,219	1,656,365	-	1,484,016	1,285,276	-
Financial assets measured at amortised cost							
- debt securities	5.6.a)	1,265,726	1,301,413	-	1,129,743	1,178,088	-
- loans and advances to banks	5.6.b)	453,724	509,970	-	448,569	461,830	-
- loans and advances to customers	5.6.c)	7,037,953	6,956,362	-	4,522,241	4,594,286	-
- other financial assets	5.6.d)	62,783	67,046	-	59,877	38,915	-
Available-for-sale financial assets	5.5.	-	-	2,276,493	-	-	1,777,762
Loans and advances							
- debt securities	5.7.a)	-	-	82,133	-	-	82,133
- loans and advances to banks	5.7.b)	-	-	510,107	-	-	462,322
- loans and advances to customers	5.7.c)	-	-	6,912,333	-	-	4,587,477
- other financial assets	5.7.d)	-	-	66,077	-	-	38,389
Held-to-maturity investments	5.9.	-	-	609,712	-	-	609,712
Derivatives - hedge accounting		695	1,188	1,188	695	1,188	1,188
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,669	719	719	1,669	719	719
Investments in subsidiaries		-	-	-	350,445	349,945	349,945
Investments in associates and joint ventures		42,331	43,765	43,765	6,932	6,932	6,932
Tangible assets							
Property and equipment		184,643	188,355	188,355	85,490	87,051	87,051
Investment property	5.10.	51,130	51,838	51,838	9,266	9,257	9,257
Intangible assets		32,674	34,974	34,974	21,747	23,911	23,911
Current income tax assets		711	599	2,795	-	-	2,196
Deferred income tax assets	5.12.	21,146	19,745	18,603	21,017	20,318	19,758
Other assets	5.11.	88,614	93,349	93,349	10,905	8,692	8,692
Non-current assets classified as held for sale		4,227	11,631	11,631	1,602	2,564	2,564
TOTAL ASSETS		12,516,186	12,296,736	12,237,745	8,908,270	8,742,334	8,712,832
Trading liabilities	5.2.b)	11,509	9,502	9,502	11,505	9,398	9,398
Financial liabilities measured at fair value through profit or loss	5.3.	9,264	5,815	635	9,152	5,166	635
Financial liabilities measured at amortised cost							
- deposits from banks and central banks	5.14.	39,083	40,602	40,602	55,480	72,072	72,072
- borrowings from banks and central banks	5.14.a)	268,543	279,616	279,616	252,499	260,747	260,747
- due to customers	5.14.	10,018,043	9,878,378	9,878,378	6,879,432	6,810,967	6,810,967
- borrowings from other customers	5.14.a)	65,037	74,286	74,286	4,928	5,726	5,726
- subordinated liabilities	5.14.b)	15,029	27,350	27,350	-	-	-
- other financial liabilities	5.14.c)	119,438	111,019	111,019	81,429	71,534	71,534
Derivatives - hedge accounting		26,132	25,529	25,529	26,132	25,529	25,529
Liabilities of disposal group classified as held for sale		-	440	440	-	-	-
Provisions	5.15.	87,187	93,989	88,639	65,493	67,232	70,817
Current income tax liabilities		7,257	3,908	2,894	6,489	1,014	-
Deferred income tax liabilities	5.12.	2,746	2,558	1,096	-	-	-
Other liabilities	5.17.	12,337	9,467	9,596	6,914	4,057	4,181
TOTAL LIABILITIES		10,681,605	10,562,459	10,549,582	7,399,453	7,333,442	7,331,606
EQUITY AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT							
Share capital		200,000	200,000	200,000	200,000	200,000	200,000
Share premium		871,378	871,378	871,378	871,378	871,378	871,378
Accumulated other comprehensive income		19,170	24,744	26,752	21,234	24,688	25,699
Profit reserves		13,522	13,522	13,522	13,522	13,522	13,522
Retained earnings		692,640	587,742	541,901	402,683	299,304	270,627
		1,796,710	1,697,386	1,653,553	1,508,817	1,408,892	1,381,226
Non-controlling interests		37,871	36,891	34,610	-	-	-
TOTAL EQUITY		1,834,581	1,734,277	1,688,163	1,508,817	1,408,892	1,381,226
TOTAL LIABILITIES AND EQUITY		12,516,186	12,296,736	12,237,745	8,908,270	8,742,334	8,712,832

The Management Board has approved the release of the financial statements and the accompanying notes.


Laszlo Pelle
 Member of the
 Management Board


Archibald Kremser
 Member of the
 Management Board


Andreas Burkhardt
 Member of the
 Management Board


Blaž Brodnjak
 Chief Executive
 Officer

Ljubljana, 7 September 2018

Condensed statement of changes in equity

in EUR thousand

NLB Group	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance as at 31 December 2017	200,000	871,378	26,752	13,522	541,901	1,653,553	34,610	1,688,163
Impact of adopting IFRS 9	-	-	(2,008)	-	45,841	43,833	2,281	46,114
Restated opening balance under IFRS 9	200,000	871,378	24,744	13,522	587,742	1,697,386	36,891	1,734,277
- Net profit for the period	-	-	-	-	104,847	104,847	4,542	109,389
- Other comprehensive income	-	-	(5,523)	-	-	(5,523)	(89)	(5,612)
Total comprehensive income after tax	-	-	(5,523)	-	104,847	99,324	4,453	103,777
Dividends paid	-	-	-	-	-	-	(3,133)	(3,133)
Other*	-	-	(51)	-	51	-	(340)	(340)
Balance as at 30 June 2018	200,000	871,378	19,170	13,522	692,640	1,796,710	37,871	1,834,581

* Other relates to a decrease in non-controlling interest due to the sale of NLB Nov Penziski Fond, Skopje.

in EUR thousand

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

in EUR thousand

NLB	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Total equity
Balance as at 31 December 2017	200,000	871,378	25,699	13,522	270,627	1,381,226
Impact of adopting IFRS 9	-	-	(1,011)	-	28,677	27,666
Restated opening balance under IFRS 9	200,000	871,378	24,688	13,522	299,304	1,408,892
- Net profit for the period	-	-	-	-	103,335	103,335
- Other comprehensive income	-	-	(3,410)	-	-	(3,410)
Total comprehensive income after tax	-	-	(3,410)	-	103,335	99,925
Other	-	-	(44)	-	44	-
Balance as at 30 June 2018	200,000	871,378	21,234	13,522	402,683	1,508,817

in EUR thousand

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

Condensed statement of cash flows

in EUR thousand

	NLB Group		NLB	
	six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017
	unaudited		unaudited	
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	203,809	198,948	116,571	115,492
Interest paid	(24,050)	(27,794)	(12,827)	(15,199)
Dividends received	1,809	4,348	40,469	27,417
Fee and commission receipts	106,637	100,674	65,078	62,174
Fee and commission payments	(28,195)	(26,596)	(15,267)	(14,248)
Realised gains from financial assets and financial liabilities not measured at fair value through profit or loss	716	11,976	462	11,574
Net gains/(losses) from financial assets and liabilities held for trading	4,394	2,315	1,189	(187)
Payments to employees and suppliers	(129,251)	(122,098)	(81,869)	(77,224)
Other income	11,756	14,654	6,428	7,348
Other expenses	(14,842)	(14,926)	(10,223)	(9,105)
Income tax (paid)/received	(5,377)	(3,834)	1,045	2,082
Cash flows from operating activities before changes in operating assets and liabilities	127,406	137,667	111,056	110,124
(Increases)/decreases in operating assets	(281,254)	(54,863)	(141,490)	38,080
Net (increase)/decrease in trading assets	6,392	(34,454)	6,392	(34,454)
Net (increase)/decrease in financial assets designated at fair value through profit or loss	-	946	-	-
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss	9,768	-	12,351	-
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income	(233,629)	-	(211,502)	-
Net (increase)/decrease in available-for-sale financial assets	-	(53,673)	-	(46,071)
Net (increase)/decrease in loans and receivables measured at amortised cost	(71,570)	28,527	50,990	117,610
Net (increase)/decrease in other assets	7,785	3,791	279	995
Increases/(decreases) in operating liabilities	133,573	20,342	54,883	16,231
Net increase/(decrease) in financial liabilities designated at fair value through profit or loss	(691)	-	(691)	-
Net increase/(decrease) in deposits and borrowings measured at amortised cost	133,953	19,182	54,882	15,786
Net increase/(decrease) in other liabilities	311	1,160	692	445
Net cash from operating activities	(20,275)	103,146	24,449	164,435
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts from investing activities	181,853	57,184	171,441	55,972
Proceeds from sale of property and equipment	2,014	1,220	5	8
Proceeds from disposals of subsidiaries and associates	18,671	238	10,268	238
Proceeds from disposals of debt securities measured at amortised cost	161,131	-	161,131	-
Proceeds from disposals of held-to-maturity financial assets	-	55,403	-	55,403
Proceeds from sale of non-current assets held for sale	37	323	37	323
Payments from investing activities	(140,328)	(52,365)	(136,785)	(59,861)
Purchase of property and equipment	(8,916)	(4,136)	(6,344)	(2,146)
Purchase of intangible assets	(5,828)	(6,680)	(4,357)	(5,382)
Purchase of subsidiaries and increase in subsidiaries' equity	-	-	(500)	(10,784)
Purchase of debt securities measured at amortised cost	(125,584)	-	(125,584)	-
Purchase of held-to-maturity financial assets	-	(41,549)	-	(41,549)
Net cash from investing activities	41,525	4,819	34,656	(3,889)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments from financing activities	(15,094)	(67,430)	-	(63,780)
Dividends paid	(3,116)	(67,430)	-	(63,780)
Repayments of subordinated debt	(11,978)	-	-	-
Net cash from financing activities	(15,094)	(67,430)	-	(63,780)
Effects of exchange rate changes on cash and cash equivalents	(2,611)	(5,366)	(402)	(7,661)
Net increase/(decrease) in cash and cash equivalents	6,156	40,535	59,105	96,766
Cash and cash equivalents at beginning of period	1,475,714	1,449,275	662,419	670,682
Cash and cash equivalents at end of period	1,479,259	1,484,444	721,122	759,787

	Notes	in EUR thousand			
		NLB Group		NLB	
		30 Jun 2018 unaudited	31 Dec 2017 audited	30 Jun 2018 unaudited	31 Dec 2017 audited
Cash and cash equivalents comprise:					
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	1,299,272	1,256,481	660,926	570,010
Loans and advances to banks with original maturity up to 3 months		110,343	148,784	60,196	92,409
Financial assets measured at fair value through other comprehensive income with original maturity up to 3 months		69,644	-	-	-
Available for sale financial assets with original maturity up to 3 months		-	70,449	-	-
Total		1,479,259	1,475,714	721,122	662,419

Notes to the condensed interim financial statements

1. General information

Nova Ljubljanska banka d.d. Ljubljana (hereinafter: 'NLB') is a joint-stock entity providing universal banking services. NLB Group consists of NLB and its subsidiaries located in 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 30 June 2018 and 31 December 2017.

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

2. Summary of significant accounting policies

2.1. Statement of compliance

These condensed interim financial statements have been prepared in accordance with IAS 34 "Interim financial reporting" and should be read in conjunction with the annual financial statements of NLB Group and NLB for the year ended 31 December 2017, which have been prepared in accordance with the International Financial Reporting Standards (hereinafter: 'IFRS') as adopted by the European Union.

2.2. Accounting policies

The same accounting policies and methods of computation were followed in the preparation of these consolidated condensed interim financial statements as for the year ended 31 December 2017, except for accounting standards and other amendments effective for annual periods beginning on 1 January 2018 that were endorsed by the EU.

Accounting standards and amendments to existing standards that were endorsed by the EU, and adopted by NLB Group from 1 January 2018

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: Pre-payment 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 pre-payment option to be measured at an amortised 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 does not impact the NLB Group's financial statements.

In accordance with the transition requirements of IFRS 9, comparative amounts have not been restated (note 2.3.).

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. In the Statement of Financial Position they are presented in line "Financial assets held for trading" or "Non-trading financial assets mandatorily at fair value through profit or loss". In some cases, fair value of assets can be negative (for example fair value of undrawn credit commitments). In such cases are negative fair values included in line 'Financial liabilities at fair value through profit or loss'.

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. It is based on observable factors for different portfolios that best reflect 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 of collecting 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 was put on new and non-standardised characteristics of the loan agreements.

At the transition to IFRS 9, as at 1 January 2018, NLB Group identified only a 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

The 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 a 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 recognises 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 has 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 – A performing portfolio: no significant increase of credit risk since initial recognition, NLB Group recognises an allowance based on a 12-month period,
- Stage 2 – An underperforming portfolio: a significant increase in credit risk since initial recognition, NLB Group recognises an allowance for a lifetime period, and
- Stage 3 – An 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.

The 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 a 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 a forward-looking

assessment that considers a 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 a 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 of expected losses since initial recognition is recognised as 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 (hair-cut) 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 at 1 January 2018

An adjustment arising from the adoption of IFRS 9 was recognised in retained earnings and other comprehensive income as at 1 January 2018. Due to the transition to IFRS 9 requirements, shareholders equity on NLB Group increased by EUR 43.8 million and EUR 27.7 million for NLB. The Tier 1 capital ratio for NLB Group increased by 0.4 percentage points (as at 1 January 2018). NLB Group will not apply transitional arrangements at the transition to the expected credit loss model in accordance with Regulation (EU) 2017/2395. A summary of the effects of the transition to IFRS 9 as at 1 January 2018 are presented below:

	in EUR thousand	
	NLB Group	NLB
Impact on equity due to transition to IFRS 9 - details		
Changed methodology for impairments and provisions	58,160	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	(3,529)	(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

The following table shows the original measurement categories in accordance with IAS 39, and the new measurement categories under IFRS 9 for the financial assets as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	in EUR thousand			
			NLB Group		NLB	
			Original carrying amount under IAS 39	New carrying amount under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets - 1 January 2018						
Cash, cash balances at central banks, and other demand deposits at banks						
Loans and advances - debt securities	Loans and receivables	Amortised cost	1,256,481	1,255,824	570,010	569,943
Loans and advances to banks	Loans and receivables	Amortised cost	82,133	79,880	82,133	79,880
Loans and advances to customers	Loans and receivables	Amortised cost	510,107	509,970	462,322	461,830
Loans and advances to customers	Loans and receivables	Amortised cost	6,887,300	6,956,362	4,556,105	4,594,286
Loans and advances - other financial assets	Loans and receivables	FVTPL mandatory	25,033	24,649	31,372	30,055
Trading assets	Loans and receivables	Amortised cost	66,077	67,046	38,389	38,915
Financial assets designated at fair value through profit or loss	FVTPL	FVTPL	72,189	72,189	72,180	72,180
Available-for-sale financial assets - debt instruments	FVTPL designated	FVTPL mandatory	5,003	5,003	634	634
Available-for-sale financial assets - debt instruments	AFS	FVOCI	1,604,940	1,604,940	1,238,977	1,238,977
Available-for-sale financial assets - equity instruments	AFS	Amortised cost	618,376	612,317	491,936	488,992
Available-for-sale financial assets - equity instruments	AFS	FVTPL mandatory	1,752	1,752	550	550
Held-to-maturity financial assets	AFS	FVOCI designated	51,425	51,425	46,299	46,299
	HTM	Amortised cost	609,712	609,216	609,712	609,216
Total			11,790,528	11,850,573	8,200,619	8,231,757

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

NLB Group	Ref	in EUR thousand		
		IAS 39 carrying amount 31 December 2017	Reclassification	IFRS 9 carrying amount 1 January 2018
Amortised Cost				
Cash, cash balances at central banks, and other demand deposits at banks				
Opening balance		1,256,481		
Remeasurement: ECL allowance				(657)
Closing balance				1,255,824
Loans and advances to banks				
Opening balance		510,107		
Remeasurement: ECL allowance				(137)
Closing balance				509,970
Loans and advances to customers				
Opening balance		6,912,333		
Subtraction: to financial assets FVTPL (mandatory)	(A)		(25,033)	
Remeasurement: ECL allowance				76,471
Remeasurement: modifications				(7,409)
Closing balance				6,956,362
Other financial assets				
Opening balance		66,077		
Remeasurement: ECL allowance				838
Remeasurement: other adjustments				131
Closing balance				67,046
Debt securities				
Opening balance		82,133		
Addition: from financial assets available-for-sale	(B)		618,376	
Addition: from financial assets held-to-maturity	(C)		609,712	
Remeasurement: from fair value to amortised cost				(4,476)
Remeasurement: ECL allowance				(2,096)
Remeasurement: reclassified bonds	(D)			(2,236)
Closing balance				1,301,413
Held-to-maturity investments				
Opening balance		609,712		
Subtraction: to debt securities - amortised cost	(C)		(609,712)	
Closing balance				0
Total financial assets measured at amortised cost				
		9,436,843		10,090,615
Fair value through other comprehensive income (FVOCI)				
Financial assets available for sale				
Opening balance		2,276,493		
Subtraction: to FVOCI - debt instruments	(E)		(1,604,940)	
Subtraction: to FVOCI - equity instruments	(F)		(51,425)	
Subtraction: to amortised cost - debt securities	(B)		(618,376)	
Subtraction: to FVTPL (mandatory)	(G)		(1,752)	
Closing balance				0
FVOCI - debt instruments				
Opening balance		0		
Addition: from financial assets available-for-sale	(E)		1,604,940	
Closing balance				1,604,940
FVOCI - equity instruments				
Opening balance		0		
Addition: from financial assets available-for-sale	(F)		51,425	
Closing balance				51,425
Total financial assets measured at fair value through other comprehensive income				
		2,276,493		1,656,365
Fair value through profit and loss (FVTPL)				
Trading assets				
Opening balance and closing balance		72,189		72,189
Financial assets FVTPL (designated)				
Opening balance		5,003		
Subtraction: to financial assets FVTPL (mandatory)	(H)		(5,003)	
Closing balance				0
Financial assets FVTPL (mandatory)				
Opening balance		0		
Addition: from financial assets FVTPL (designated)	(H)		5,003	
Addition: from financial assets available-for-sale	(G)		1,752	
Addition: from loans and advances to customers	(A)		25,033	
Remeasurement: from amortised cost to fair value				(384)
Closing balance				31,404
Total financial assets measured at fair value through profit and loss				
		77,192		103,593

in EUR thousand

NLB	Ref	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Amortised Cost					
Cash, cash balances at central banks, and other demand deposits at banks					
Opening balance		570,010			
Remeasurement: ECL allowance				(67)	
Closing balance					569,943
Loans and advances to banks					
Opening balance		462,322			
Remeasurement: ECL allowance				(492)	
Closing balance					461,830
Loans and advances to customers					
Opening balance		4,587,477			
Subtraction: to financial assets FVTPL (mandatory)	(A)		(31,372)		
Remeasurement: ECL allowance				45,590	
Remeasurement: modifications				(7,409)	
Closing balance					4,594,286
Other financial assets					
Opening balance		38,389			
Remeasurement: ECL allowance				526	
Closing balance					38,915
Debt securities					
Opening balance		82,133			
Addition: from financial assets available-for-sale	(B)		491,936		
Addition: from financial assets held-to-maturity	(C)		609,712		
Remeasurement: from fair value to amortised cost				(2,232)	
Remeasurement: ECL allowance				(1,225)	
Remeasurement: reclassified bonds	(D)			(2,236)	
Closing balance					1,178,088
Held-to-maturity investments					
Opening balance		609,712			
Subtraction: to debt securities - amortised cost	(C)		(609,712)		
Closing balance					0
Total financial assets measured at amortised cost					
		6,350,043			6,843,062
Fair value through other comprehensive income (FVOCI)					
Financial assets available for sale					
Opening balance		1,777,762			
Subtraction: to FVOCI - debt instruments	(E)		(1,238,977)		
Subtraction: to FVOCI - equity instruments	(F)		(46,299)		
Subtraction: to amortised cost - debt securities	(B)		(491,936)		
Subtraction: to FVTPL (mandatory)	(G)		(550)		
Closing balance					0
FVOCI - debt instruments					
Opening balance		0			
Addition: from financial assets available-for-sale	(E)		1,238,977		
Closing balance					1,238,977
FVOCI - equity instruments					
Opening balance		0			
Addition: from financial assets available-for-sale	(F)		46,299		
Closing balance					46,299
Total financial assets measured at fair value through other comprehensive income					
		1,777,762			1,285,276
Fair value through profit and loss (FVTPL)					
Trading assets					
Opening balance and closing balance		72,180			72,180
Financial assets FVTPL (designated)					
Opening balance		634			
Subtraction: to financial assets FVTPL (mandatory)	(H)		(634)		
Closing balance					0
Financial assets FVTPL (mandatory)					
Opening balance		0			
Addition: from financial assets FVTPL (designated)	(H)		634		
Addition: from financial assets available-for-sale	(G)		550		
Addition: from loans and advances to customers	(A)		31,372		
Remeasurement: from amortised cost to fair value				(1,317)	
Closing balance					31,239
Total financial assets measured at fair value through profit and loss					
		72,814			103,419

(A) Certain loans and advances to customers that were under IAS 39 classified as Loans and advances measured at amortised costs, under IFRS 9 meet the criteria for mandatory measurement at FVTPL because the contractual cash flows of these assets are not solely payments of principal and interest on the principal outstanding.

- (B) Certain debt securities held by the Group may be sold, but such sales are not expected to be more than infrequent or significant. These securities are held within a business model whose objective is to hold assets to collect the contractual cash flows, and are therefore measured at amortised cost under IFRS 9.
- (C) Debt instruments previously classified as held to maturity have been reclassified to amortised cost under IFRS 9, as their previous category under IAS 39 was diminished.
- (D) During the year 2009 NLB Group reclassified certain bonds from the trading category to loans and advances, since it had a positive intent and ability to hold them for the foreseeable future or until maturity, rather than trade in the short term. The fair value of reclassified bonds on the date of reclassification became their new amortised cost. At transition to IFRS 9, NLB Group recalculated amortised cost of these securities as if they had been measured at amortised cost since their initial recognition.
- (E) The Group holds certain debt securities to meet everyday liquidity needs. Under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and are therefore measured at fair value through other comprehensive income.
- (F) Certain equity investments held by the Group have been designated under IFRS 9 as at FVOCI, because they are not strategic and the Group can't control them. The changes in fair value of such investments will no longer be recognised in profit or loss, not even in the case of disposal. Before the adoption of IFRS 9, these investments were classified as available for sale.
- (G) For certain equity investments, management didn't make an irrevocable election at initial recognition that subsequent changes in fair value would be measured at fair value through other comprehensive income. These assets are, in accordance with IFRS 9, classified as mandatorily measured at FVTPL.
- (H) Before the adoption of IFRS 9, certain investments in funds were managed and evaluated on a fair value basis. Under IFRS 9, these investments are part of an "other" business model, and so required to be classified as FVTPL. Additionally, some equity investments were designated at FVTPL in order to reduce accounting mismatch that would otherwise arise. Under IFRS 9, these investments are mandatorily measured at FVTPL.

The following table reconciles:

- the closing balance of the loan loss allowance for credit losses for financial assets in accordance with IAS 39 and provisions for credit losses for loan commitments and financial guarantee contracts in accordance with IAS 37 as at 31 December 2017; to
- the opening balance of the loan loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

in EUR thousand

Measurement category	NLB Group				
	31 December 2017 Loan loss allowance under IAS 39/ Provision under IAS 37	Interest loss allowance 31 December 2017	Reclassification	Remeasurement	1 January 2018 Loan loss allowance under IFRS 9
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9					
Cash, cash balances at central banks, and other demand deposits at banks	-	-	-	657	657
Loans and advances - debt securities	-	-	-	17	17
Loans and advances to banks	576	-	-	137	713
Loans and advances to customers	646,752	7,347	(27,737)	(76,471)	549,891
Loans and advances - other financial assets	11,705	1	-	(838)	10,868
Held to maturity securities under IAS 39/financial assets at amortised cost under IFRS 9	73	-	-	496	569
Available for sale debt investment securities under IAS 39/financial assets at amortised cost under IFRS 9	-	-	-	1,583	1,583
Available for sale debt investment securities under IAS 39/debt financial assets at FVOCI under IFRS 9	-	-	-	4,487	4,487
Loan commitments and financial guarantee contract issued	36,915	-	(5,435)	10,785	42,265
Total	696,021	7,348	(33,172)	(59,147)	611,050

in EUR thousand

Measurement category	NLB				
	31 December 2017 Loan loss allowance under IAS 39/ Provision under IAS 37	Interest loss allowance 31 December 2017	Reclassification	Remeasurement	1 January 2018 Loan loss allowance under IFRS 9
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9					
Cash, cash balances at central banks, and other demand deposits at banks	-	-	-	67	67
Loans and advances - debt securities	-	-	-	17	17
Loans and advances to banks	-	-	-	492	492
Loans and advances to customers	317,063	6,738	(25,753)	(45,590)	252,458
Loans and advances - other financial assets	3,191	1	-	(526)	2,666
Held to maturity securities under IAS 39/financial assets at amortised cost under IFRS 9	73	-	-	496	569
Available for sale debt investment securities under IAS 39/financial assets at amortised cost under IFRS 9	-	-	-	712	712
Available for sale debt investment securities under IAS 39/debt financial assets at FVOCI under IFRS 9	-	-	-	2,190	2,190
Loan commitments and financial guarantee contract issued	34,257	-	(5,037)	1,452	30,672
Total	354,584	6,739	(30,790)	(40,690)	289,843

For financial assets that have been reclassified to the amortised cost category, the following table shows their fair value as at 30 June 2018, and the fair value gain or loss that would have been recognised if these financial assets had not been reclassified as part of the transition to IFRS 9.

in EUR thousand

	NLB Group	NLB
From available-for-sale financial assets under IAS 39		
Fair value as at 30 June 2018	452,260	374,444
Fair value gain/loss that would have been recognised during the year in OCI if the financial assets had not been reclassified	1,982	1,495

Other accounting standards and amendments to existing standards that were endorsed by the EU, and adopted by NLB Group from 1 January 2018, but do not have material effects on the NLB Group's financial statements are:

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

- IFRS 4 (amendment) – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018);
- IFRS 2 (amendment) – Classification and Measurement of share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- Annual Improvements to IFRS's' 2014–2016 Cycle. The improvements comprise a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 January 2017 or 1 January 2018;
- IAS 40 (amendment) – Investment Property (effective for annual periods beginning on or after 1 January 2018);
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018).

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

- IFRS 16 (new standard) – Leases (effective for annual periods beginning on or after 1 January 2019);
- IFRS 9 (amendment) – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019).

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

- IFRS 17 (new standard) – Insurance Contracts (effective for annual periods beginning on or after 1 January 2021);
- IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019);
- Annual Improvements to IFRS's' 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;
- IAS 28 (amendment) – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- IAS 19 (amendment) – Plan Amendment, Curtailment, or Settlement (effective for annual periods beginning on or after 1 January 2019).

2.3. Comparative amounts

Compared to the presentation of the financial statements for the year ended 31 December 2017, the schemes for presentation of the Income Statement and Statement of Financial Position changed due to implementation of IFRS 9, and due to changed schemes prescribed by the Bank of Slovenia. Since comparative figures have not been restated on transition to IFRS 9, the presentation of financial statements in these condensed financial statements is a combination of classification and measurement categories as required by IAS 39 (for balances as at 31 December 2017, and effects for six months ended 30 June 2017), and classification and IFRS 9 (for balances as at 1 January 2018 and 30 June 2018, and effects for six months ended 30 June 2018). Due to implementation of IFRS 9 also IAS 1 changed and requires “interest revenue calculated using the effective interest method” to be shown separately. Comparative amounts in the Income statement have been adjusted to reflect this change.

Changes of the schemes prescribed by the Bank of Slovenia relate to presentation of effects related to investments in subsidiaries, associates, and joint ventures in the Income Statements. The comparative amounts have been adjusted to reflect these changes in presentation.

in EUR thousand

	NLB Group			NLB		
	six months ended			six months ended		
	June 2017			June 2017		
	old	current	change	old	current	change
	presentation	presentation		presentation	presentation	
Dividend income	142	142	-	24	42,082	42,058
Gains less losses from capital investment in subsidiaries, associates and joint ventures	2,734	-	(2,734)	42,217	-	(42,217)
Share of profit from investment in associates and joint ventures (accounted for using the equity method)	-	2,736	2,736	-	-	-
Gains less losses from non-current assets held for sale	204	202	(2)	186	345	159

More specifically, in the Income Statement for the year ended 31 December 2017 line “Gains less losses from capital investments in subsidiaries, associates, and joint ventures” for NLB d.d. included dividends and effects from sale of investments in subsidiaries, associates, and joint ventures, and effects from the equity method from investments in associates and joint ventures. In these interim financial statements the dividends from subsidiaries, associates, and joint ventures for NLB d.d. are included in line “Dividend income” and the effects from sale of investments in subsidiaries, associates, and joint ventures are included in line “Net gain or losses from non-current assets held for sale”.

3. Changes in NLB Group

Six months ended 30 June 2018

Other changes

- In March 2018, NLB Group sold its core subsidiary NLB Nov Penziski Fond, Skopje;
- NLB Interfinanz, Praga – v likvidaci and NLB Interfinanz, Belgrade – u likvidaciji are formally in liquidation;
- S-REAM, poslovanje z nepremičninami, d.o.o. Ljubljana was established and will manage certain real estate in NLB Group. NLB's ownership is 100%;
- In June 2018 NLB Propria d.o.o., Ljubljana was liquidated. In accordance with a court order, the company was removed from the court register.

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.

4. Notes to the condensed income statement

4.1. Interest income and expenses

in EUR thousand

	NLB Group			NLB		
	six months ended			six months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Interest and similar income						
Interest income, using the effective interest method	171,503	174,867	-2%	85,366	89,429	-5%
Loans and advances to customers at amortised cost	148,298	-	-	68,149	-	-
Securities measured at amortised cost	11,338	-	-	9,377	-	-
Financial assets measured at fair value through other comprehensive income	10,167	-	-	6,304	-	-
Loans and advances to banks measured at amortised cost	1,147	-	-	1,265	-	-
Loans and advances to customers	-	151,439	-	-	72,150	-
Available-for-sale financial assets	-	13,829	-	-	7,435	-
Held-to-maturity investments	-	8,537	-	-	8,537	-
Loans and advances to banks and central banks	-	676	-	-	1,126	-
Deposits with banks and central banks	553	386	43%	271	181	50%
Interest income, not using the effective interest method	3,625	3,879	-7%	3,663	3,879	-6%
Financial assets held for trading	2,848	3,879	-27%	2,848	3,879	-27%
Non-trading financial assets mandatorily at fair value through profit or loss	777	-	-	815	-	-
Total	175,128	178,746	-2%	89,029	93,308	-5%
Interest and similar expenses						
Due to customers	12,924	15,482	-17%	3,110	4,907	-37%
Derivatives - hedge accounting	4,021	2,680	50%	4,021	2,680	50%
Financial liabilities held for trading	2,502	3,219	-22%	2,502	3,219	-22%
Borrowings from banks and central banks	731	1,244	-41%	564	939	-40%
Subordinated liabilities	787	814	-3%	-	-	-
Borrowings from other customers	637	846	-25%	-	-	-
Deposits from banks and central banks	106	79	34%	112	61	84%
Debt securities in issue	-	4,309	-100%	-	4,309	-100%
Other financial liabilities	1,741	1,506	16%	1,500	1,263	19%
Total	23,449	30,179	-22%	11,809	17,378	-32%
Net interest income	151,679	148,567	2%	77,220	75,930	2%

in EUR thousand

not subject to review	NLB Group			NLB		
	three months ended			three months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Interest and similar income						
Interest income, using the effective interest method	86,231	86,018	0%	42,989	43,124	0%
Loans and advances to customers at amortised cost	74,612	-	-	34,268	-	-
Securities measured at amortised cost	5,616	-	-	4,668	-	-
Financial assets measured at fair value through other comprehensive income	5,116	-	-	3,233	-	-
Loans and advances to banks measured at amortised cost	611	-	-	684	-	-
Loans and advances to customers	-	74,834	-	-	34,986	-
Available-for-sale financial assets	-	6,316	-	-	3,128	-
Held-to-maturity investments	-	4,281	-	-	4,281	-
Loans and advances to banks and central banks	-	374	-	-	625	-
Deposits with banks and central banks	276	213	30%	136	104	31%
Interest income, not using the effective interest method	2,027	2,371	-15%	2,038	2,371	-14%
Financial assets held for trading	1,334	2,371	-44%	1,334	2,371	-44%
Non-trading financial assets mandatorily at fair value through profit or loss	693	-	-	704	-	-
Total	88,258	88,389	0%	45,027	45,495	-1%
Interest and similar expenses						
Due to customers	6,369	7,400	-14%	1,468	2,238	-34%
Derivatives - hedge accounting	2,071	1,448	43%	2,071	1,448	43%
Financial liabilities held for trading	1,157	1,915	-40%	1,157	1,915	-40%
Borrowings from banks and central banks	328	571	-43%	251	435	-42%
Subordinated liabilities	396	421	-6%	-	-	-
Borrowings from other customers	304	423	-28%	-	-	-
Deposits from banks and central banks	49	38	29%	62	34	82%
Debt securities in issue	-	2,175	-100%	-	2,175	-100%
Other financial liabilities	910	762	19%	791	657	20%
Total	11,584	15,153	-24%	5,800	8,902	-35%
Net interest income	76,674	73,236	5%	39,227	36,593	7%

4.2. Dividend income

in EUR thousand

	NLB Group			NLB		
	six months ended			six months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Financial assets measured at fair value through other comprehensive income	97	-	-	11	-	-
Investments in subsidiaries, associates, and joint ventures	-	-	-	49,669	42,058	18%
Available-for-sale financial assets	-	142	-	-	24	-
Total	97	142	-32%	49,680	42,082	18%

in EUR thousand

not subject to review	NLB Group			NLB		
	three months ended			three months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Financial assets measured at fair value through other comprehensive income	86	-	-	6	-	-
Investments in subsidiaries, associates, and joint ventures	-	-	-	41,139	30,861	33%
Available-for-sale financial assets	-	133	-	-	19	-
Total	86	133	-35%	41,145	30,880	33%

4.3. Fee and commission income and expenses

in EUR thousand

	NLB Group			NLB		
	six months ended			six months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Fee and commission income						
Credit cards and ATMs	31,980	28,848	11%	20,424	18,830	8%
Payments	27,683	27,921	-1%	13,805	14,138	-2%
Customer transaction accounts	23,184	21,189	9%	17,222	16,147	7%
Investment funds	8,198	8,282	-1%	2,389	2,437	-2%
Guarantees	5,281	5,544	-5%	3,438	3,651	-6%
Investment banking	4,687	3,656	28%	3,948	2,964	33%
Agency of insurance products	2,122	2,087	2%	2,117	2,079	2%
Other services	2,862	3,103	-8%	1,933	2,213	-13%
Total	105,997	100,630	5%	65,276	62,459	5%
Fee and commission expenses						
Credit cards and ATMs	19,735	18,009	10%	12,079	10,970	10%
Payments	2,803	2,675	5%	395	411	-4%
Investment banking	1,944	1,765	10%	1,319	1,235	7%
Insurance for holders of personal accounts and golden cards	725	928	-22%	607	638	-5%
Guarantees	115	121	-5%	23	89	-74%
Other services	1,116	1,379	-19%	569	562	1%
Total	26,438	24,877	6%	14,992	13,905	8%
Net fee and commission income	79,559	75,753	5%	50,284	48,554	4%

in EUR thousand

not subject to review	NLB Group			NLB		
	three months ended			three months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Fee and commission income						
Credit cards and ATMs	16,675	15,290	9%	10,475	9,944	5%
Payments	14,303	14,413	-1%	6,981	7,265	-4%
Customer transaction accounts	12,008	10,852	11%	8,848	8,281	7%
Investment funds	3,854	4,166	-7%	1,271	1,215	5%
Guarantees	2,662	2,764	-4%	1,748	1,823	-4%
Investment banking	2,156	2,050	5%	1,788	1,699	5%
Agency of insurance products	1,084	1,024	6%	1,081	1,044	4%
Other services	1,648	1,260	31%	1,183	748	58%
Total	54,390	51,819	5%	33,375	32,019	4%
Fee and commission expenses						
Credit cards and ATMs	10,655	9,691	10%	6,392	5,957	7%
Payments	1,494	1,391	7%	196	192	2%
Investment banking	1,088	1,155	-6%	769	882	-13%
Insurance for holders of personal accounts and golden cards	324	450	-28%	251	280	-10%
Guarantees	77	63	22%	(2)	50	-
Other services	525	717	-27%	295	304	-3%
Total	14,163	13,467	5%	7,901	7,665	3%
Net fee and commission income	40,227	38,352	5%	25,474	24,354	5%

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

	in EUR thousand			
	NLB Group		NLB	
	six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017
Financial assets measured at fair value through other comprehensive income	317	-	288	-
Financial assets measured at amortised cost	(6)	-	(6)	-
Available-for-sale financial assets	-	11,814	-	11,420
Financial liabilities measured at amortised cost	254	-	-	-
Total	565	11,814	282	11,420

not subject to review	in EUR thousand			
	NLB Group		NLB	
	three months ended		three months ended	
	June 2018	June 2017	June 2018	June 2018
Financial assets measured at fair value through other comprehensive income	162	-	133	-
Financial assets measured at amortised cost	(3)	-	(3)	-
Available-for-sale financial assets	-	120	-	128
Financial liabilities measured at amortised cost	-	-	-	-
Total	159	120	130	128

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

	in EUR thousand			
	NLB Group		NLB	
	six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017
Foreign exchange trading	4,823	4,973	1,704	1,984
Derivatives	(592)	717	(571)	1,087
Debt instruments	(313)	(10)	(313)	(10)
Total	3,918	5,680	820	3,061

not subject to review	in EUR thousand			
	NLB Group		NLB	
	three months ended		three months ended	
	June 2018	June 2017	June 2018	June 2018
Foreign exchange trading	2,592	2,788	991	1,086
Derivatives	(216)	468	(261)	798
Debt instruments	(44)	(92)	(44)	(92)
Total	2,332	3,164	686	1,792

4.6. Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss

	in EUR thousand			
	NLB Group		NLB	
	six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017
Equity securities	75	-	142	-
Loans and advances to customers	1,566	-	2,446	-
Total	1,641	-	2,588	-

not subject to review	in EUR thousand			
	NLB Group		NLB	
	three months ended		three months ended	
	June 2018	June 2017	June 2018	June 2017
Equity securities	187	-	137	-
Loans and advances to customers	834	-	1,496	-
Total	1,021	-	1,633	-

4.7. Other operating income

in EUR thousand

	NLB Group			NLB		
	six months ended			six months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Income from non-banking services	4,578	6,112	-25%	2,722	4,078	-33%
Rental income from investment property	2,086	2,891	-28%	246	185	33%
Other operating income	1,646	3,887	-58%	842	2,769	-70%
Total	8,310	12,890	-36%	3,810	7,032	-46%

in EUR thousand

not subject to review	NLB Group			NLB		
	three months ended			three months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Income from non-banking services	2,006	3,183	-37%	1,408	2,202	-36%
Rental income from investment property	1,158	1,457	-21%	140	95	47%
Other operating income	830	850	-2%	547	435	26%
Total	3,994	5,490	-27%	2,095	2,732	-23%

4.8. Other operating expenses

in EUR thousand

	NLB Group			NLB		
	six months ended			six months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Deposit guarantee	9,699	9,166	6%	5,746	4,731	21%
Single Resolution Fund	2,506	2,590	-3%	2,506	2,590	-3%
Other taxes and compulsory public levies	1,552	1,450	7%	486	574	-15%
Membership fees and similar fees	372	522	-29%	150	322	-53%
Expenses related to issued service guarantees	168	183	-8%	168	183	-8%
Other operating expenses	2,468	1,190	107%	1,304	430	203%
Total	16,765	15,101	11%	10,360	8,830	17%

in EUR thousand

not subject to review	NLB Group			NLB		
	three months ended			three months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Deposit guarantee	7,739	6,944	11%	5,746	4,731	21%
Single Resolution Fund	2,506	2,590	-3%	2,506	2,590	-3%
Other taxes and compulsory public levies	722	822	-12%	318	296	7%
Membership fees and similar fees	174	294	-41%	71	183	-61%
Expenses related to issued service guarantees	96	91	5%	96	91	5%
Other operating expenses	1,831	599	206%	1,000	235	326%
Total	13,068	11,340	15%	9,737	8,126	20%

4.9. Administrative expenses

in EUR thousand

	NLB Group			NLB		
	six months ended			six months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Employee costs	80,880	80,414	1%	50,426	50,441	0%
Other general and administrative expenses	45,443	44,854	1%	26,677	26,593	0%
Total	126,323	125,268	1%	77,103	77,034	0%

in EUR thousand

not subject to review	NLB Group			NLB		
	three months ended			three months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Employee costs	40,592	40,784	0%	25,254	25,375	0%
Other general and administrative expenses	23,127	23,859	-3%	13,550	14,295	-5%
Total	63,719	64,643	-1%	38,804	39,670	-2%

4.10. Provisions for other liabilities and charges

	in EUR thousand			
	NLB Group		NLB	
	six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017
Guarantees and commitments	(3,923)	(5,995)	(654)	(4,447)
Provisions for legal issues	551	717	26	65
Provisions for restructuring	(6)	17	-	-
Other provisions	-	32	-	-
Total	(3,378)	(5,229)	(628)	(4,382)

not subject to review	in EUR thousand			
	NLB Group		NLB	
	three months ended		three months ended	
	June 2018	June 2017	June 2018	June 2017
Guarantees and commitments	(1,675)	(3,659)	(1,277)	(3,324)
Provisions for legal issues	472	682	26	65
Provisions for restructuring	-	17	-	-
Other provisions	-	32	-	-
Total	(1,203)	(2,928)	(1,251)	(3,259)

4.11. Impairment charge

	in EUR thousand			
	NLB Group		NLB	
	six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017
Impairment of financial assets				
Cash balances at central banks, and other demand deposits at banks	(12)	-	9	-
Loans and advances to banks measured at amortised cost (note 5.8.a)	(385)	-	(226)	-
Loans and advances to customers measured at amortised cost (note 5.8.a)	(12,071)	-	(10,538)	-
Debt securities measured at fair value through other comprehensive income (note 5.8.b)	559	-	302	-
Debt securities measured at amortised cost (note 5.8.b)	279	-	(78)	-
Other financial assets measured at amortised cost (note 5.8.a)	(52)	-	(277)	-
Loans and advances to customers (note 5.8.d)	-	(22,137)	-	(11,991)
Loans and advances to banks (note 5.8.d)	-	(129)	-	-
Held-to-maturity financial assets	-	(11)	-	(11)
Available-for-sale financial assets	-	11	-	-
Other financial assets (note 5.8.d)	-	279	-	407
Impairment of investments in subsidiaries, associates, and joint ventures				
Investments in subsidiaries	-	-	(376)	75
Impairment of other assets				
Property and equipment	120	-	-	-
Other assets	569	1,596	(158)	3
Total	(10,993)	(20,391)	(11,342)	(11,517)

	in EUR thousand			
	NLB Group		NLB	
	three months ended		three months ended	
	June 2018	June 2017	June 2018	June 2017
not subject to review				
Impairment of financial assets				
Cash balances at central banks, and other demand deposits at banks	(64)	-	(3)	-
Loans and advances to banks measured at amortised cost (note 5.8.a)	(440)	-	(166)	-
Loans and advances to customers measured at amortised cost (note 5.8.a)	(7,896)	-	(11,716)	-
Debt securities measured at fair value through other comprehensive income (note 5.8.b)	407	-	136	-
Debt securities measured at amortised cost (note 5.8.b)	90	-	93	-
Other financial assets measured at amortised cost (note 5.8.a)	(2,767)	-	(229)	-
Loans and advances to customers (note 5.8.d)	-	912	-	(603)
Loans and advances to banks (note 5.8.d)	-	182	-	-
Held-to-maturity financial assets	-	-	-	-
Available-for-sale financial assets	-	11	-	-
Other financial assets (note 5.8.d)	-	(45)	-	39
Impairment of investments in subsidiaries, associates, and joint ventures				
Investments in subsidiaries	-	-	(376)	-
Impairment of other assets				
Property and equipment	120	-	-	-
Other assets	190	766	(158)	3
Total	(10,360)	1,826	(12,419)	(561)

NLB re-calculated risk parameters in the second quarter of 2018. Risk parameters were re-calculated by including the 2017 historical data. As 2017 was a favourable period in terms of macroeconomic movements, the impact on through-the-cycle (TTC) risk parameters was mainly favourable, which explains the release of collective provisions in the amount of EUR 1.6 million on the NLB Group level. The effect of recalculation of PDs for collective provisions in 2017 in the segment of corporate clients amounted to approximately EUR 21 million. The volume of the impact in respective years are not directly comparable due to the change of the models for estimating the risk parameters and increased data quality with the implementation of the IFRS 9. In addition, IFRS 9 calculation based on a one year or lifetime ECL varies significantly from the previous methodology.

4.12. Gains less losses from non-current assets held for sale

in EUR thousand

	NLB Group			NLB		
	six months ended			six months ended		
	June 2018	June 2017		June 2018	June 2017	
Gains less losses on derecognition of subsidiaries	12,178	(2)		8,840	159	
Gains less losses from property and equipment	(31)	204		(31)	186	
Total	12,147	202		8,809	345	

in EUR thousand

not subject to review	NLB Group			NLB		
	three months ended			three months ended		
	June 2018	June 2017		June 2018	June 2017	
Gains less losses on derecognition of subsidiaries	-	(2)		-	159	
Gains less losses from property and equipment	(51)	81		(51)	63	
Total	(51)	79		(51)	222	

Gains less losses on derecognition of subsidiaries present the gain from the sale of NLB Nov Penziski Fond, Skopje (note 5.13).

4.13. Income tax

in EUR thousand

	NLB Group			NLB		
	six months ended			six months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Current income tax	11,167	7,980	40%	6,094	3,043	100%
Deferred tax (note 5.12.)	(564)	113	-	111	138	-20%
Total	10,603	8,093	31%	6,205	3,181	95%

in EUR thousand

not subject to review	NLB Group			NLB		
	three months ended			three months ended		
	June 2018	June 2017	change	June 2018	June 2017	change
Current income tax	6,246	3,204	95%	4,531	1,003	352%
Deferred tax (note 5.12.)	100	82	22%	107	(84)	-227%
Total	6,346	3,286	93%	4,638	919	405%

5. Notes to the condensed statement of financial position

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

	in EUR thousand					
	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Balances and obligatory reserves with central banks	799,797	798,758	0%	406,245	350,804	16%
Cash	274,765	269,696	2%	143,329	143,726	0%
Demand deposits at banks	224,710	188,027	20%	111,352	75,480	48%
	1,299,272	1,256,481	3%	660,926	570,010	16%
Allowance for impairment	(541)	-	-	(75)	-	-
Total	1,298,731	1,256,481	3%	660,851	570,010	16%

5.2. Financial instruments held for trading

a) Trading assets

	in EUR thousand					
	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Derivatives, excluding hedging instruments						
Swap contracts	11,906	11,739	1%	11,907	11,734	1%
Forward contracts	2,356	439	437%	2,356	435	442%
Options	386	847	-54%	386	847	-54%
Total derivatives	14,648	13,025	12%	14,649	13,016	13%
Securities						
Treasury bills	51,092	55,047	-7%	51,092	55,047	-7%
Bonds	1,718	4,117	-58%	1,718	4,117	-58%
Total securities	52,810	59,164	-11%	52,810	59,164	-11%
Total	67,458	72,189	-7%	67,459	72,180	-7%

b) Trading liabilities

	in EUR thousand					
	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Derivatives, excluding hedging instruments						
Swap contracts	9,071	8,855	2%	9,071	8,751	4%
Forward contracts	2,280	371	515%	2,276	371	513%
Options	158	276	-43%	158	276	-43%
Total	11,509	9,502	21%	11,505	9,398	22%

5.3. Non-trading financial instruments measured at fair value through profit or loss

a) Financial instruments mandatorily at fair value through profit or loss

	in EUR thousand	
	NLB Group	NLB
	30 Jun 2018	30 Jun 2018
Assets		
Equity securities	4,641	635
Debt securities	101	-
Loans and advances to companies	21,010	25,111
Total	25,752	25,746
Liabilities		
Loans and advances to companies	9,264	9,152

b) Financial instruments designated at fair value through profit or loss

	in EUR thousand			
	NLB Group		NLB	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Assets	-	5,003	-	634
Liabilities	-	635	-	635

5.4. Financial assets measured at fair value through other comprehensive income

	in EUR thousand	
	NLB Group 30 Jun 2018	NLB 30 Jun 2018
Bonds	1,551,050	1,367,219
Commercial bills	139,741	-
Treasury bills	132,535	70,220
National Resolution Fund	44,526	44,526
Shares	8,367	2,051
Total	1,876,219	1,484,016
Allowance for impairment	(5,051)	(2,492)

5.5. Available-for-sale financial assets

	in EUR thousand	
	NLB Group 31 Dec 2017	NLB 31 Dec 2017
Bonds	1,805,250	1,554,565
Commercial bills	281,877	136,279
Treasury bills	136,182	40,070
National Resolution Fund	44,514	44,514
Shares	8,670	2,334
Total	2,276,493	1,777,762

5.6. Financial assets measured at amortised cost

Analysis by type

	in EUR thousand	
	NLB Group 30 Jun 2018	NLB 30 Jun 2018
Debt securities	1,265,726	1,129,743
Loans and advances to banks	453,724	448,569
Loans and advances to customers	7,037,953	4,522,241
Other financial assets	62,783	59,877
Total	8,820,186	6,160,430

a) Debt securities

	in EUR thousand	
	NLB Group 30 Jun 2018	NLB 30 Jun 2018
Government	888,209	751,005
Companies	88,362	88,388
Banks	284,025	284,025
Other	7,571	7,545
	1,268,167	1,130,963
Allowance for impairment (note 5.8.b)	(2,441)	(1,220)
Total	1,265,726	1,129,743

b) Loans and advances to banks

in EUR thousand

	NLB Group	NLB
	30 Jun 2018	30 Jun 2018
Time deposits	450,158	420,087
Purchased receivables	1,749	1,749
Loans	1,816	26,670
Called guarantees	330	330
	454,053	448,836
Allowance for impairment (note 5.8.a)	(329)	(267)
Total	453,724	448,569

c) Loans and advances to customers

in EUR thousand

	NLB Group	NLB
	30 Jun 2018	30 Jun 2018
Loans	6,989,699	4,526,928
Overdrafts	314,130	171,453
Finance lease receivables	140,185	-
Credit card business	115,330	57,455
Called guarantees	8,920	7,050
	7,568,264	4,762,886
Allowance for impairment (note 5.8.a)	(530,311)	(240,645)
Total	7,037,953	4,522,241

d) Other financial assets

in EUR thousand

	NLB Group	NLB
	30 Jun 2018	30 Jun 2018
Receivables in the course of collection	17,940	15,451
Credit card receivables	22,212	18,754
Debtors	6,919	340
Fees and commissions	5,184	3,035
Receivables to brokerage firms and others for the sale of securities and custody services	8,426	8,421
Prepayments	2,163	-
Accrued income	903	1,258
Receivables from purchase agreements for equity securities	163	163
Dividends	725	9,255
Other financial assets	9,179	5,804
	73,814	62,481
Allowance for impairment (note 5.8.a)	(11,031)	(2,604)
Total	62,783	59,877

5.7. Loans and advances

Analysis by type

in EUR thousand

	NLB Group	NLB
	31 Dec 2017	31 Dec 2017
Debt securities	82,133	82,133
Loans and advances to banks	510,107	462,322
Loans and advances to customers	6,912,333	4,587,477
Other financial assets	66,077	38,389
Total	7,570,650	5,170,321

a) Debt securities

in EUR thousand

NLB Group and NLB	31 Dec 2017
Companies	82,133
Total	82,133

b) Loans and advances to banks

in EUR thousand

	NLB Group	NLB
	31 Dec 2017	31 Dec 2017
Time deposits	506,322	437,427
Purchased receivables	1,505	1,505
Loans	2,856	23,390
	510,683	462,322
Allowance for impairment	(576)	-
Total	510,107	462,322

c) Loans and advances to customers

in EUR thousand

	NLB Group	NLB
	31 Dec 2017	31 Dec 2017
Loans	6,958,796	4,661,317
Overdrafts	305,600	176,171
Finance lease receivables	169,806	-
Credit card business	115,225	59,394
Called guarantees	9,658	7,658
	7,559,085	4,904,540
Allowance for impairment	(646,752)	(317,063)
Total	6,912,333	4,587,477

d) Other financial assets

in EUR thousand

	NLB Group	NLB
	31 Dec 2017	31 Dec 2017
Receivables in the course of collection	13,398	10,467
Credit card receivables	24,522	19,642
Debtors	8,018	1,029
Fees and commissions	6,170	4,723
Receivables to brokerage firms and others for the sale of securities and custody services	632	627
Prepayments	2,204	-
Accrued income	178	168
Receivables from purchase agreements for equity securities	163	163
Dividends	44	44
Other financial assets	22,453	4,717
	77,782	41,580
Allowance for impairment	(11,705)	(3,191)
Total	66,077	38,389

5.8. Movements in allowance for the impairment and provisions

a) Movements in allowance for the impairment of loans and advances measured at amortised cost

in EUR thousand

	NLB Group						
	Banks	Customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit- impaired
Balance as at 1 January 2018	713	34,618	34,203	481,070	171	25	10,672
Exchange differences on opening balance	-	7	6	495	-	-	-
Transfers	-	11,858	1,535	(13,393)	-	-	-
Impairment (note 4.11.)	(385)	(11,423)	735	14,188	74	7	285
Write-offs	-	(41)	(6)	(23,571)	(2)	-	(201)
Exchange differences	1	12	2	16	-	-	-
Balance as at 30 June 2018	329	35,031	36,475	458,805	243	32	10,756
Repayment of write-offs (note 4.11.)	-	-	-	15,571	-	-	418

in EUR thousand

	NLB						
	Banks	Customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit- impaired
Balance as at 1 January 2018	492	15,812	6,316	230,330	24	5	2,637
Transfers	-	2,518	10,422	(12,940)	-	-	-
Impairment (note 4.11.)	(226)	(2,932)	(4,831)	4,034	64	(3)	80
Write-offs	-	(25)	(5)	(8,078)	(2)	-	(201)
Exchange differences	1	12	2	10	-	-	-
Balance as at 30 June 2018	267	15,385	11,904	213,356	86	2	2,516
Repayment of write-offs (note 4.11.)	-	-	-	6,809	-	-	418

b) Movements in allowance for the impairment of debt securities

in EUR thousand

	NLB Group			
	Debt securities measured at amortised cost	Debt securities measured at fair value through other comprehensive income		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired
Balance as at 1 January 2018	2,169	3,689	-	798
Exchange differences on opening balance	(7)	5	-	-
Impairment (note 4.11.)	279	454	105	-
Balance as at 30 June 2018	2,441	4,148	105	798

in EUR thousand

	NLB			
	Debt securities measured at amortised cost	Debt securities measured at fair value through other comprehensive income		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired
Balance as at 1 January 2018	1,298	1,392	-	798
Impairment (note 4.11.)	(78)	302	-	-
Balance as at 30 June 2018	1,220	1,694	-	798

c) Movements in provisions for commitments and guarantees

in EUR thousand

	NLB Group		
	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired
Balance as at 1 January 2018	6,928	4,833	30,504
Exchange differences on opening balance	(15)	(13)	-
Transfers	1,731	(1,343)	(388)
Impairment (note 4.10.)	(1,101)	(92)	(2,730)
Balance as at 30 June 2018	7,543	3,385	27,386

in EUR thousand

	NLB		
	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired
Balance as at 1 January 2018	2,946	450	27,276
Transfers	108	22	(130)
Impairment (note 4.10.)	361	399	(1,414)
Balance as at 30 June 2018	3,415	871	25,732

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

in EUR thousand

	NLB Group		
	Banks	Customers	Other financial assets
Balance as at 1 January 2017	349	903,401	15,453
Exchange differences on opening balance	2	562	58
Impairment (note 4.11.)	(129)	(22,137)	279
Write-offs	-	(38,061)	(1,189)
Repayment of write-offs	35	8,048	65
Exchange differences	1	224	(11)
Other	-	(145)	-
Balance as at 30 June 2017	258	851,892	14,655

	in EUR thousand		
	NLB		
	Banks	Customers	Other financial assets
Balance as at 1 January 2017	-	504,748	3,771
Impairment (note 4.11.)	-	(11,991)	407
Write-offs	-	(18,708)	(390)
Repayment of write-offs	-	1,978	8
Exchange differences	-	(49)	-
Balance as at 30 June 2017	-	475,978	3,796

5.9. Held-to-maturity financial assets

	in EUR thousand	
NLB Group and NLB	31 Dec 2017	
Bonds	609,785	
	609,785	
Allowance for impairment	(73)	
Total	609,712	

5.10. Investment property

	in EUR thousand					
	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Buildings	45,879	46,908	-2%	8,582	8,553	0%
Land	5,251	4,930	7%	684	704	-3%
Total	51,130	51,838	-1%	9,266	9,257	0%

5.11. Other assets

	in EUR thousand					
	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Assets, received as collateral	72,545	77,500	-6%	4,662	4,811	-3%
Inventories	5,602	8,879	-37%	378	335	13%
Deferred expenses	7,585	4,324	75%	5,179	2,886	79%
Prepayments	1,426	971	47%	432	285	52%
Claim for taxes and other dues	1,456	1,675	-13%	254	375	-32%
Total	88,614	93,349	-5%	10,905	8,692	25%

5.12. Deferred tax

	in EUR thousand					
	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Deferred income tax assets						
Valuation of financial instruments and capital investments	25,380	25,513	-1%	25,349	25,475	0%
Impairment provisions	973	170	472%	708	2	-
Employee benefit provisions	3,969	4,018	-1%	3,329	3,432	-3%
Depreciation and valuation of non-financial assets	1,280	976	31%	159	162	-2%
Total deferred income tax assets	31,602	30,677	3%	29,545	29,071	2%
Deferred income tax liabilities						
Valuation of financial instruments	8,794	10,077	-13%	7,814	9,067	-14%
Depreciation and valuation of non-financial assets	1,107	1,097	1%	240	246	-2%
Impairment provisions	3,301	1,996	65%	474	-	-
Total deferred income tax liabilities	13,202	13,170	0%	8,528	9,313	-8%
Net deferred income tax assets	21,146	18,603	14%	21,017	19,758	6%
Net deferred income tax liabilities	(2,746)	(1,096)	151%	-	-	-

	in EUR thousand			
	NLB Group		NLB	
	six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017
Included in the income statement for the current year	564	(113)	(111)	(138)
- valuation of financial instruments and capital investments	(55)	(60)	(55)	(87)
- impairment provisions	377	53	44	-
- employee benefit provisions	(49)	(47)	(103)	(46)
- depreciation and valuation of non-financial assets	291	(59)	3	(5)
Included in other comprehensive income for the current period	626	3,018	810	3,049
- valuation and impairment provisions of financial assets measured at fair value through other comprehensive income	626	-	810	-
- valuation of available-for-sale financial assets	-	3,018	-	3,049
Impact of transition on IFRS9	(319)	-	560	-

As at 30 June 2018, NLB recognised EUR 29,545 thousand deferred tax assets (31 December 2017: EUR 29,071 thousand). Unrecognised deferred tax assets amount to EUR 272,168 thousand (31 December 2017: EUR 277,325 thousand) of which EUR 199,338 thousand (31 December 2017: EUR 204,657 thousand) relates to unrecognised deferred tax assets from tax loss, and EUR 72,830 thousand (31 December 2017: EUR 72,668 thousand) to unrecognised deferred tax assets from impairments of non-strategic capital investments.

5.13. Disposal of a subsidiary

In March 2018, NLB Group completed the sale of 100% interest in NLB Nov Penziski Fond, Skopje to a third party. The details of the assets and liabilities disposed of, and disposal considerations are as follows:

in EUR thousand

Cash, cash balances at central banks, and other demand deposits at banks	12
Financial assets at fair value through other comprehensive income	3,961
Financial assets at amortised cost	
Loans to banks	3,967
Other financial assets	174
Property and equipment	18
Intangible assets	41
Other assets	137
Other financial liabilities	409
Provisions	60
Other liabilities	59
Net assets of subsidiary	7,782
Non-controlling interests	(496)
Carrying amount of net assets disposed of	7,286
Total disposal consideration	19,464
Cash and cash equivalents in subsidiary sold	(793)
Cash inflow on disposal	18,671
The gain on disposal of the subsidiary comprises:	
Consideration for disposal of the subsidiary	19,464
Carrying amount of net assets disposed of	7,286
Cumulative currency translation reserve on foreign operation recycled from other comprehensive income to profit or loss	(2)
Gains from disposal of subsidiary	12,176

Prior to disposal, NLB Nov Penziski Fond, Skopje was included in the segment 'Foreign strategic markets' (note 7.a).

5.14. Financial liabilities measured at amortised cost

Analysis by type of financial liabilities, measured at amortised cost

	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Deposits from banks and central banks	39,083	40,602	-4%	55,480	72,072	-23%
- Deposits on demand	36,021	36,331	-1%	54,988	71,383	-23%
- Other deposits	3,062	4,271	-28%	492	689	-29%
Borrowings from banks and central banks	268,543	279,616	-4%	252,499	260,747	-3%
Due to customers	10,018,043	9,878,378	1%	6,879,432	6,810,967	1%
- Deposits on demand	7,743,098	7,332,344	6%	5,775,374	5,455,657	6%
- Other deposits	2,274,945	2,546,034	-11%	1,104,058	1,355,310	-19%
Borrowings from other customers	65,037	74,286	-12%	4,928	5,726	-14%
Subordinated liabilities	15,029	27,350	-45%	-	-	-
Other financial liabilities	119,438	111,019	8%	81,429	71,534	14%
Total	10,525,173	10,411,251	1%	7,273,768	7,221,046	1%

a) Borrowings

	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Loans						
- banks and central banks	268,543	279,616	-4%	252,499	260,747	-3%
- other customers	65,037	74,286	-12%	4,928	5,726	-14%
Total	333,580	353,902	-6%	257,427	266,473	-3%

b) Subordinated liabilities

NLB Group				30 Jun 2018		31 Dec 2017	
Currency	Due date	Interest rate		Carrying amount	Nominal value	Carrying amount	Nominal value
Subordinated loans							
EUR	30.6.2018	6-month EURIBOR + 5 % p. a.		-	12,000	12,221	12,000
EUR	30.6.2020	6-month EURIBOR + 7.7% p. a.		5,122	5,000	5,132	5,000
EUR	26.6.2025	6-month EURIBOR + 6.25% p. a.		9,907	10,000	9,997	10,000
Total				15,029	27,000	27,350	27,000

c) Other financial liabilities

	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Items in the course of payment	34,729	20,931	66%	18,093	4,393	312%
Debit or credit card payables	34,133	36,578	-7%	31,337	32,132	-2%
Accrued expenses	15,843	11,343	40%	8,288	4,456	86%
Accrued salaries	11,541	9,665	19%	6,483	6,662	-3%
Liabilities to brokerage firms and others for securities purchase and custody services	4,278	1,327	222%	4,232	212	-
Suppliers	5,241	14,826	-65%	3,223	11,146	-71%
Fees and commissions due	124	1,682	-93%	69	1,627	-96%
Other financial liabilities	13,549	14,667	-8%	9,704	10,906	-11%
Total	119,438	111,019	8%	81,429	71,534	14%

5.15. Provisions

in EUR thousand

	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Employee benefit provisions	20,840	20,440	2%	16,996	16,712	2%
Provision for legal issues	13,725	15,786	-13%	4,947	4,958	0%
Restructuring provisions	14,094	15,284	-8%	13,329	14,687	-9%
Provisions for commitments and guarantees	38,314	36,915	4%	30,018	34,257	-12%
Stage 1	7,543	-	-	3,415	-	-
Stage 2	3,385	-	-	871	-	-
Stage 3	27,386	-	-	25,732	-	-
Other provisions	214	214	0%	203	203	0%
Total	87,187	88,639	-2%	65,493	70,817	-8%

Legal issues

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 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 the Memorandum of Understanding to stay all the proceedings commenced, the Court of Appeal, the County Court of Zagreb, ruled in four claims (as explained below in details) in favour of the plaintiff. In one of those cases NLB filed a constitutional appeal and in three an extraordinary legal measure with the Supreme Court of the Republic of Croatia.

Contrary to the decisions of the court described above in another case, a claim filed by the PBZ was refused and the judgment became final in favour of NLB. The 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 the other cases, with respect to which court procedures described above are pending, final judgments have not yet been issued.

The table below summarises amounts according to final judgements (not including penalty interest).

Date of the ruling	Plaintiff	Principal amount in EUR	Costs of the proceedings in HRK	Measures taken by NLB
May 2015	PBZ	254.76	15,781.25	Constitutional appeal against the final judgement, as NLB 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. Constitutional Court of the Republic of Croatia rejected the constitutional appeal of NLB d.d. on 21 May 2018. NLB is considering possibilities to challenge decisions of Croatian courts with European forums (ECHR, Court of Justice of the European Union etc.).
September 2017	ZaBa	492,430.53	748,583.75	NLB challenged the judgments 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.
November 2017	PBZ	220,115.98	688,268.12	
April 2018	PBZ	222,426.39	253,283.37	

NLB Shareholders' Meeting provided on 9 April 2018 the Management Board of NLB with instructions how to act in the event of existing or potential new final judgements by Croatian courts against LB and NLB regarding the transferred foreign currency deposits and especially not to voluntarily settle the adjudicated amounts and also gave some additional instructions on the usage of legal remedies.

On 19 July 2018 the National Assembly of the Republic of Slovenia passed the Act for Value Protection of Republic of Slovenia's Capital Investment in Nova Ljubljanska banka d.d., Ljubljana (Zakon za zaščito vrednosti kapitalne naložbe Republike Slovenije v Novi Ljubljanski banki d.d., Ljubljana, hereinafter: the ZVKNNLB) which entered into force on 14 August 2018. In accordance with the ZVKNNLB the Succession Fund of the Republic of Slovenia (Sklad Republike Slovenije za nasledstvo, javni sklad, hereinafter: the Fund) shall compensate NLB for the sums recovered from NLB by enforcement of final judgements delivered by Croatian courts with regard to the transferred foreign currency deposits, that is the principle amount, accrued interest, expenses of court, Attorney's expenses and other expenses of the plaintiff and expenses related to enforcement with the accrued interest. There shall be no compensation for any voluntary made payments by NLB. In accordance with the ZVKNNLB and pursuant to the agreement between NLB and the Fund, as envisaged by the ZVKNNLB (which was concluded on 14 August 2018), NLB has to contest the claims made against it in court proceedings in relation to transferred foreign currency deposits and use against court decisions that are disadvantageous for NLB, all reasonable legal remedies and to continue to actively challenge the judicial decisions of the courts of the Republic of Croatia in relation to transferred foreign currency deposits on the basis of which enforcement took place, leading, on the basis of ZVKNNLB, to the compensation of the sums recovered from NLB by enforcement.

Provisions for these claims are not formed, since NLB believes that based on the factual and legal evaluation there are greater prospects for the legal proceedings to end in favour of NLB than opposite.

5.16. Income tax relating to components of other comprehensive income

in EUR thousand

	NLB Group					
	30 Jun 2018			30 Jun 2017		
	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Financial assets measured at fair value through other comprehensive income	(2,439)	626	(1,813)	-	-	-
Available-for-sale financial assets	-	-	-	(15,464)	3,018	(12,446)
Share of associates and joint ventures	(2,782)	537	(2,245)	(801)	158	(643)
Total	(5,221)	1,163	(4,058)	(16,265)	3,176	(13,089)

in EUR thousand

	NLB					
	30 Jun 2018			30 Jun 2017		
	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Financial assets measured at fair value through other comprehensive income	(4,220)	810	(3,410)	-	-	-
Available-for-sale financial assets	-	-	-	(16,050)	3,049	(13,001)
Total	(4,220)	810	(3,410)	(16,050)	3,049	(13,001)

5.17. Other liabilities

in EUR thousand

	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
	Taxes payable	3,965	3,409	16%	2,833	2,770
Deferred income	5,571	3,101	80%	3,602	1,034	248%
Payments received in advance	2,801	3,086	-9%	479	377	27%
Total	12,337	9,596	29%	6,914	4,181	65%

5.18. Book value per share

The book value of a NLB share on a consolidated level as at 30 June 2018 was EUR 89.8 (31 December 2017: EUR 82.7), and on a solo level it was EUR 75.4 (31 December 2017: EUR 69.1). It is calculated as the ratio of net assets' book value without other equity instruments issued and the number of shares. NLB Group and NLB do not have any other equity instruments issued or treasury shares.

5.19. Capital adequacy ratio

in EUR thousand

	NLB Group		NLB	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	Paid-up capital instruments	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Retained earnings - from previous years	561,110	296,773	299,348	81,533
Profit or loss eligible - from current year	-	29,280	-	-
Accumulated other comprehensive income	11,776	(11,450)	21,234	(20)
Other reserves	13,522	13,522	13,522	13,522
Minority interest	-	-	-	-
Prudential filters: Cash flow hedge reserve	-	-	-	-
Prudential filters: Value adjustments due to the requirements for prudent valuation	(1,986)	(2,389)	(1,590)	(1,886)
(-) Goodwill	(3,529)	(3,529)	-	-
(-) Other intangible assets	(29,145)	(31,445)	(21,747)	(23,911)
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-	-	-	-
(-) Investments in CET1 instruments of financial sector - significant share	-	-	-	-
COMMON EQUITY TIER 1 CAPITAL (CET1)	1,623,126	1,362,140	1,382,145	1,140,616
Additional Tier 1 capital	-	-	-	-
TIER 1 CAPITAL	1,623,126	1,362,140	1,382,145	1,140,616
Tier 2 capital	-	-	-	-
TOTAL CAPITAL (OWN FUNDS)	1,623,126	1,362,140	1,382,145	1,140,616
RWA for credit risk	7,209,882	7,096,413	4,408,444	4,369,557
RWA for market risks	527,300	499,726	275,900	269,988
RWA for credit valuation adjustment risk	2,100	850	2,100	850
RWA for operational risk	953,482	949,493	596,586	593,750
TOTAL RISK EXPOSURE AMOUNT (RWA)	8,692,764	8,546,482	5,283,030	5,234,145
Common Equity Tier 1 Ratio	18.7%	15.9%	26.2%	21.8%
Tier 1 Ratio	18.7%	15.9%	26.2%	21.8%
Total Capital Ratio	18.7%	15.9%	26.2%	21.8%

At the end of June 2018, the capital ratios for NLB Group stood at 18.7% (or 2.8 percentage points higher than at the end of 2017), and for NLB at 26.2% (or 4.4 percentage points higher than at the end of 2017). The improvement of capital adequacy derives from higher capital, mainly due to unallocated NLB's profit (EUR 189 million), the inclusion of the positive effect from the implementation of IFRS 9 (EUR 43.8 million for NLB Group and EUR 27.7 million for NLB), and the conclusion of transitional arrangements relevant until the end of 2017.

In March 2018, NLB received a letter from the ECB on the 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, related to civil claims filed by the PBZ and the ZaBa against NLB, referring to the old savings of LB Branch Zagreb savers. Details on legal issues are disclosed in note 5.15. On 5 April 2018, NLB received the final decision on this matter, making any distributions of dividends by NLB to its shareholders subject to the ECB's consent.

General Assembly of NLB on its 31st regular session on 27 June 2018, accepted a decision that NLB's profit for 2017 remains unallocated in form of retained earnings, which resulted in the increase of the regulatory equity in the amount of EUR 189 million.

In September 2018, NLB applied to the ECB for formal approval for the distribution of dividends from retained earnings of NLB d.d. from fiscal year 2017 and retained earnings from previous years of NLB d.d. NLB also applied for the inclusion of the NLB's semi-annual profit in its CET1 capital on both the individual and consolidated basis.

5.20. Off-balance sheet liabilities

	in EUR thousand					
	NLB Group			NLB		
	30 Jun 2018	31 Dec 2017	Change	30 Jun 2018	31 Dec 2017	Change
Commitments to extend credit	1,115,200	1,130,250	-1%	881,147	898,927	-2%
Non-financial guarantees	425,271	427,028	0%	331,048	339,669	-3%
Financial guarantees	351,430	314,512	12%	223,562	178,335	25%
Letters of credit	15,806	14,614	8%	4,278	375	-
Other	15,299	4,109	272%	12,408	69	-
	1,923,006	1,890,513	2%	1,452,443	1,417,375	2%
Provisions (note 5.15.)	(38,314)	(36,915)	4%	(30,018)	(34,257)	-12%
Total	1,884,692	1,853,598	2%	1,422,425	1,383,118	3%

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

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

- Level 1 – Quoted prices (unadjusted) on active markets. This level includes listed equities, debt instruments, derivatives, units of investment funds, and other unadjusted market prices of assets and liabilities. When an asset or liability may be exchanged on multiple active markets, the principal market for the asset or liability must be determined. In the absence of a principal market, the most advantageous market for the asset or liability must be determined.

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

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

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

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

in EUR thousand

30 Jun 2018	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Financial instruments held for trading	52,810	14,419	229	67,458	52,810	14,420	229	67,459
<i>Debt instruments</i>	52,810	-	-	52,810	52,810	-	-	52,810
<i>Derivatives</i>	-	14,419	229	14,648	-	14,420	229	14,649
Derivatives - hedge accounting	-	695	-	695	-	695	-	695
Non-trading financial assets mandatorily at fair value through profit or loss	4,673	21,010	69	25,752	566	25,111	69	25,746
<i>Loans and advances to customers</i>	-	21,010	-	21,010	-	25,111	-	25,111
<i>Debt instruments</i>	101	-	-	101	-	-	-	-
<i>Equity instruments</i>	4,572	-	69	4,641	566	-	69	635
Financial assets measured at fair value through other comprehensive income	1,640,784	229,758	5,677	1,876,219	1,429,203	52,762	2,051	1,484,016
<i>Debt instruments</i>	1,640,623	182,703	-	1,823,326	1,429,203	8,236	-	1,437,439
<i>Equity instruments</i>	161	47,055	5,677	52,893	-	44,526	2,051	46,577
Financial liabilities								
Financial instruments held for trading	-	11,509	-	11,509	-	11,505	-	11,505
<i>Derivatives</i>	-	11,509	-	11,509	-	11,505	-	11,505
Derivatives - hedge accounting	-	26,132	-	26,132	-	26,132	-	26,132
Financial liabilities measured at fair value through profit or loss	-	9,264	-	9,264	-	9,152	-	9,152
Non-financial assets								
Investment properties	-	51,130	-	51,130	-	9,266	-	9,266
Non-current assets classified as held for sale	-	4,227	-	4,227	-	1,602	-	1,602

in EUR thousand

31 Dec 2017	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Financial instruments held for trading	59,164	12,454	571	72,189	59,164	12,445	571	72,180
<i>Debt instruments</i>	59,164	-	-	59,164	59,164	-	-	59,164
<i>Derivatives</i>	-	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
<i>Debt instruments</i>	102	-	-	102	-	-	-	-
<i>Equity instruments</i>	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
<i>Debt instruments</i>	1,914,963	308,346	-	2,223,309	1,586,447	144,467	-	1,730,914
<i>Equity instruments</i>	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
<i>Derivatives</i>	-	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 classified as held for sale	-	11,631	-	11,631	-	2,564	-	2,564

b) Significant transfers of financial instruments between levels of valuation

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

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

For the six months ended 30 June 2018 and 30 June 2017, 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 valued by valuation model;
- equities;
- derivatives: derivatives except forward derivatives and options on equity instruments that are not quoted on active markets;
- the National Resolution Fund, and
- structured deposits.

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

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

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

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

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

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

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

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

The most commonly used valuation technique is the income approach. The income approach is based on an estimation of future cash flows discounted to the present value. One of the key elements of the valuation is the projection of the cash flows that the company is able to generate in the future. Based on that, the projection of the future cash flow is generated. The key variables that affect the amount of cash flows, and thus the estimated fair value of the financial asset, also include an assumption regarding the long-term EBITDA margin. A discount rate that is appropriate for the risks associated with the realisation of these benefits is used to discount cash flows. The discount rate is determined as the weighted average cost of capital. A forecast of future cash flows and a calculation of the weighted average cost of capital is prepared for an accurate forecasting period (usually 10 years from the date of the prediction value), and for a period

following the period of accurate forecasting. Assumptions of long-term stable growth in the amount of 2.5% are used for the period following the period of accurate forecasting. NLB Group can select values of unobservable input data within a reasonable possible range, but uses those input data that other market participants would use.

Movements of financial assets and liabilities on Level 3

in EUR thousand

	Trading assets	Financial assets available-for-sale	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss	Total financial assets
NLB Group	Derivatives	Equity instruments	Equity instruments	Equity instruments	
Balance as at 31 December 2017	571	5,431	-	-	6,002
Transition to IFRS 9	-	(5,431)	5,362	69	-
Balance as at 1 January 2018	571	-	5,362	69	6,002
Effects of translation of foreign operations to presentation currency	-	-	32	-	32
Valuation:					
- through profit or loss	(342)	-	-	-	(342)
- recognised in other comprehensive income	-	-	286	-	286
Decreases	-	-	(3)	-	(3)
Balance as at 30 June 2018	229	-	5,677	69	5,975

in EUR thousand

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

in EUR thousand

	Trading assets	Financial assets available-for-sale	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss	Total financial assets
NLB	Derivatives	Equity instruments	Equity instruments	Equity instruments	
Balance as at 31 December 2017	571	1,853	-	-	2,424
Transition to IFRS 9	-	(1,853)	1,784	69	-
Balance as at 1 January 2018	571	-	1,784	69	2,424
Valuation:					
- through profit or loss	(342)	-	-	-	(342)
- recognised in other comprehensive income	-	-	270	-	270
Decreases	-	-	(3)	-	(3)
Balance as at 30 June 2018	229	-	2,051	69	2,349

in EUR thousand

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

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

in EUR thousand

	NLB Group				NLB			
	30 Jun 2018		31 Dec 2017		30 Jun 2018		31 Dec 2017	
	Carrying value	Fair value						
Financial assets measured at amortised cost								
- debt securities	1,265,726	1,313,183	-	-	1,129,743	1,173,539	-	-
- loans and advances to banks	453,724	453,774	-	-	448,569	454,728	-	-
- loans and advances to customers	7,037,953	7,146,434	-	-	4,522,241	4,558,015	-	-
- other financial assets	62,783	62,783	-	-	59,877	59,877	-	-
Loans and advances								
- debt securities	-	-	82,133	79,974	-	-	82,133	79,974
- loans and advances to banks	-	-	510,107	523,943	-	-	462,322	468,599
- loans and advances to customers	-	-	6,912,333	6,494,021	-	-	4,587,477	4,584,217
- other financial assets	-	-	66,077	66,077	-	-	38,389	38,389
Held-to-maturity investments	-	-	609,712	658,029	-	-	609,712	658,029
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	39,083	39,081	40,602	40,608	55,480	55,480	72,072	72,072
- borrowings from banks and central banks	268,543	277,869	279,616	287,165	252,499	261,480	260,747	267,866
- due to customers	10,018,043	10,029,159	9,878,378	9,892,052	6,879,432	6,884,958	6,810,967	6,817,618
- borrowings from other customers	80,066	80,258	101,636	101,600	4,928	4,931	5,726	5,728
- other financial liabilities	119,438	119,438	111,019	111,019	81,429	81,429	71,534	71,534

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

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

Debt securities measured at amortised cost and issued debt securities

The fair value of debt securities measured at amortised cost and issued debt securities is based on their quoted market price or value calculated by using a discounted cash flow method, and the prevailing money market interest rates.

Loan commitments

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

Other financial assets and liabilities

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

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

in EUR thousand

30 Jun 2018	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at amortised cost								
- debt securities	1,089,139	224,044	-	1,313,183	949,495	224,044	-	1,173,539
- loans to banks	-	453,774	-	453,774	-	454,728	-	454,728
- loans and advances to customers	-	7,146,434	-	7,146,434	-	4,558,015	-	4,558,015
- other financial assets	-	62,783	-	62,783	-	59,877	-	59,877
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	39,081	-	39,081	-	55,480	-	55,480
- borrowings from banks and central banks	-	277,869	-	277,869	-	261,480	-	261,480
- due to customers	-	10,029,159	-	10,029,159	-	6,884,958	-	6,884,958
- borrowings from other customers	-	80,258	-	80,258	-	4,931	-	4,931
- other financial liabilities	-	119,438	-	119,438	-	81,429	-	81,429

in EUR thousand

31 Dec 2017	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
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	-	101,600	-	101,600	-	5,728	-	5,728
- other financial liabilities	-	111,019	-	111,019	-	71,534	-	71,534

6. Related-party transactions

The volumes of related party transactions and the outstanding balances:

in EUR thousand

NLB Group and NLB	Management Board and other Key management personnel		Family members of the Management Board and other key management personnel		Companies in which members of the Management Board, key management personnel, or their family members have control, joint control or a significant influence		Supervisory Board	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Loans and deposits issued	1,933	2,021	411	413	162	242	426	435
Loans and deposits received	1,828	1,981	641	769	953	593	364	240
Other financial liabilities	2,437	2,408	-	-	3	7	-	-
Guarantees issued and commitments to extend credit	236	224	81	76	167	116	29	31
	six months ended		six months ended		six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017	June 2018	June 2017	June 2018	June 2017
Interest income	16	19	4	4	2	3	5	-
Interest expenses	(2)	(5)	(1)	(2)	-	-	-	-
Fee income	4	5	3	3	5	4	1	-
Administrative and other operating expenses	(2)	(3)	-	-	(26)	-	-	-

In EUR thousand

NLB Group	Ultimate parent		NLB		Ultimate parent	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Loans and deposits issued measured at amortised cost	102,084	127,781	98,628	123,659		
Investments in securities (banking book)	851,408	901,511	781,311	826,362		
Investments in securities (trading book)	51,092	-	51,092	-		
Other financial assets	632	18	632	18		
Other financial liabilities	8	8	8	8		
Guarantees issued and commitments to extend credit	1,053	932	1,053	932		
	six months ended		six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017	June 2018	June 2017
Interest income	10,824	13,254	10,894	12,958		
Interest expenses	-	(4)	-	(4)		
Fee income	519	68	519	68		
Fee expenses	(15)	(19)	(15)	(19)		
Other income	49	3	49	3		
Administrative and other operating expenses	(6)	(1)	(6)	(1)		
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	217	-	217	-		
Gains less losses from financial assets and liabilities held for trading	(261)	(126)	(261)	(126)		

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

in EUR thousand

NLB Group and NLB	Amount of significant transactions concluded during the period		Number of significant transactions concluded during the period	
	1.1. - 30.6.2018	1.1. - 31.12.2017	1.1. - 30.6.2018	1.1. - 31.12.2017
Loans	-	117,924	-	1
	Balance of all significant transactions at end of the period		Number of significant transactions at end of the period	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Loans	530,581	575,024	5	5
Debt securities classified as loans and advances	75,691	82,133	1	1
Borrowings, deposits, and business accounts	135,062	135,006	2	2
	Effects in income statement during the period		Effects in income statement during the period	
	six months ended		six months ended	
	June 2018	June 2017		
Interest income from loans	1,488	3,362		
Effects from net interest income and net valuation from debt securities classified as loans and receivables	706	799		
Interest expense from borrowings, deposits and business accounts	(76)	(68)		

in EUR thousand

	NLB Group			
	Associates		Joint ventures	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Loans and deposits issued	1,230	1,296	5,346	4,333
Loans and deposits received	6,665	4,958	5,445	6,856
Other financial assets	8	27	591	347
Other financial liabilities	66	1,109	10,816	103
Guarantees issued and commitments to extend credit	38	38	27	29
	six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017
Interest income	19	22	21	35
Interest expenses	-	-	(16)	(46)
Fee income	67	63	2,000	1,898
Fee expenses	(5,103)	(5,358)	(1,138)	(1,067)
Other income	92	114	83	64
Administrative and other operating expenses	(362)	(497)	(25)	(13)
Gains less losses from financial assets and liabilities held for trading	(1)	-	-	-

in EUR thousand

	NLB					
	Subsidiaries		Associates		Joint ventures	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Loans and deposits issued	302,414	314,534	1,230	1,296	3,710	4,272
Loans and deposits received	42,808	56,129	6,665	4,958	3,518	4,855
Derivatives						
Fair value	1	-	-	-	-	-
Contractual amount	393	-	-	-	-	-
Other financial assets	443	730	8	27	178	347
Other financial liabilities	34	61	8	1,008	166	25
Guarantees issued and commitments to extend credit	22,781	25,718	38	38	26	28
Received loan commitments and financial guarantees	1,595	1,000	-	-	-	-
	six months ended		six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017	June 2018	June 2017
Interest income	2,303	3,249	19	22	20	34
Interest expenses	(83)	(32)	-	-	-	(43)
Fee income	2,755	2,784	67	63	1,941	1,842
Fee expenses	(17)	(17)	(4,362)	(4,654)	(607)	(638)
Other income	286	223	92	114	69	59
Administrative and other operating expenses	(365)	(901)	(192)	(375)	(25)	(13)
Gains less losses from financial assets and liabilities held for trading	(45)	-	(1)	-	-	-
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	1,026	-	-	-	-	-

Key management compensation - payments in the period

in EUR thousand

	Management Board		Other key management personnel	
	six months ended		six months ended	
	June 2018	June 2017	June 2018	June 2017
NLB Group and NLB				
Short-term benefits	333	319	2,314	2,319
Cost refunds	2	2	45	43
Long-term bonuses				
- severance pay	-	-	-	26
- other benefits	3	3	37	38
Variable part of payments	-	63	-	673
Total	338	387	2,396	3,099

Short-term benefits include:

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

The reimbursement of costs is comprised of food allowances and travel expenses, other long-term bonuses including supplementary voluntary pension insurance and jubilee bonuses, and the variable part of the payments is paid in accordance with the Remuneration Policy for employees with a special nature of work.

7. Analysis by segment for NLB Group

a) Segments

The six months ended 30 June 2018

in EUR thousand

	Corporate banking in Slovenia	Retail banking in Slovenia	Financial markets and investment banking in Slovenia	Foreign strategic markets	Non-strategic markets and activities	Other activities	Unallocated	Total
NLB Group								
Total net income	35,990	67,515	21,602	109,162	9,578	143	-	243,990
Net income from external customers	38,029	69,782	15,940	109,645	9,535	117	-	243,048
Intersegment net income	(2,039)	(2,267)	5,662	(483)	43	26	-	942
Net interest income	20,167	36,565	17,729	71,931	5,336	(49)	-	151,679
Net interest income from external customers	22,206	39,011	12,114	72,747	5,676	(75)	-	151,679
Intersegment net interest income	(2,039)	(2,446)	5,615	(816)	(340)	26	-	(0)
Administrative expenses	(19,295)	(46,049)	(5,752)	(44,518)	(8,650)	(3,000)	-	(127,265)
Depreciation and amortisation	(2,134)	(5,111)	(563)	(4,614)	(761)	(459)	-	(13,642)
Reportable segment profit/(loss) before impairment and provision charge	14,561	16,355	15,287	60,029	167	(3,317)	-	103,083
Gains less losses from capital investment in associates and joint ventures	-	2,538	-	-	-	-	-	2,538
Impairment and provisions charge	9,970	(2,218)	(30)	(1,459)	7,804	303	-	14,371
Profit/(loss) before income tax	24,531	16,676	15,257	58,570	7,972	(3,013)	-	119,992
Owners of the parent	24,531	16,676	15,257	54,028	7,972	(3,013)	-	115,450
Non-controlling interests	-	-	-	4,542	-	-	-	4,542
Income tax	-	-	-	-	-	-	(10,603)	(10,603)
Profit for the period	-	-	-	-	-	-	-	104,847
30.6.2018								
Reportable segment assets	2,018,808	2,265,253	3,684,628	3,978,148	344,950	182,068	-	12,473,855
Investments in associates and joint ventures	-	42,331	-	-	-	-	-	42,331
Reportable segment liabilities	1,127,141	5,666,461	455,131	3,316,081	17,359	99,431	-	10,681,605

The six months ended 30 June 2017

in EUR thousand

	Corporate banking in Slovenia	Retail banking in Slovenia	Financial markets and investment banking in Slovenia	Foreign strategic markets	Non-strategic markets and activities	Other activities	Unallocated	Total
NLB Group								
Total net income	35,257	66,747	19,059	93,238	24,839	3,361	-	242,502
Net income from external customers	37,923	66,954	13,932	94,362	24,415	3,497	-	241,083
Intersegment net income	(2,667)	(207)	5,127	(1,124)	424	(135)	-	1,419
Net interest income	20,314	35,144	16,036	70,258	6,987	(172)	-	148,567
Net interest income from external customers	22,981	35,490	10,908	71,249	7,982	(42)	-	148,567
Intersegment net interest income	(2,667)	(346)	5,128	(991)	(995)	(130)	-	-
Administrative expenses	(19,448)	(44,340)	(5,519)	(42,504)	(10,357)	(4,519)	-	(126,687)
Depreciation and amortisation	(2,167)	(5,104)	(507)	(4,436)	(826)	(747)	-	(13,787)
Reportable segment profit/(loss) before impairment and provision charge	13,642	17,303	13,033	46,298	13,656	(1,904)	-	102,028
Gains less losses from capital investment in subsidiaries, associates and joint ventures	-	2,736	-	-	-	-	-	2,736
Impairment and provisions charge	4,574	(83)	(42)	12,497	8,651	23	-	25,620
Profit/(loss) before income tax	18,216	19,956	12,992	58,795	22,307	(1,882)	-	130,384
Owners of the parent	18,216	19,956	12,992	54,423	22,307	(1,882)	-	126,012
Non-controlling interests	-	-	-	4,372	-	-	-	4,372
Income tax	-	-	-	-	-	-	(8,093)	(8,093)
Profit for the period	-	-	-	-	-	-	-	117,919
31.12.2017								
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

b) Geographical information

in EUR thousand

NLB Group	Revenues		Net income		Non-current assets		Total assets	
	six months ended		six months ended		30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	June 2018	June 2017	June 2018	June 2017				
Slovenia	161,039	161,458	140,722	145,052	182,367	189,928	8,450,742	8,293,381
South East Europe	119,925	118,020	102,173	96,043	128,182	128,768	4,038,452	3,913,015
Macedonia	40,966	42,008	35,795	32,047	31,662	32,320	1,220,220	1,235,163
Serbia	13,981	11,837	11,847	11,131	23,874	24,394	449,842	406,959
Montenegro	13,881	13,643	11,285	10,541	29,756	29,686	493,891	466,155
Croatia	(10)	150	1,031	629	2,879	1,923	29,385	29,312
Bosnia and Herzegovina	33,014	33,397	26,972	27,486	26,757	26,876	1,227,770	1,190,435
Kosovo	18,093	16,985	15,243	14,209	13,254	13,569	617,344	584,991
Western Europe	258	40	53	(40)	229	236	26,804	31,140
Germany	2	-	(188)	71	215	218	1,333	1,876
Switzerland	256	40	241	(111)	14	18	25,471	29,264
Czech Republic	-	-	3	30	-	-	188	209
Total	281,222	279,518	242,951	241,085	310,778	318,932	12,516,186	12,237,745

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

8. Subsidiaries

NLB Group's subsidiaries as at 30 June 2018 were:

	Nature of Business	Country of Incorporation	NLB Group's shareholding %	NLB's shareholding %
Core members				
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	99.83	99.83
NLB Banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Republic of Kosovo	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	97.34	97.34
NLB Banka a.d., Belgrade	Banking	Republic of Serbia	99.997	99.997
NLB Srbija d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	100	100
Non-core members				
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	Finance	Republic of Slovenia	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Republic of Croatia	100	-
NLB Leasing Podgorica d.o.o., Podgorica - "u likvidaciji"	Finance	Republic of Montenegro	100	100
NLB Leasing d.o.o., Belgrade - u likvidaciji	Finance	Republic of Serbia	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	100	100
NLB Lizing d.o.o.e.l., Skopje - vo likvidaciji	Finance	Republic of Macedonia	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	100	12.71
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Republic of Croatia	100	-
BH-RE d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	100	-
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	100	100
REAM d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
SR-RE d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
SPV 2 d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
S-REAM d.o.o., Ljubljana	Real estate	Republic of Slovenia	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	100	100
NLB InterFinanz Praha s.r.o., Prague - v likvidaciji	Finance	Czech Republic	100	-
NLB InterFinanz d.o.o., Belgrade - u likvidaciji	Finance	Republic of Serbia	100	-
Prospera plus d.o.o., Ljubljana - v likvidaciji	Tourist and catering trade	Republic of Slovenia	100	100
LHB AG, Frankfurt	Finance	Republic of Germany	100	100

NLB Group's subsidiaries as at 31 December 2017 were:

	Nature of Business	Country of Incorporation	NLB Group's shareholding %	NLB's shareholding %
Core members				
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	99.83	99.83
NLB Banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Republic of Kosovo	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	97.34	97.34
NLB Banka a.d., Belgrade	Banking	Republic of Serbia	99.997	99.997
NLB Srbija d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	100	100
NLB Nov penziskifond a.d., Skopje	Insurance	Republic of Macedonia	100	51
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	100	100
Non-core members				
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	Finance	Republic of Slovenia	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Republic of Croatia	100	-
NLB Leasing Podgorica d.o.o., Podgorica - "u likvidaciji"	Finance	Republic of Montenegro	100	100
NLB Leasing d.o.o., Belgrade - u likvidaciji	Finance	Republic of Serbia	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	100	100
NLB Lizing d.o.o.e.l., Skopje - vo likvidaciji	Finance	Republic of Macedonia	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	100	12.71
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Republic of Croatia	100	-
BH-RE d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	100	-
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	100	100
REAM d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
SR-RE d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
SPV 2 d.o.o., Belgrade	Real estate	Republic of Serbia	100	100
NLB Propria d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	100	100
NLB InterFinanz Praha s.r.o., Prague	Finance	Czech Republic	100	-
NLB InterFinanz d.o.o., Belgrade	Finance	Republic of Serbia	100	-
Prospera plus d.o.o., Ljubljana - v likvidaciji	Tourist and catering trade	Republic of Slovenia	100	100
LHB AG, Frankfurt	Finance	Republic of Germany	100	100

9. Events after the end of the reporting period

On 19 July 2018 the National Assembly of the Republic of Slovenia passed the Act for Value Protection of the Republic of Slovenia's Capital Investment in Nova Ljubljanska banka d.d., Ljubljana (Zakon za zaščito vrednosti kapitalne naložbe Republike Slovenije v Novi Ljubljanski banki d.d., Ljubljana, hereinafter: "the ZVKNNLB"). For detailed information refer to note 5.15. Provisions.

In September 2018, NLB applied to the ECB for formal approval for the distribution of dividends from retained earnings of NLB d.d. from fiscal year 2017 and retained earnings from previous years of NLB d.d. NLB also applied for the inclusion of the NLB's semi-annual profit in its CET1 capital on both the individual and consolidated basis.

