

Annual  
Report  
2016

# Together



Zajedno

Заједно

Skupaj

Together

NLB Group Annual Report 2016

Заједно

Së bashku

Zajedno

Заедно

Contents

6 Key Financial And Operating Data

Chapter 1.

# Engaged

10 **Statement by the Management Board of NLB**

14 **Report of the Supervisory Board of NLB**

Chapter 2.

# Modern

20 **Business Report**

20 Key highlights of NLB Group

22 Overview of 2016 Results

28 NLB Group Strategy

32 Macroeconomic and Regulatory Environment

Chapter 3.

# Innovative

42 Retail Banking in Slovenia

54 Corporate and Investment Banking in Slovenia

Chapter 4.

# Efficient

66 Core Foreign Markets

90 Financial Markets

100 Non-core Markets and Activities

Chapter 5.

## Trustworthy

106 Risk Management

112 Human Resources

Chapter 6.

## Digital

120 IT and Processing Operations

126 Internal Audit

128 Compliance and Integrity

Chapter 7.

## Committed

132 Overview of NLB Group's  
Financial Performance 2016

144 Corporate Governance

Chapter 8.

## Responsible

162 Events After the End of the  
2016 Financial Year

164 NLB Group Chart as at  
31 December 2016

167 Organizational Structure of  
NLB as at 31 December 2016

168 Corporate and Social Responsibility

Chapter 9.

## Professional

**176 Audited Financial Statements  
of NLB Group and NLB d.d.**

**340 Regulatory Part**

**352 Risk and Capital Management**

**410 GRI Standards Disclosure for NLB**

**416 NLB Group directory**



## Slovenia

NLB, Ljubljana

**113**

Number of branches

**8,778**

Total assets (in EUR million)

**700,917**

Number of active clients

**23.7%**

Market share by total assets

**63.8**

Result after tax (in EUR million)

NLB Skladi, Ljubljana

**1,035**

Assets under management (in EUR million)

**27.2%**

Market share<sup>1</sup> (mutual funds)

**2.9**

Result after tax (in EUR million)

NLB Vita, Ljubljana

**401**

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

**11.1%**

Market share<sup>2</sup>

**7.4**

Result after tax (in EUR million)



## Bosnia and Herzegovina

NLB Banka, Banja Luka

**60**

Number of branches

**634**

Total assets (in EUR million)

**209,254**

Number of active clients

**18.9%**

Market share<sup>3</sup> by total assets

**14.1**

Result after tax (in EUR million)

NLB Banka, Sarajevo

**37**

Number of branches

**498**

Total assets (in EUR million)

**139,524**

Number of active clients

**5.3%**

Market share<sup>4</sup> by total assets

**5.4**

Result after tax (in EUR million)

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

1. Market share of assets under management in mutual funds.
2. Market share in traditional life insurances.
3. Market share in the Republic of Srpska.
4. Market share in the Federation of Bosnia and Herzegovina.



## Serbia

NLB Banka, Beograd

**31**

Number of branches

**276**

Total assets (in EUR million)

**133,095**

Number of active clients

**1.0%**

Market share by total assets

**2.2**

Result after tax (in EUR million)



## Montenegro

NLB Banka, Podgorica

**18**

Number of branches

**473**

Total assets (in EUR million)

**57,853**

Number of active clients

**12.5%**

Market share by total assets

**5.3**

Result after tax (in EUR million)



## Macedonia

NLB Banka, Skopje

**51**

Number of branches

**1,153**

Total assets (in EUR million)

**370,842**

Number of active clients

**16.2%**

Market share by total assets

**25.0**

Result after tax (in EUR million)



## Kosovo

NLB Banka, Prishtina

**45**

Number of branches

**516**

Total assets (in EUR million)

**185,315**

Number of active clients

**14.9%**

Market share by total assets

**11.3**

Result after tax (in EUR million)

Table 1: Key financial caption for NLB Group and NLB

	2016		2015		2014	
	NLB Group	NLB	NLB Group	NLB	NLB Group	NLB
<b>Income statement indicators (in EUR million)</b>						
Net interest income	317	175	340	208	330	227
Net non-interest income	158	109	143	105	181	137
Regular net non-interest income	145	96	150	102	146	99
Total costs	290	181	298	187	304	193
Provisions and impairments	61	64	83	88	141	93
Net gains/losses from subsidiaries, associates and JV	5	29	4	14	3	5
Result before tax	131	68	107	52	69	83
Minority interest	6	-	3	-	3	-
Result after tax	110	64	92	44	62	82
<b>Financial position statement indicators (in EUR million)</b>						
Total assets	12,039	8,778	11,822	8,707	11,909	8,886
Loans and advances to non-banking sector (net)	6,997	4,929	7,088	5,221	7,415	5,700
Deposits from non-banking sector	9,439	6,617	9,026	6,298	8,949	6,300
Equity	1,495	1,265	1,423	1,242	1,343	1,205
Impairments of loans to non-banking sector	-903	-505	-1,263	-695	-1,638	-998
Minority interest	30	-	28	-	26	-
Total off-balance sheet items	2,922	2,502	3,181	2,779	3,915	3,607
<b>Key financial indicators</b>						
<b>a) Capital adequacy</b>						
Total capital ratio	17.0%	23.4%	16.2%	22.6%	17.6%	22.7%
Tier 1 ratio	17.0%	23.4%	16.2%	22.6%	17.6%	22.7%
CET 1 ratio	17.0%	23.4%	16.2%	22.6%	17.6%	22.7%
Total risk weighted assets (in EUR million)	7,862	4,882	7,927	5,028	7,038	4,962
Risk weighted assets / total assets	65.3%	55.6%	67.1%	57.7%	59.1%	55.8%
<b>b) Asset quality</b>						
NPL coverage ratio (Coverage of gross non-performing loans with impairments for all loans)	76.1%	71.7%	72.2%	67.9%	68.7%	70.4%
NPL coverage ratio (Coverage of gross non-performing loans with impairments for non-performing loans)	64.6%	60.8%	62.8%	59.1%	61.7%	57.0%
Non-performing loans (NPL) / total loans	13.8%	11.9%	19.3%	16.5%	25.1%	21.2%
Net non-performing loans (NPL) / total net loans	5.4%	5.1%	8.3%	7.6%	10.7%	10.1%
Non-performing exposure (NPE) - EBA Definition	10.0%	8.5%	14.3%	12.1%	18.8%	15.6%
Credit impairments and provisions / risk weighted assets	0.3%	0.3%	0.6%	0.6%	1.7%	1.7%

	2016		2015		2014	
	NLB Group	NLB	NLB Group	NLB	NLB Group	NLB
<b>c) Profitability</b>						
Interest margin*	2.7%	2.0%	2.9%	2.4%	2.7%	2.5%
Financial intermediation margin	4.0%	3.6%	4.1%	3.8%	4.2%	4.1%
Return on equity before tax (ROE b.t.)	8.6%	5.3%	7.6%	4.2%	5.2%	7.2%
Return on assets before tax (ROA b.t.)	1.1%	0.8%	0.9%	0.6%	0.6%	0.9%
Return on equity after tax (ROE a.t.)	7.4%	5.0%	6.6%	3.6%	4.8%	7.0%
Return on assets after tax (ROA a.t.)	0.9%	0.7%	0.8%	0.5%	0.5%	0.9%
<b>d) Business costs</b>						
Operating costs / average total assets	2.4%	2.1%	2.5%	2.2%	2.5%	2.1%
Costs / net income (CIR)	60.9%	57.9%	61.6%	57.2%	59.4%	52.4%
Costs w/o restructuring costs / regular net income (CIR normalized)	61.8%	59.2%	60.0%	56.8%	62.1%	56.1%
Total costs / risk weighted assets	3.7%	3.7%	3.8%	3.7%	4.3%	3.9%
Total costs / total assets	2.4%	2.1%	2.5%	2.2%	2.5%	2.2%
<b>e) Liquidity</b>						
Liquidity assets / short-term financial liabilities to non-banking sector	55.7%	63.3%	57.3%	61.0%	57.2%	63.6%
Liquidity assets / average total assets	40.7%	45.6%	39.3%	41.4%	44.1%	44.0%
<b>f) Other</b>						
Market share in terms of total assets	-	23.7%	-	23.3%	-	22.9%
Loans to non-banking sector / deposits from non-banking sector (LTD)**	74.2%	74.5%	75.1%	78.0%	75.9%	80.7%
Revenues / risk weighted assets (RWA) ***	5.9%	6.1%	6.2%	6.4%	6.8%	6.7%
<b>Key indicators per share</b>						
Shareholders	-	1	-	1	-	1
Shares	-	20,000,000	-	20,000,000	-	20,000,000
Book value (in EUR)	74.8	63.2	71.1	62.1	67.2	60.3
<b>International credit ratings</b>						
S&P	BB-		BB-		BB-	
Fitch	BB-		B+		BB-	
<b>Employees</b>						
Number of employees	6,175	2,885	6,372	3,028	6,448	3,093

\* Calculated on the basis of average total assets

\*\* Without BAMC bond

\*\*\* Recurring income only



Angažovani

Ангажирани

Zavzeti

Engaged

Chapter 1

Ангажовани

Të Angazhuar

Angažovani

Angažovani

Chapter 1.1:

# Statement by the Management Board of NLB

A clear path going forward

**In 2016 NLB Group (hereinafter: the Group) continued to deliver strong performance. We defined and initiated implementation of our new comprehensive strategy. We progressed in developing new solutions, offered improved user experience, and eased accessibility of our services and advisory capacity to our clients. We remained committed to our customers, employees, shareholders, and society as well.**

The Group's 12 consecutive positive quarters, and the third solidly profitable business year in a row had an improving trend of both profitability and business operations that underscored the fact that 2016 confirmed our powerful presence in the South Eastern Europe (SEE) region. This year's highlights include: further improvements in our services and market position; a motivational year introducing contemporary human talent management practices and processes; and a breakthrough effort in setting the new business and information technology (IT) strategy through 2020.

The banking system in and beyond the Eurozone in 2016 faced record low interest rates and general overliquidity, causing a significant impact on business performance of commercial banks. The combination of increasing regulatory pressure, strong

competition on relevant markets for the Group, still relatively modest loan demand, and compliance with strict commitments to the European Commission (EC) represented a challenging period. Despite this, the Group worked to successfully overcome these developments, and the rating agencies acknowledged this by upgrading of our rating and/or the improved outlook.

Our continuous focus on intensive customer relationships was reflected in NLB Group's solid commercial and financial performance. The group's net profit amounted to EUR 110.0 million, the highest since 2007. We accomplished this through decisive implementation of a transformative programme, lasting seven years. Nowadays we have been proactively seeking new business opportunities. We have once again taken an innovative track (as the first on the market) and introduced new services, but have also successfully resolved significant legacy challenges by continuing the enhancement of risk management practices/processes, and very decisively applying the entire toolbox of reducing non-performing and non-core exposures/portfolios/entities. In doing so we have set very firm foundations for a sustainably profitable and value-creating future for our stakeholders.

All core banking members in and outside Slovenia showed profitable and improving operations in 2016, whereby subsidiary banks posted EUR 57.7 million in net profit, thus contributing an increasingly important part (52.4%) to the Group's results. Some Group members delivered a record-setting performance. We enjoyed high brand recognition, trust, and reputation on all of our key markets. We are strengthening our regional presence with dynamic pervasiveness on SEE markets as a distinctive advantage for the future.

We have been further strengthening our market position with a special focus on upgrading client experience and satisfaction, improvement of services, tailor-made solutions, proactive sales, and increasing emphasis on online banking channels and digitalisation.

In 2016 NLB was awarded the "Top Employer" certificate by an independent Dutch institute. The award honors innovations and improvements in the field of human resources processes. We committed to develop highly-skilled, professional, and engaged employees. Our remarkable co-workers ensure that we will be able to manage the challenges of the future.

We also continued to responsibly and comprehensively comply with commitments to the European Commission regarding State Aid.

Future economic and geopolitical changes will create new challenges, but also additional opportunities for our further growth. Technological development and digitalisation will considerably reshape banking and other businesses. We believe we are well-focused and positioned to cope with it in our new strategy. One of our biggest advantages is that we understand key trends and are committed to the future.

We are satisfied with NLB Group's achievements in 2016. Our clear vision, financial performance, and strong capital base position us well for future challenges. Our strategic direction is concrete and comprehensive, and will be supported by taking important steps to transform our organisation and behaviour to foster a performance culture. We develop our position as an innovative bank, creating simple customer-oriented solutions with an exclusive strategic focus on countries in SEE. We will continuously positively contribute to the well-being of our stakeholders and society in our markets with our commitment to responsibility and sustainability. Now and in the future.



**László 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

**Blaž Brodnjak**  
Chief Executive Officer



**Andreas Burkhardt**  
Member of the Management Board



**Archibald Kremser**

Member of the Management Board



**László Pelle**

Member of the Management Board



Chapter 1.2:

# Report of the Supervisory Board of NLB

**Dedicated to oversight, detailed monitoring, and steering of the Bank towards effective implementation of its' transformative strategy and clear value generation-focused future.**

Commercial banking industry has experienced a reshaping of the industry faster than anyone would have imagined a few years ago. A negative interest rate environment, changing and ever more demanding regulatory requirements, stiff competition, general over-liquidity, and increased commoditisation of core banking products require an innovative and focused approach towards the added-value banking services NLB Group can offer to its wide regional client base.

We on the NLB Supervisory Board are convinced that step-by-step, the Group will achieve its goals over the next five years' time. There are no shortcuts, but the combination of remaining committed to persistency, a clear vision, and hard work should and will yield positive results.

A close-up portrait of Primož Karpe, a man with short, dark hair and a goatee, wearing a dark suit jacket, a light blue shirt, and a dark blue tie. He is looking directly at the camera with a neutral expression. The background is a blurred green, suggesting an outdoor setting with foliage.

**Primož Karpe**

Chairman of the Supervisory Board

**2016 has been an active year  
for NLB's Supervisory Board**

NLB's Supervisory Board monitors and supervises the management and operations of the Group and in so doing, it resolves to utilise uncompromised principles of professionalism and expertise on one side, as well as a strong dedication to integrity, ethics, and honesty on the other.

The Supervisory Board represents a balanced, complementary team of experts focused on the effectiveness of performing its core functions. The delivery of critical and assertive opinions has been and will remain at the core of our decision-making principles through the expected engaged participation of all the members at all times.

Throughout the year, the Supervisory Board maintained a well-balanced professional relationship with the Management Board, and enjoyed timely, comprehensive, and data-supported information inputs from the latter, enabling the Supervisory Board to adopt all its decisions in line with the professional interests of the Bank, adhering at all times to banking regulations and its statutory powers. The Supervisory Board has assessed the functioning of the Management Board in 2016 as successful.

In the framework of operations, 2016 was indeed a busy year from the corporate governance perspective, with the Supervisory Board holding 10 regular and eight correspondence sessions. However, I personally consider that as of lesser importance. The true value of active supervision is at the end reflected

only through a set of milestones, which we targeted and also achieved. Apart from surpassing 2016 budgeted financial performance targets, the Group has adopted a new transformational Strategy for the 2016-2020 period, a positive risk/return that is balanced, and as well with concrete operational project plans supported by the business development roadmap of the Group that is focused on the delivery of future results and targets. The projected targets reflect a commitment to achieve business excellence, and are to be shared among all the Group's stakeholders, in various output formats, more specifically in a commitment to: the satisfaction of our clients, to an increase in employee satisfaction, to sustainable and long-term profit growth and a dividend payout to the shareholders, and to the society in which we operate.

Throughout the year, we have been challenged by a myriad of operational decisions that needed to be adopted, starting from the long-term stabilisation and strengthening of the Management Board, strategic initiatives in the field of digital transformation, truly active reductions of the NPL portfolio, various risk policy adoptions, as well as the adoption of the 2017 budget. Finally, NLB Supervisory Board also adopted information on the NLB d.d.'s sales process, which was initiated and led by the Slovenian Sovereign Holding as the sole shareholder.

I am personally proud of what the Group achieved in 2016, but I'm also well aware that there is absolutely no room for complacency if the trend of the Group's value growth is to continue.

Pursuant to the second paragraph of Article 282 of the Companies Act, the Supervisory Board has compiled this written report on the findings of the verification of the 2016 Annual Report of NLB Group, and of the proposal submitted by the Management Board to use the distributable profit for the general meeting with the aim of accurately and authentically presenting the activities of the Supervisory Board during the year.

In 2016 The Supervisory Board received expert assistance from its four operational committees, namely the: Audit, Risk, Nomination, and Remuneration Committees.

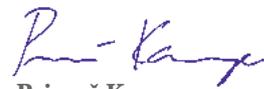
#### **Review and approval of the 2016 Annual Report**

On 7 April 2017 the Management Board of NLB d.d. submitted the 2016 Annual Report to the Supervisory Board, including the Business Report with audited financial statements of NLB, the audited financial statements of NLB, the audited consolidated financial statements of NLB Group and the auditor's opinion. According to the auditor, the financial statements with notes give a true and fair view of the financial position of the Bank and NLB Group as at 31 December 2016 and of their financial performance and their cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union. It was also established on the basis of the assessment of the Business Report that the information contained in the business section of the Annual Report is consistent with the audited financial statements of the Bank and NLB Group.

In accordance with article 34 of the Articles of Association of NLB d.d., the Supervisory Board verified the submitted Annual Report and a proposal for use of distributable profit, and shall give a report for the General Meeting. The Supervisory Board had no objections about the report of the audit company Ernst & Young, Ljubljana. Following a careful examination of the Annual Report for the Business Year 2016, the Supervisory Board had no objections, and unanimously approved it.

Yours truly,

The Supervisory Board of NLB d.d.



**Primož Karpe**

Chairman of the Supervisory Board





Savremeni

Современи

Sodobni

Modern

Chapter 2

Савремени

Bashkëkohore

Savremeni

Savremeni

Chapter 2. 1:

# Key highlights of NLB Group

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

### The largest banking and financial group in Slovenia

- The largest bank in Slovenia with 113 branches and a 24% market share by total assets
- Very strong retail deposit-taking franchise with a market share of 30.4%
- Market leader across banking products and flagship provider of asset management and life insurance products
- Rating improvement in 2016; upgrade from B+ to BB- by Fitch, outlook changed to positive by Standard and Poor's

### Leading position in selected SEE markets with significant growth potential

- SEE markets recording solid GDP growth above the Eurozone average
- Profitable and independent operations on six markets in five countries (Macedonia, Kosovo, two entities in Bosnia and Herzegovina, Montenegro, and Serbia), with market shares on four markets exceeding 10%
- 242 branches (in SEE) and 1.1 million active clients of SEE banking members
- Independent, well capitalised, and self-funded subsidiaries
- Strong dividend upflow payout from core subsidiaries to parent bank

### Proven track record of stable and profitable Group operations

- Increased profitability for a third consecutive year with 12 consecutive positive quarters
- 2016 ROE of 7.4% at a CET 1 ratio of 17%
- Revenue evolution driven by stable net interest margin and resilient fee income
- Successful cost-cutting and very low realised cost of risk
- Strong increase in contribution of international operations to revenue and profit growth

### Self funded, and well capitalised franchise, supporting attractive future dividend payout

- Strong liquidity position, stable and diversified funding structure with loan-to-deposit ratio (LTD) of 74.2%
- Robust Common Equity Tier 1 (CET 1) ratio of 17.0% and strong capital generation supporting growth in dividends
- 100% of 2015 net profit of the Bank paid out as a dividend to the RoS in 2016; 2016 net profit to be paid out in 2017

### Demonstrated progress with asset quality

- Substantially improved structure of the credit portfolio with new NPL formation at consistently low levels
- Non-performing exposures (NPE) as defined by European Banking Authority (EBA) significantly reduced from 14.3% in 2015 to 10.0% in 2016 while a coverage ratio remained very strong at 64.6%
- Further decisive and comprehensive organic and inorganic NPE reduction strategy
- Disposal of EUR 597 million non-performing credit portfolio in the last 12 months with a portfolio sale of non-performing portfolio and other measures
- Determined exit from non-core Group members and non-core loan portfolios

### Clear path going forward

- The new strategy foresees enhancement of the Bank's commercial proposition, rightsizing of costs, and increased digitalization. Implementation expected to drive significant efficiency and profitability improvements
- Mid-term financial targets include ROE > 10%, CIR at approximately 50%, NPE ratio < 5%, and a 70% dividend payout ratio of the Group profit

Chapter 2.2:

# Overview of 2016 Results

NLB Group increased its profit after tax for the third consecutive year to EUR 110 million, up 20% from 2015 (EUR 91.9 million) in a challenging interest rate environment.

- All core subsidiaries solidly profitable – some with record results
- Non-core related losses substantially reduced
- Strong loan growth in key business activities
- Continued improvement on costs

NPL levels were strongly reduced by 31%, thus, the NPL ratio came down to 13.8% (from 19.3% in 2015); the NPE ratio is already at 10% - very low new NPL formation from new business (2014 onwards).

The Bank remains a stronghold of profitability with the core foreign banks catching up rapidly, and collectively coming almost even in terms of their contribution to the Group profits.

Liquidity and capital ratios are very strong and a solid basis for further growth – fully anticipating a 100% (EUR 63.8 million) of the Bank profit dividend payout to shareholders. ROE stands at 7.4% whereas the after tax RORAC (on a normalised capital requirement of 14.75% of RWA) stands at 9.7%.

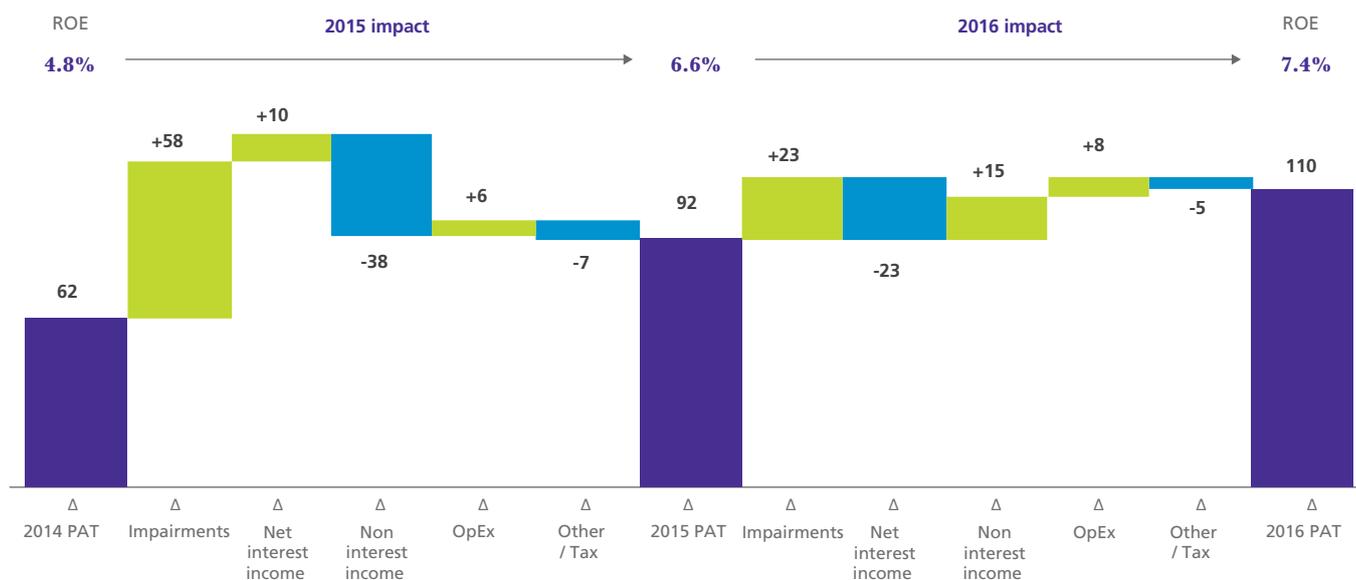


Figure 1: Three consecutive years of increased profitability (in EUR million)

International rating agencies have acknowledged strong progress by upgrading the Bank to BB- (S&P outlook Positive).

NLB Group has defined a new medium-term strategy to reinforce its regional specialist leadership position and ambitious plans for further profitable growth based on better services to its clients by leveraging on digital channels, improved efficiency, and enhanced client experience, Group synergies, and the dedication to be a regional solutions innovation champion – aiming to achieve above 10% ROE, a CIR of 50%, while maintaining a strong dividend flow of approximately 70% of the Group profits.

**Profitable core part of the Group, improved operations in non-core members**

The Bank contributed the largest share to the Group’s positive performance with a net profit of EUR 65.6 million, other banks in SEE markets EUR 57.7 million, while non-core members contributed negatively, but with improving trends.

**Core markets and activities: <sup>1</sup> a significant improvement in operations in strategic foreign markets**

In 2016, the main commercial activities of the Group, comprising: Corporate banking – Slovenia,<sup>2</sup> Retail banking – Slovenia and Strategic foreign markets, collectively showed positive evolution with profit before tax increasing from EUR 134.8 million to EUR 151.6 million normalised by the non-recurring effects of divesting a larger Slovenian non-performing portfolio sale.

Both the retail and corporate segments in Slovenia show solid performance, with the retail segment in particular – normalised for the non-performing portfolio sale – revealing healthy growth with a positive outlook for the future. The highest growth in profitability resulted from the strong development of strategic foreign markets with record results in Macedonia and

<sup>1</sup> Corporate banking in Slovenia, Retail banking in Slovenia, Financial markets in Slovenia, Foreign strategic markets

<sup>2</sup> Corporate banking in Slovenia includes Key, Mid and Small Corporate and Restructuring and Workout



Figure 2: Profit before tax of NLB Group by segments (in EUR million)

the strong performance of the entities in Bosnia and Herzegovina and Kosovo. The solid growth of retail lending with still-attractive margins was recorded in all markets, providing support for implementation of the strategy.

The financial markets segment reflects the rapid decline in yields on investments in securities which get reinvested, and so are repriced over a 3–4 year cycle. In addition, the higher yielding bonds received in 2013 as compensation for the transfers to the Bank Asset Management Company (BAMC; the Slovenian ‘bad bank’) matured (EUR 300 million as at end of 2015, the rest with the end of 2016). With the Bank maintaining a conservative investment profile in mostly Sovereigns and Financial Institutions, yields on reinvestments have considerably declined in recent years, including 2016. However, a slight reversal of this trend was seen towards the end of 2016.

**Non-core markets and activities: a controlled wind down**

The process of an intensive reduction in non-core members and business activities continued successfully throughout the year. In most of the remaining non-core members, liquidation processes were initiated in 2016 in compliance with the EC stipulations. Nonetheless, collection activities from all these entities continue with full dedication. The loss of this segment was substantially lower compared to 2015 thanks to the much strengthened collection ability, and already quite high coverage ratios. However, the segment still accounts for a sizable cost base of some

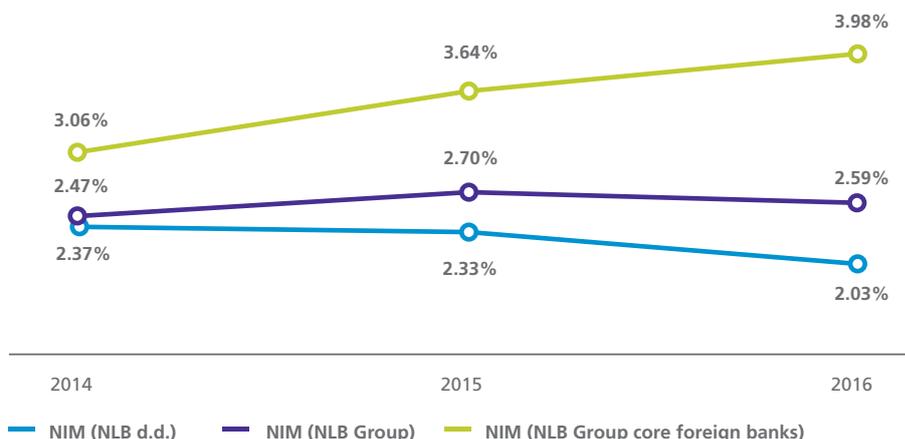


Figure 3: Net interest margin (in %)

EUR 24 million (of which approximately EUR 20 million is in non-core subsidiaries). In addition, the result of the segment was burdened by EUR 7 million effect of the non-performing portfolio sale.

**Other activities**

Other activities include categories in the Bank whose operating results cannot be allocated to individual segments, restructuring costs, and expenses from the vacant business premises. In 2016, the segment was burdened by the HR provisions in the Bank for strategy implementation in the amount of EUR 9.4 million and other restructuring charges in the amount of approximately EUR 7 million on top of the regular contributions to the European Single Resolution Fund (SRF) and Slovenian Deposit Guarantee Scheme (DGS) payments for a total amount of EUR 8.5 million. The non-recurring effect of the Visa EU share transaction, amounting to EUR 7.8 million, increased the result of the segment.

**The decline in the interest margin in Slovenia and the euro area was partly compensated by the improved margins in SEE markets**

The net interest margin (NIM) on the Group level decreased from 2.70% to 2.59% YoY, mostly as a result of the rapidly falling market interest rates in international bond markets and ongoing repricing of the securities investment book, respectively, and the very competitive environment of the Slovenian banking market which in the corporate segment is still in a deleveraging process. However, a slight reversal of this trend occurred towards the end of 2016. Retail lending growth has especially picked up in Slovenia, due to the improved macro environment helping to stabilise margins in this segment. Foreign strategic subsidiaries still showed growth in margins thanks to the increased efforts to manage the cost of funding and the strong performance of higher yielding activities in consumer lending throughout the region.

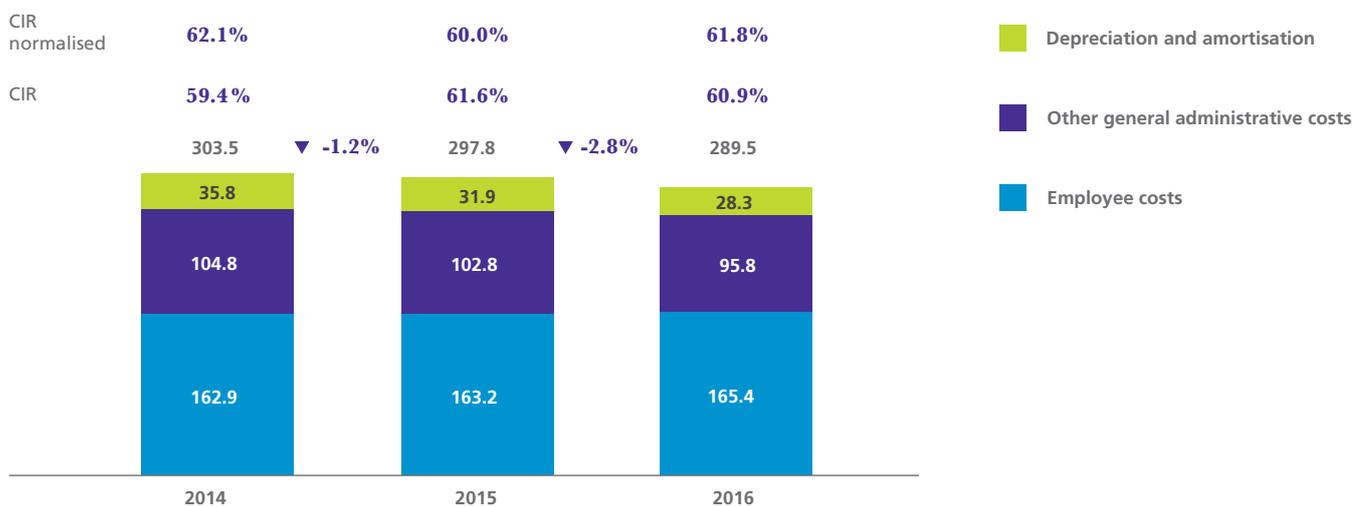


Figure 4: Total costs of NLB Group (in EUR million)

#### Cost optimisation is one of the important pillars of improved profitability

Costs continue to be a focus of management attention. Costs declined overall by 3% YoY in 2016. Special attention was given in 2016 to general and administrative expenses with substantial savings achieved (-7% or EUR 7.0 million YoY). The cost-reduction trend is present in most members of the Group, especially the non-strategic ones.

Employee costs were higher mainly due to the reintroduced payment of supplementary pension insurance for employees, the higher holiday allowance paid in the Bank, and one-off costs incurred with HR redundancies in NLB Banka Beograd for a total amount of EUR 0.9 million. The Group also created provisions totalling EUR 10.6 million in anticipation of future HR redundancies envisaged in Slovenia (shown in 'Other Provisions' in the Financial Statements).

As a result, the cost-to-income ratio (CIR) amounted to 60.9%, namely a slight improvement (0.8 percentage point) compared to 2015.

#### Efficient and proactive risk management of operations

2016 was an exceptional year due to the decrease in the volume of NPLs by more than 30% to just below EUR 1.3 billion (2015: EUR 1.9 billion) – a reduction of the NPL ratio to 13.8% (2015: 19.3%), while the internationally more comparable NPE ratio (based on EBA guidelines) already dropped to 10% (2015: 14.3%).

This strong performance in reducing NPLs was enabled by the strong results in collection and the continued divestment of exposures at the asset and portfolio level.

The Group Real Estate Management function (GREAM) continues to be an important facilitator/back-stop investor/

**The highest growth in profitability resulted from the strong development of strategic foreign markets with record results in Macedonia and the strong performance of the entities in Bosnia and Herzegovina and Kosovo.**

asset manager for real estate in foreclosures, respectively, transacting on exposures backed up with real estate collateral, and holds approximately EUR 128 million in foreclosed assets under professional, dedicated real estate management.

Coverage ratios were further improved to 64.6% (impairments for NPL portfolio/ NPL portfolio stock, 2015: 62.8%) and 76.1% (total impairments/NPL portfolio stock, 2015: 72.2%).

In 2016, the Group saw the conclusion of a benchmark sale of part of the non-performing portfolio (non-performing portfolio sale) of EUR 500 million in gross exposures – reducing NPL balances by EUR 233 million (the difference of having already been taken off of the balance sheet). The transaction resulted in realising a one-off negative effect on the profit and loss account in the amount of EUR 29.9 million, of which minus EUR 4.1 million was shown in interest income. This effect can largely be attributed to the difference in external investors' yield expectations compared to those of the Bank.

New production since 2014 has been underwritten according to the much improved credit standards, as evidenced by the NPL formation from these vintages being cumulatively very low.

### Strong liquidity and capital position

The Group ended 2016 with a very strong capital ratio (CET 1) of 17.0% – this figure already assumes the envisaged dividend payout of EUR 63.8 million (100% of the 2016 result of the Bank and 58% of the Group result) to the shareholders, and is still well above regulatory requirements. The Group ROE stands at 7.4%, while the normalised after-tax Group RORAC (calculated on 14.75% of RWAs) stands at 9.7%.

Liquidity remains extremely strong, with sizable amounts (EUR 4.9 billion) of unencumbered liquidity reserves in cash and securities. Consequently, attention is placed on the structure and concentration, as well as the yield generated from liquidity reserves. The Group's exposure to interest rate risk is within the targeted, low-risk appetite profile.

**17.0%**

Strong capital ratio (CET 1)

**7.4%**

Group ROE

**9.7%**

normalised after-tax  
Group RORAC

**EUR 4.9 billion**

of unencumbered liquidity  
reserves in cash and securities

Chapter 2.3:

# NLB Group Strategy

A clear strategy to address  
current and future challenges

**The Group has been successfully implementing necessary restructuring measures over the last three years, thereby stabilising its business and returning to profit in all of its core markets. Furthermore, after years of turmoil, the Group is facing more benign macroeconomic conditions across SEE markets and improving banking sector performance. Nevertheless, the Group is fully conscious of future challenges to sustain/further enhance its profitability and achieve growth. To address these challenges, the Group has reconfirmed its mission and values, and adopted a new comprehensive strategy.**

## **Mission, values, and the Group vision**

The Group is committed to developing a culture of client focus, risk awareness, integrity, efficient organisation, and social responsibility. The trust of the Group's clients, employees, shareholders, and the society in which it works is seen by the Group as a profound responsibility. The Group also strives to honour this trust by working together with its stakeholders for positive change, mutual benefit, and growth. By incorporating the Group's values into its activities, NLB aims to contribute to positive change in its environment.

**The Group defines its key values as follows:**



**Responsibility towards clients, employees, and the social environment**



**Commitment to deliver on promises and objectives**



**Open communication and cooperation**



**Seeking win-win solutions in its activities**



**Efficiency in the fulfilment of its commitments**

**Vision:**

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

**Strategy of the Group through 2020**

**A clear path going forward**

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

**Innovation for customers**

- An omnichannel product distribution initiative focuses on customer activities enabled across multiple digital and traditional channels in order to reduce costs by encouraging excellent-user-experience-based migration to lower cost remote channels

- Partnership programmes are intended to be implemented in order to establish impactful and long-standing partnerships, which should strengthen customer relationships by creating additional products and services for customers
- End-to-end customer solutions will differentiate the Bank from its competition by increasing the Bank cross-selling potential, and transforming it from a stand-alone product provider to a platform offering comprehensive solutions within an ecosystem of services

**Optimise client offering**

- Through pricing optimisation, list price levels will be aligned with product value, pricing levels will be differentiated, and price realisation will be improved
- Improvements to the Group's customer value proposition and approach to sales should develop, bundle, and combine products and services to boost lending across all segments

- Support to large corporate clients, requiring financial services across SEE, will be significantly enhanced

- Focus on fee-based products will be intensified including the exploration of additional asset management and insurance products sales within the Group

**Simplicity champion**

- Stricter procurement practices, efficiency improvements in facility management, and other cost rationalisation measures should optimise the operations of the Group
- Redesigning of end-to-end processes and elimination of manual workload through automation of back office activities will simplify and appropriately scale the Group's operations
- Transformation and modernisation of the Group's IT operations will allow IT to more effectively support business initiatives within the Group's overall strategy

### Smart banking

- Pricing incentives, improvements to the client's digital experience, and a focus on advisory rather than transaction services in branches will promote customer migration to digital channels
- Through effective steering of sales tasks, revisions to incentives and profitability targets for sales staff, staff-wide trainings and knowledge-sharing programs, the sales processes of the Group will be enhanced
- By extracting value-creating insights derived from customer data, more targeted cross-selling, up-selling, and customer acquisition will be enabled

### Measured risk-taking

- Improvements to risk governance, risk modelling, collection efficiency, and credit processes will accelerate and enhance decision-making in risk-taking, thereby improving customer experience

### Engaged employees

- Fostering a cooperative and engaging working environment should better motivate the talents and stimulate their participation in the Group's evolution
- Skills and capabilities of the talents will be upgraded
- A culture of cooperation and collaboration will be promoted across the Group

### Medium-term strategic and financial targets

#### Delivering growth, sustainable returns, and attractive dividend payout

Based on the above-mentioned measures and improvement potential, the Group's management team set the following medium-term financial targets:

> 2.7%

Net interest margin

< 95%

Loans-to-deposits ratio

~ 16%

Total capital ratio

~ 50%

CIR

< 100 bps

Cost of risk

< 5%

NPE ratio

> 10%

ROE

> 70%

Dividend payout

(as a percentage of the Group profits)



**Luka Repanšek**  
General Manager, Strategy  
and Business Development

*The future is digital.  
That's why we have renewed  
the strategy of NLB Group  
— to improve customer  
experience, optimise our  
range of products, to simplify  
the Bank's operations, and  
enhance its distribution  
channels and capabilities.*

“

The world of banking is changing rapidly. We are faced with an environment of ever-increasing competition, low interest rates, and more demanding and knowledgeable customers. Our customers' needs and preferences for digital channels on the one hand, and regulatory interventions and high costs of operations on the other, challenge us to change our mind-set. The future is digital. That's why we have renewed the strategy of

NLB Group – to improve customer experience, optimise our range of products, to simplify the Bank's operations, and enhance its distribution channels and capabilities. In addition to supporting target business improvements, NLB aspires for a leaner, more agile, and cost-effective IT systems architecture to be able to better respond to digital challenges of the future banking. Together we are committed to that future.

Chapter 2.4:

# Macroeconomic and Regulatory Environment

**Following a prolonged period of disinflationary pressure, weak fundamental data, extraordinary monetary policy, and depressed expectations, global activity improved in the second half of the year.**

The global economy remained unwavering in the face of events that carried with them considerable potential for market disruption throughout the year. From terrorist attacks, worries regarding China's economy, Europe's banking system, Britain's referendum vote, the United States (US) presidential election, and Italy's referendum in December, 2016 has certainly been turbulent. The assurance of central bank response rescuing markets in case of elevated instability calmed market participants, and resulted in surprisingly muted reactions to the significant events that occurred. Though it could also be argued that following the steady stream of potentially disruptive events in past years, markets have grown somewhat accustomed, almost complacent, to the intensive media coverage that usually accompanies them. Against this turbulent background, the macroeconomic picture in the US

improved markedly by the end of the year, and resulted in another federal funds rate increase by the Federal Reserve. Towards the end of the year a distinct uptick in inflationary dynamics and macroeconomic expectations occurred buoyed by promises of fiscal spending, an output cut agreement amongst energy producers, and rising commodity prices. The improved inflation outlook together with expectations of an acceleration of rate increases in the US, and an improving macroeconomic picture, resulted in a market euphoria that lasted through the remainder of the year.

With continuing support from the European Central Bank's (ECB) monetary policies, which remained accommodative and were twice expanded in the year, the Euro area's economy expanded by 1.7% in 2016. Economic growth was supported by improved domestic demand, as continuing labour market improvement, the unemployment rate fell to a five-year low, and resilient consumer confidence, led to robust private consumption growth in spite of rising uncertainties within the region. Monetary policy measures from the ECB, with support from global developments, resulted in improving inflationary dynamics and an acceleration of credit growth dynamics in the region. With expectations that monetary policy will remain accommodative, the macroeconomic outlook for the Euro area remains positive.

Positive global inflationary dynamics are expected to continue into 2017, supported by elevated energy costs, fiscal spending, and an improving macroeconomic picture. Signals from the major central banks indicating that the era of extraordinary measures may slowly be coming to an

end, and the prospect of significant fiscal policy stimulus in the US, should be supportive of an improved rate and yield environment. There can be no denying that the baseline macroeconomic outlook has improved, however, simultaneously numerous sources of potentially disruptive risk have arisen, among them: growing political risks in Europe, together with Britain's departure proceedings; significant uncertainty regarding US policy; pressure on emerging markets from rising interest rates; and growing geopolitical tensions. The aforementioned downside risks could potentially lead to a reversal of the positive trends from 2016 and result in a continuation of the low rate environment, should they materialise.

### Slovenia

Slovenia's economy continued expanding at a steady pace throughout the year, achieving economic growth of 2.5%. The economic revival continued building momentum throughout the year, with several key metrics showing considerable progress. Industrial production expanded by 6.6%, among the fastest expansions in the Euro area, with manufacturing again contributing significantly to economic growth. Bolstered by the recovering labour market, LFS unemployment levels decreased by 1.1 percentage points to 7.9%, improved consumer sentiment, and another year of positive economic progress, private consumption growth accelerated to 2.8% – an increase of 2.3 percentage points when compared with 2015. The year also marked the first time since mid 2012 that the retail sales index expanded above 2010 levels. Trade dynamics remained supportive through the year, decelerating only slightly

on a yearly basis. After recording deflation in 2015, consumer prices remained negative, measuring -0.2%. The year also marked the first decrease of Slovenia's government debt levels as a percentage of gross domestic product (GDP) since the start of the global financial crisis in 2008, while the government deficit further decreased to 82.6% of GDP, as at the third quarter. Following a credit rating upgrade from Fitch, Slovenia now enjoys an A-level credit rating from two of the three major rating agencies, while remaining one notch below A with a positive outlook from Moody's. The prospect of a continued recovery in the country's main trading partners, and early signs of a revival for the construction sector means the outlook for the country remains positive, with the potential for further economic acceleration in the coming year.

### Banking System in Slovenia

The profitability of Slovenia's banking system expanded in the year, achieving an aggregate profit of EUR 344.3 million, corresponding to a return on equity of 8.3%. In spite of falling interest income, the banking system achieved operating profit growth in the year, while falling reservation requirements added to the system's profitability. Considerable progress with the credit portfolio cleanup was achieved in the year, with non-performing loans (NPLs) decreasing to 6.5% as of November, a drop of 3.4 percentage points. Bolstered by the pickup of private consumption and the nascent revival of the real estate market, household loan growth accelerated from 1.2% in 2015, to 4.6%. The corporate loan portfolio continued contracting, ending the year

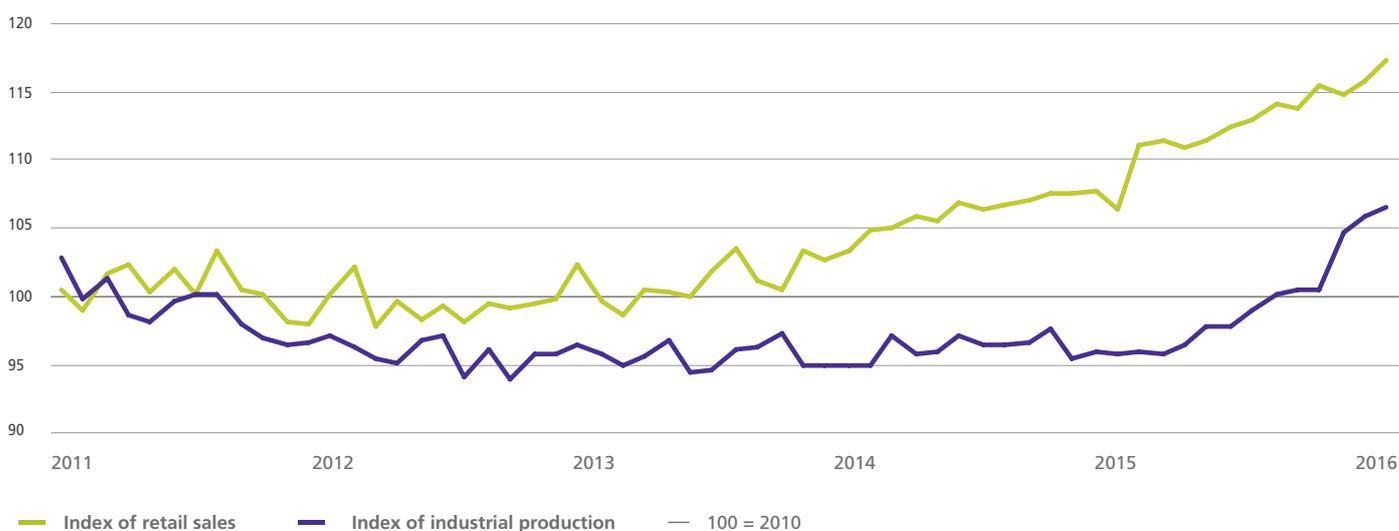
**Table 2: Movement of key macroeconomic indicators in Slovenia and the Economic and Monetary Union**

	2016	2015	2014	2013	2012
<b>Slovenia</b>					
GDP (real growth in %)	2.5	2.3	3.1	-1.1	-2.7
Average annual inflation rate - HICP (in %)	-0.2	-0.8	0.4	1.9	2.8
Surveyed unemployment rate - LFS (in %)	7.9	9.0	9.7	10.1	8.9
Current account of balance of payments (% of GDP)	<sup>(2)</sup> 6.7	5.2	6.2	4.8	2.6
Public debt (% of GDP)	<sup>(1)</sup> 82.6	83.1	80.9	71.0	53.9
Budgetary deficit/surplus (% of GDP)	<sup>(2)</sup> -1.6	-2.7	-5.0	-15.0	-4.1
<b>Euro-area</b>					
GDP (real growth in %)	1.7	2.0	1.2	-0.3	-0.9
Average annual inflation rate - HICP (in %)	0.2	0.0	0.4	1.3	2.5
Surveyed unemployment rate - LFS (in %)	10.0	10.9	11.6	12.0	11.4
Current account of balance of payments (% of GDP)	3.4	3.1	2.4	2.2	1.4
Public debt (% of GDP)	<sup>(1)</sup> 90.1	90.4	92.0	91.3	89.5
Budgetary deficit/surplus (% of GDP)	<sup>(2)</sup> -1.8	-2.1	-2.6	-3.0	-3.6

<sup>1</sup> Data as at Q3 2016

<sup>2</sup> Trailing twelve month average Q4 2015-Q3 2016

Sources: Eurostat, SURS, ECB

**Figure 5: Slovenia: Growth of retail sales and industrial production indices**

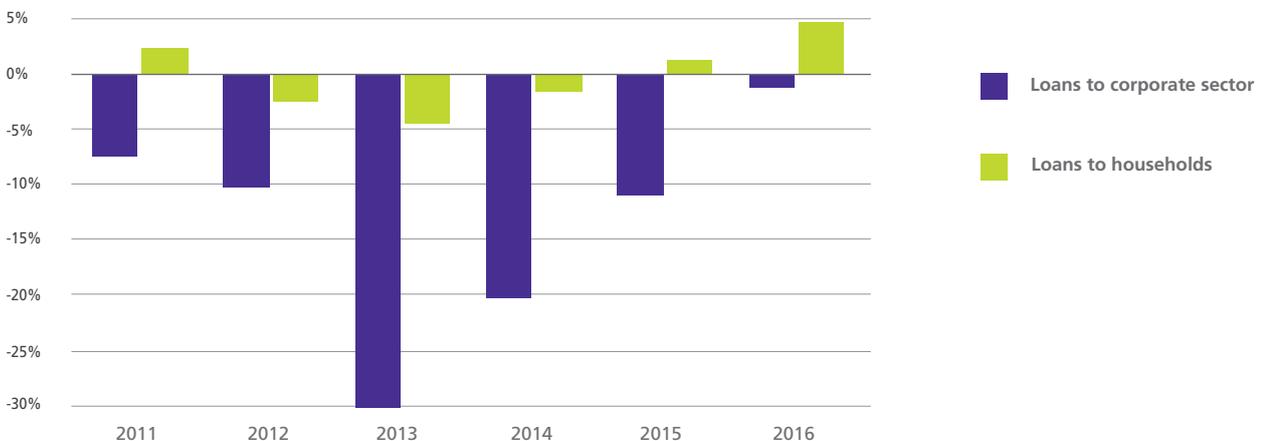
Source: Slovenian Statistical Office

1.0% lower – a significant improvement when compared with the previous year’s contraction of 10.8%. Despite another year of contraction, the revival of retail trade to pre-crisis levels, improving sentiment in the construction sector and strong industrial production performance, have resulted in an improved outlook for the portfolio’s recovery. Overall, total loans to the non-financial sector grew 1.3% in the year. The continuing contraction of the loan portfolio and a growing deposit base resulted in another contraction of the system’s non-financial loan-to-deposit ratio, though at a diminished pace, to 78.6% from 80.6% at the start of the year.

With support from the improving macroeconomic picture, the banking system’s outlook continues to improve. Expectations of steepening in the European government bond yield curve, as a result of the events that occurred in the second half of the year, as well as the possibility of lower capital requirements, following protests from non-US members of the

Basel committee, would positively impact banking system profitability, should they materialise in the coming year. While the Euribor futures indicate a gradual recovery from current low rates, risks from abroad carry the potential to result in a postponement of the recovery from the current rate environment, due to potential additional reactionary measures from the ECB. In coming years, continuing high levels of competitive pressure and excess liquidity will continue to impart downward pressure on interest rates, while money market rates are expected to remain low for some time. The tough earning environment will force banks to continue focusing on increasing non-interest income and decreasing costs. Further consolidation of the banking system is expected following a series of acquisitions and mergers within the banking system throughout the year.

**Slovenia’s economy continued expanding at a steady pace throughout the year, achieving economic growth of 2.5%. The economic revival continued building momentum throughout the year, with several key metrics showing considerable progress.**



**Figure 6: Annual loan growth in the Slovenian banking system**

Source: Bank of Slovenia

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

	GDP (real growth in %)			Average inflation (in %)			Unemployment rate (in %)			Current account of the balance of payments (as % of GDP)			Budget deficit / surplus (as % of GDP)		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
BiH	<sup>(1)</sup> 1.8	3.1	1.1	-1.1	-1.0	-0.9	25.4	27.7	27.5	n.a.	-5.7	-7.4	n.a.	0.7	-2.0
Montenegro	<sup>(1)</sup> 2.1	3.4	1.8	-0.3	1.5	-0.7	17.1	17.3	18.2	n.a.	-13.4	-15.2	<sup>(3)</sup> -2.9	-8.1	-3.0
Macedonia	2.4	3.8	3.6	-0.2	-0.3	-0.3	23.8	26.1	28.0	<sup>(2)</sup> -2.5	-2.0	-0.6	-0.7	-3.5	-4.2
Serbia	2.8	0.8	-1.8	1.1	1.4	2.1	15.3	17.7	19.2	-4.0	-4.7	-6.0	-0.2	-2.8	-6.3
Kosovo	<sup>(1)</sup> 3.6	4.1	1.2	0.3	-0.6	0.4	<sup>(1)</sup> 27.5	32.9	35.3	n.a.	<sup>(4)</sup> -8.6	<sup>(4)</sup> -6.9	n.a.	-1.3	-2.2

Source: Statistical offices, Central banks.

<sup>1</sup> Growth in the first three quarters of 2015;

<sup>2</sup> Trailing twelve month average Q4 2015-Q3 2016;

<sup>3</sup> Growth in the first half of 2016;

<sup>4</sup> Own calculation

## SEE Markets

Developments within the Euro area continue to positively impact the region's economies, through positive external demand and growing tourism, while rising employment and positive economic developments have resulted in the return of positive domestic consumption dynamics.

After returning to economic growth in 2015, following the flood-induced economic contraction of 2014, **Serbia's** economic growth accelerated to 3.2% in 2016. The government solidified its position in the April elections, ensuring the necessary stability for continued reform implementation. Investments made a significant contribution to growth in the year, as did strong external demand. Improved economic growth dynamics combined with labour market reforms resulted in employment growth, while unemployment levels decreased to 15.3%, from 17.7% at the start of the year. Continued labour market improvements and positive economic developments are

expected to be supportive of the nascent private consumption recovery. The banking system's profitability improved in the year, with a return on equity of 6.9% in the first nine months of the year. The economic recovery resulted in a revival of the corporate credit portfolio, which expanded by 1.8%, and loans to households grew 10.5%. The fall of high NPL levels accelerated through the year, they ended the third quarter 2.1 percentage points lower at 19.5%.

**Kosovo's** economy continued the strong economic expansion from the previous year, growing 3.6% in the first three quarters of 2016. In the mid-term, further growth will be supported by private consumption and private investment. Due to the importance of remittances in Kosovo's economy, it has generally remained stable and resilient to regional downturns. In spite of strong economic performance, unemployment levels remained elevated due to structural issues, however, notable progress was made in 2016, with the unemployment figure decreasing by 5.4 percentage points to

27.5%. The banking system achieved a return on equity of 22.4%, slightly lower than in the previous year, primarily due to a drop of interest income. Credit growth accelerated from the previous year, with corporate loans increasing 9.1%, while household loans expanded by 14.7%. NPL levels remain the lowest within the region at 4.9%.

Economic growth in **Montenegro** will be driven by considerable public investment stemming from the Bar Boljare highway project, this will result in further fiscal strain and rising public debt in the mid-term. Tourism has shown notable growth, while further growth is expected as hotel capacity and investments increase. Following a deceleration in the first half of the year, stemming from highway permit issuance delays, economic growth accelerated and amounted to 2.1% in the first nine months of the year. Tempered growth in the first two quarters resulted in a slight deterioration in the labour market, which reversed in the second half as the economy picked up. The banking system achieved a return on equity of 6.6% as of the end of the third quarter, a notable improvement compared with the previous year, loans to households grew by 10.5% in the year, while the corporate loan portfolio grew by 1.9%. NPLs continued decreasing through the year and amounted to 10.2% of the credit portfolio at the end of third quarter, a notable decrease from the 16.4% figure at the start of 2014.

Continuing political uncertainty proved restrictive for **Macedonia's** economy, impacting private investment, and resulting in a tapering of economic growth to 2.4% from 3.7% in the prior year. Despite the

noted uncertainty, household consumption remained robust and was the primary driver of growth, and it was supported by increasing employment and household lending. The banking system's profitability increased in the year, rising to a return on equity of 13.6%. While consumer loans experienced growth of 7.0% in the year, political tension negatively impacted corporate loans, which decreased by 3.7%. NPLs decreased by 3.4 percentage points to 7.4% at the end of the third quarter. The country has a strong economic base and potential, however, strong growth projections are predicated on a resolution of lingering political issues, which the December elections failed to achieve.

The economy of **Bosnia and Herzegovina** grew at a strong pace of 1.8% in the first three quarters of the year, where net exports and resurgent private consumption were the main drivers of growth, and with a notable contribution from manufacturing. Economic growth is expected to accelerate to 4.0% in the mid-term, supported by consumption, which will in turn be supported by continued remittance inflows. Modest export gains are also expected, while investment in energy, construction, and tourism will support investment growth. The banking system was profitable in the year, achieving a return on equity of 7.1% in the first three quarters of the year, and profitability increased 6.0 percentage points compared with the previous year. Modest credit growth was recorded, with both household and corporate loans finishing higher for the year. The quality of the credit portfolio improved throughout the year, and NPLs fell by 1.6 percentage points to 12.1% at the end of the third quarter.

**Developments within the Euro area continue to positively impact the region's economies, through positive external demand and growing tourism, while rising employment and positive economic developments have resulted in the return of positive domestic consumption dynamics.**

## Regulatory environment

During 2016 many changes in the EU and Slovenian regulatory requirement were adopted which the Bank implemented in its daily business. This chapter focuses on the material ones.

In January 2016, the Regulation 806/2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism (SRM) and a Single Resolution Fund (SRF) Regulation entered into force. The Single Resolution Board (SRB) thereby undertook the bank resolution powers, setting of minimum requirement for own funds and eligible liabilities (MREL), and preparation of resolution plans of banks that fall under its direct responsibility, i.e. also NLB. The SRM Regulation also established the SRF, which will be gradually built up to reach the target level of at least 1% of the amount of covered deposits of all credit institutions within the Banking Union by 31 December 2023. Further, in June 2016, the Resolution and Compulsory Dissolution of Credit Institutions Act (ZRPPB) entered into force, transposing the BRRD Directive (Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms) into Slovenian national law.

The new Deposit Guarantee Scheme Act (ZSJV), transposing the Directive 2014/49/EU on deposit guarantee schemes entered into force in April 2016. It introduced ex ante contributions to the Slovenian deposit guarantee scheme, extends the scope of guaranteed deposits and depositor

information requirements, as well as the payout procedures, and thus imposes on the bank several requirements regarding financing the scheme as well as reporting obligations.

The Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-1) was amended in November to transpose the 4th AML Directive 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing. These changes present a major step forward in improving the effectiveness within the EU to combat the laundering of money from criminal activities, and countering the financing of terrorist activities, inter alia, through implementation of an approach based on risk (hence the 'risk-based approach'), which will lead to increased efficiency of the implementation of measures at the person level, as well as at the national and European levels. The approach introduces a broader definition of politically exposed persons, in addition to those from foreign countries it includes domestic politically exposed persons (PEPs), reducing the threshold for reporting cash transactions from EUR 30,000 to EUR 15,000, introduction of the national central register of beneficial owners to ensure transparency of ownership structures of business entities, and by improving the system of supervision and sanctioning with new inspection powers for the Office for Money Laundering Prevention.

At the beginning of July, Regulation (EU) No. 596/2014 on market abuse (Market abuse regulation, MAR), with implementing regulations which unified the legislation to prevent trading based

on inside information for the entire EU, entered into force. Since the Bank is an issuer of financial instruments the members of the Management Board (MB) and the Supervisory Board (SB) are subject to the new requirements. Article 19 of the MAR states that the members of the MB and SB and persons related to them must report to the supervisory authority (SMA) and the Bank on all transactions in the Bank financial instruments when the total value of transactions in the calendar year exceeds the amount of EUR 5,000 (the sum of purchases and sales). The information is reported no later than three business days after the transaction. In accordance with the fifth paragraph of Article 19 persons discharging managerial responsibilities must notify the persons closely associated with them of their reporting obligations in writing and must keep a copy of this notification. The MAR also determines sanctions for natural and legal persons in the event of infringements.

The Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (General Data Protection Regulation, GDPR) was also published in May 2016 and is applicable from May 2018. The GDPR is reforming the data protection area in the EU to follow the intense development of information and communication technologies, the extent, intensity, and transfers of personal data (e.g. the development and expansion of the use of cloud computing, social networking, and smart phones) which all requires adaptation and modernisation

of the EU legislative framework. Unique and updated legislation on data protection is essential to ensure the fundamental rights of individuals to the protection of personal data, the development of the digital economy, and the strengthening of the fight against international crime and terrorism. The GDPR regulates the rights of natural persons whose personal data are processed. It also establishes the obligation of persons responsible for data processing regarding the provision of transparent and easily accessible information to individuals about the processing of their data. The GDPR also specifies the general obligations of the operators and persons who process personal data on behalf of processors. These obligations include the obligation to implement appropriate security measures and the obligation to notify personal data breaches. Inter alia, the GDPR also gives greater emphasis to (preliminary) analysis of the effects on the protection of personal data in the event of incidents, such as loss of personal data, and establishes the obligation of reporting to the supervisory authority and, in some cases, all affected individuals.

In December, the new Central Credit Register Act was adopted, according to which starting from January 2017 the Central Credit Register (CCR) will be established, a centralised national database of the debt of private individuals and business entities. The purpose of CCR is in improving the processes of assessing and managing lenders' credit risks, encouraging policies and measures for responsible lending, and sustainable borrowing to prevent excessive borrowing by both private individuals and business entities, and aiding in the performance

of the Bank of Slovenia's (BoS) tasks (risk management, macroprudential supervision, administration of monetary policy, maintenance of financial stability, etc.). The establishment of a central credit register in Slovenia also follows actions in European banking. In conjunction with the central banks of the Euro area and certain central banks of countries that are not members of the Euro area, in 2011 the ECB launched the project to establish a dataset with detailed information on individual bank loans in the Euro area, 'The Analytical Credit Datasets' (AnaCredit). It will combine new data and existing national credit registers into a harmonised database to support central banking functions, such as decision-making in monetary policy and macroprudential supervision. It will also improve the cross border comparability and interoperability of credit risk databases.

At the end of June the National Assembly adopted the amended Payment Services and Systems Act (ZPlaSS E), which transposes the Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching, and access to payment accounts with basic features (Payments Account Directive, PAD). The main novelties include changes in the calculation of fees for consumers and adjustment of the process of ensuring a payment account with basic features for all customers. Regarding the Payment Services area, further changes of national legislation are expected in next year regarding the implementation of the Directive 2015/2366 on payment services in the internal market (Payments Services Directive, PSD2). PSD2 needs to be transposed to national laws by 13 January 2018 and, inter alia, extends the scope

of payment services and their providers, defines more clearly the exceptions to these rules, improves cooperation and the exchange of information between authorities, and introduces stricter safety requirements for electronic payments. The Bank will need to implement the requirements of the national legislation implementing the PSD2, as well as several directly applicable regulatory technical standards which will further regulate the PSD2 requirements.

**During 2016 many changes in the EU and Slovenian regulatory requirement were adopted which the Bank implemented in its daily business.**



Inovativni

ИНОВАТИВНИ

Inovativni

Innovative

Chapter 3

ИНОВАТИВНИ

Inovativ

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Chapter 3. 1:

# Retail Banking in Slovenia

#1 position and strong brand  
enabling future growth

The retail banking segment has always been a solid anchor for the Bank, maintaining the leading position in the Slovenian market with a comprehensive, yet simple service offering. It remains the key pillar of the Group's operations and performed well in 2016 despite challenging market conditions in Slovenia, as well as in other EMU countries. In 2016 the Bank continued to focus on

clients' experience and satisfaction with investments made particularly in its mobile banking offering. The Bank's branch network – which still is by far the largest in the country – continues to be the main distribution channel, thus the Bank continued its reshaping and modernisation effort of branch locations. Market shares of the Bank remained stable in a gradually consolidating market environment.

**Retail operations**

**716,551**

individuals hold a personal account at NLB

**755,120**

of clients in total

**660,790**

active clients

**26,171**

new clients joined NLB in 2016

**Contact Centre**

**1,266,367**

contacts were processed

**81,178**

written replies were prepared

**333,800**

orders and requests by clients were executed

**536,853**

incoming phone calls were processed

**170,723**

outgoing phone calls were processed

\* Data as per 30 June 2016.

**Private banking**

**6.7%**

more clients in private banking than in 2015

**1,077**

private banking clients

**16.8%**

increase in the volume of assets managed by private banking

**EUR 554 million**

managed by the private banking

**Cards**

**1,098,096**

payment cards used by the NLB's clients.  
*Card structure: BaMaestro (805,292), followed by MasterCard (171,750), Karanta, and Visa*

**4.7%**

more purchases were made cumulatively using cards in 2016

**36%**

Debit cards market share\*

**POS terminals**

**12,459**

terminals, of which 60% enabling contactless payments

**Highlights:**

- Scale advantage
- Strong brand recognition, local and trusted bank perception and deeply-rooted customer relationships
- Optimally positioned to benefit from lending growth in the retail market given its largest customer base
- Strategic focus on upgrading customer experience and delivering the best products to clients
- Strong presence and high accessibility for clients with largest branch (113) and ATM (558 units) accross Slovenia and 24/7 Contact Centre

NLB clients are satisfied clients

Customer survey<sup>3</sup>

Satisfaction with attitude towards clients index



Satisfaction with user experience index



Trusted brand in Slovenia for 10 consecutive years

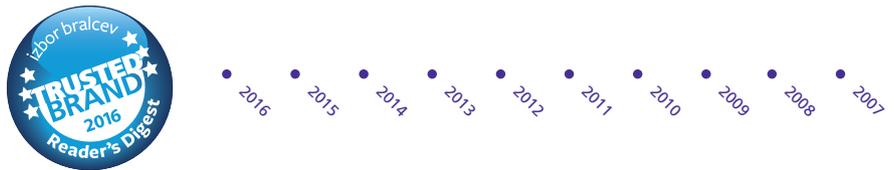


Figure 7: Retail banking leader in Slovenia

<sup>3</sup> GfK Slovenia, NLB Client Satisfaction Measurement, 2016

**Table 4: Performance of the retail banking segment in Slovenia**

in EUR million consolidated

	Retail banking in Slovenia			
	2016	2016*	2015	Growth**
Net interest income	71.2	73.2	78.3	-6%
Net non-interest income	66.5	66.5	72.5	-8%
<b>Total net operating income</b>	<b>137.8</b>	<b>139.8</b>	<b>150.7</b>	<b>-7%</b>
Total costs	-101.1	-101.1	-106.8	-5%
<b>Result before impairments and provisions</b>	<b>36.6</b>	<b>38.6</b>	<b>44.0</b>	<b>-12%</b>
Impairments and provisions	-10.2	-2.7	-9.8	-72%
Net gains from investments in subsidiaries, associates and JV	5.2	5.2	4.5	15%
<b>Result before tax</b>	<b>31.5</b>	<b>41.0</b>	<b>38.7</b>	<b>6%</b>
Net loans to NBS	1,952.7		1,890.9	3%
Gross loans to NBS	1,992.1		1,959.0	2%
Housing loans	1,227.4		1,199.2	2%
Consumer loans	486.8		489.7	-1%
Deposits from NBS	5,224.3		4,901.8	7%

\* Normalised for the effect of non-performing portfolio sale

\*\* Growth for P&L calculated based on the normalised data

Loans to retail clients in Slovenia rose by EUR 33.1 million. Normalised by the effects of the sale of part of non-performing portfolio (non-performing portfolio sale) the increase would have been EUR 87.4 million (+ 4.2% YoY) in line with the market evolution. Especially noticeable was a pickup in activities in the housing loans segment.

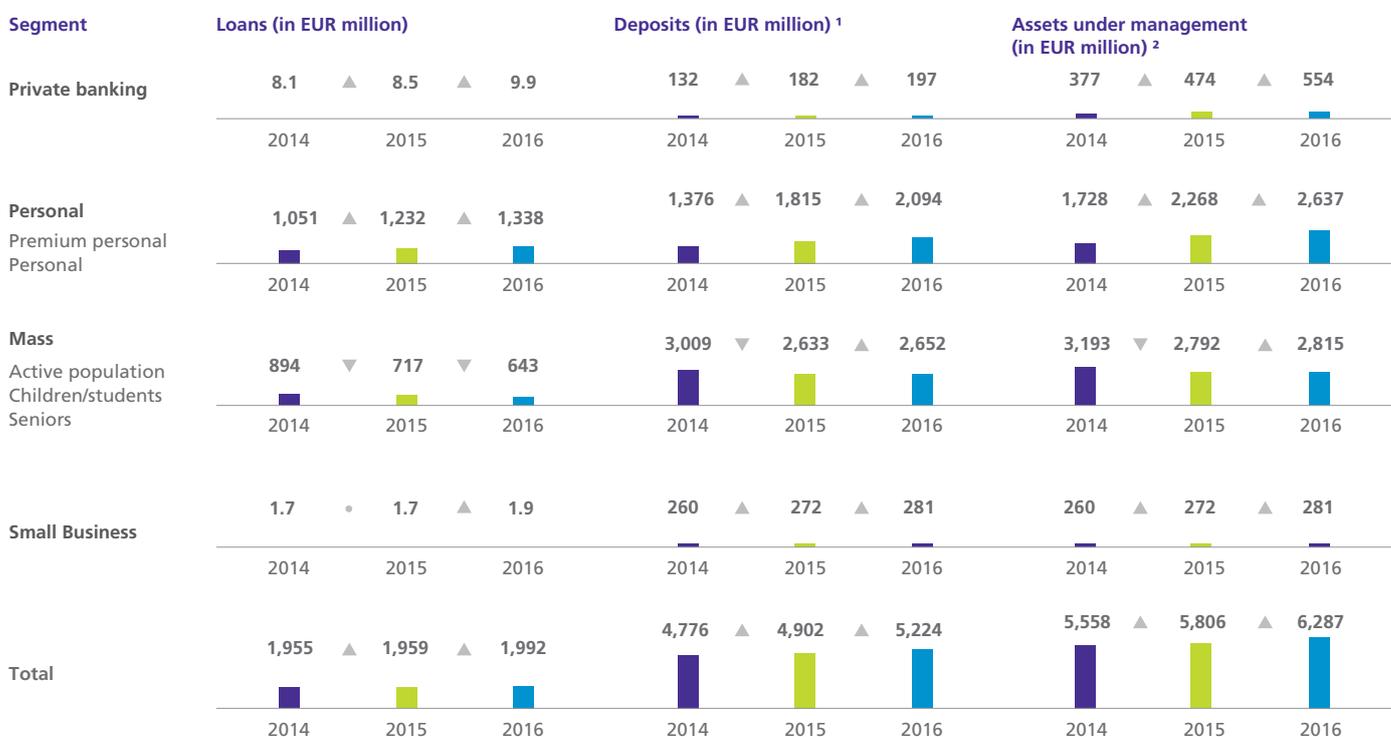
In 2016, profit before tax amounted to EUR 31.5 million, normalised by the effects of a non-performing portfolio sale, the before tax profit increased 6% YoY on the basis of further cost improvements and a very moderate cost of risk.

Net interest income was under pressure given the continued low interest environment with signs of pricing bottoming out noticed towards the year-end.



Note: <sup>1</sup> Includes PBS and KBS Bank; <sup>2</sup> NLB d.d., Nova KBM as of Dec-16; Abanka as of Jun-16; SKB and UniCredit as of Dec-15  
Source: Bank Association of Slovenia, Financial reports of individual banks

Figure 8: Overview of the market shares in Slovenian banking sector



Note: <sup>1</sup> Term + Sight deposits; <sup>2</sup> Includes deposits, life insurance, and mutual funds

Figure 9: Evolution of business volumes/segment

**Facts and figures – Retail banking in Slovenia**

**Market leader in retail banking in Slovenia**

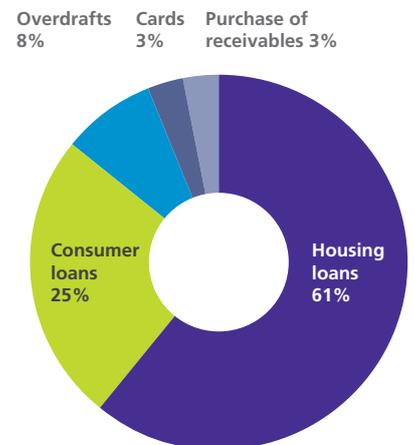
The Bank maintained a strong and leading market position while not compromising on the profitability of new business. The Bank’s market share in gross loans slightly increased to 24.0% (2015: 23.9%), normalised by the effect of the non-performing portfolio sale. Compared to 2015, the market share in deposits increased by 0.2 percentage point to 30.4%.

Business volumes have been growing overall with strong performance in private banking and solid results in the mass and personal banking segment.

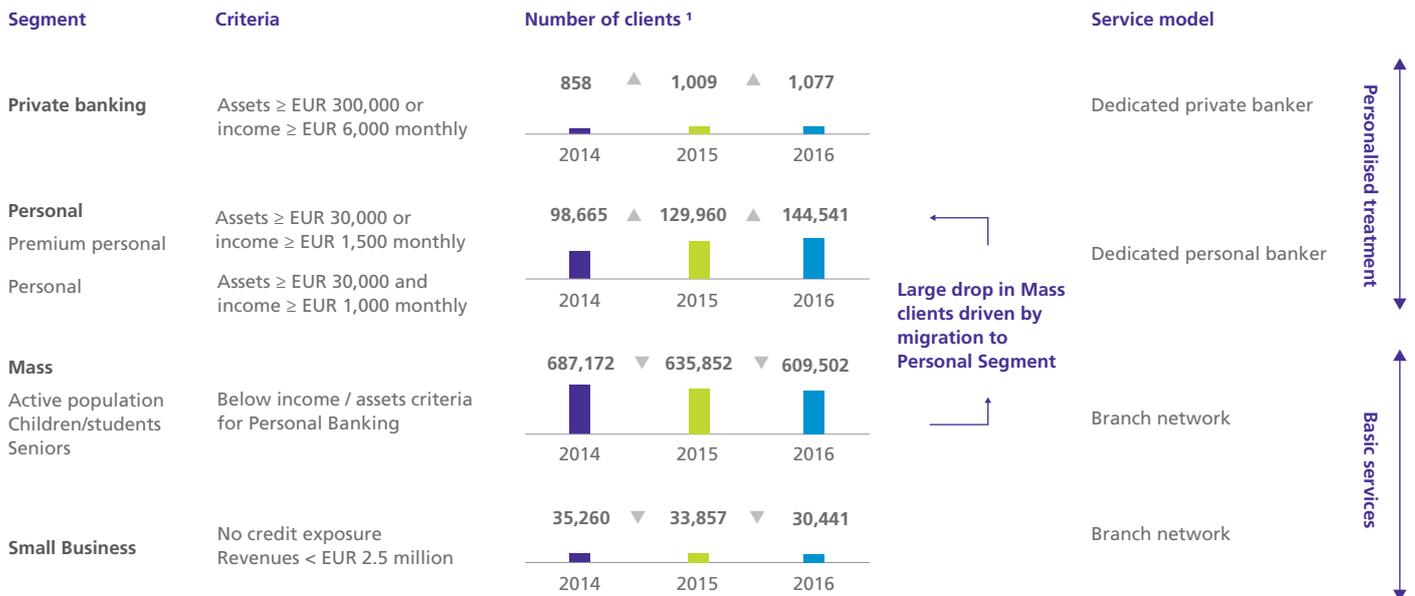
The Bank maintains a well-diversified portfolio of secured and unsecured loans with both segments showing growth in 2016. Loan production has been picking up, especially in the second half of 2016 – with demand strongly growing for housing lending resulting in a record increase in housing loans segment benefitting from the improved economic situation and increase in consumer confidence.

The Bank clearly remains the clear market leader in deposit-taking, providing a key strategic funding source valuable source of client insight and cross-selling opportunities.

**The Bank clearly remains the market leader in deposit-taking, providing a key strategic funding pool, valuable source of client insight and cross-selling opportunities.**



**Figure 10: NLB’s structure of retail loan book**



Note: <sup>1</sup> "Private banking" and "Mass" clients charts based on alternative scales

Figure 11: Tailored product offerings and servicing models

**Innovation in Client Servicing and product offering**

**Offerings tailored to our client segments**

Retail banking in Slovenia serves over 755,000 clients. More than a quarter of the Bank's clients have a dedicated personal adviser specialised in tailoring our product offering and services to meet specific client needs. The remaining clients are classified according to their life cycle and being offered standard services catering to their respective needs (children, students, pensioners, small entrepreneurs, etc.).

**Simplified and streamlined procedures in the Mass and Personal segments**

The Bank started to concentrate on simplifying its service offering and streamlining its procedures, and so substantially improving the client experience. As one of the first banks in Slovenia to do so, the Bank introduced the ePero (E-pen) solution throughout the branch network, enabling digital signing via tablets and access to signed documents in 'NLB Klik,' thus significantly simplifying and speeding up the process of closing transactions with clients.

**Retail banking in Slovenia serves over 755,000 clients.**



Figure 12: E-pen

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

NLB is by far the market leader in private banking with the largest team of private banking consultants in Slovenia and over 1,000 clients. Assets under management have been continuously growing since inception of the service helped by our first-class asset management product range from individual portfolio management to pre-packaged funds and standard portfolios.

**Complementing banking services with asset management and insurance products**

**NLB Skladi - Asset Management**

NLB Asset Management is the leading Slovenian asset management company, with its products distributed exclusively by the Bank with assets under management increasing in 2016 by 14% to just over EUR 1 billion. About two thirds (EUR 671 million) are invested in mutual funds and approximately a third (EUR 364 million) in discretionary portfolio management products.

In 2016 it had positive inflows of almost EUR 60 million in a very difficult market, which saw all other competitors experience substantial outflows, which helped increase our market share to 27%.

NLB has invested 12 years of continuous effort into educating the salesforce and client base with this relatively new product in Slovenia, providing a strong platform for growth and cross-selling into the client base.

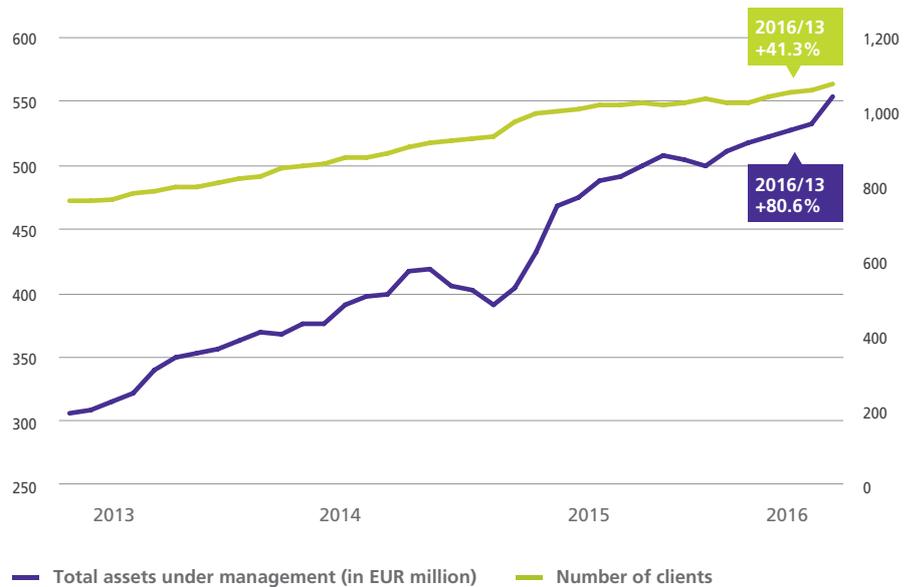


Figure 13: Assets in management and number of private banking clients

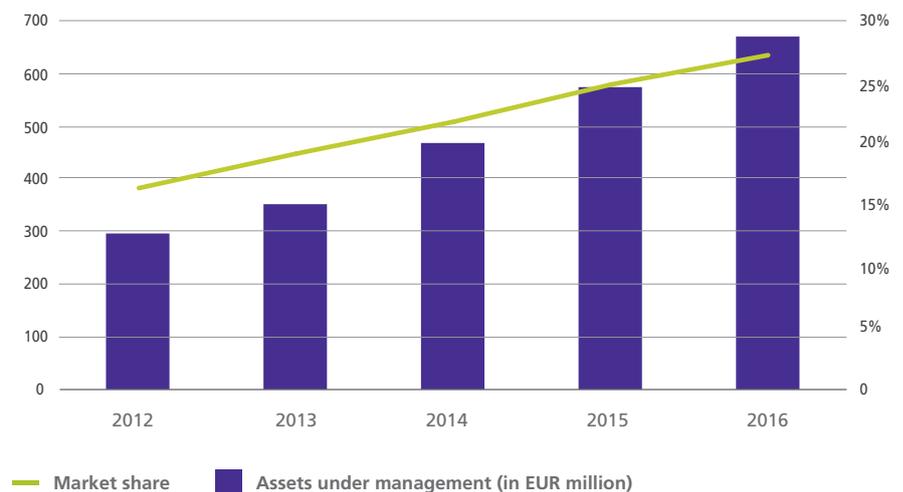


Figure 14: Assets in mutual funds under management of NLB Asset Management and their market share

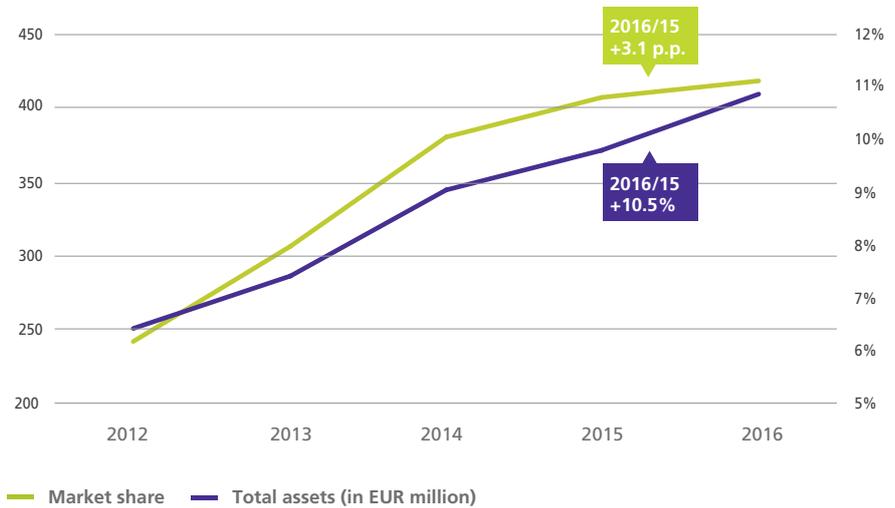
**NLB Vita – Life insurance**

NLB Vita is a life insurance company distributing its products exclusively via the Bank. In 2016 in Slovenia NLB Vita was ranked fourth among the classic life insurance companies, with gross written premium in excess of EUR 63 million, achieving 11.1% market share. In 2016 a record net profit exceeded EUR 7.4 million, while total assets exceeded EUR 400 million.

The product range covers the whole risk/reward spectrum in life insurance including variants with portfolio linked performance and guaranteed principal, as well as complementary travel and health insurance products.

**Cooperation with GENERALI Zavarovalnica d.d. – non-life insurance**

In cooperation with insurance company GENERALI Zavarovalnica d.d. the Bank provides non-life insurance products to the clients including car and home insurances. In 2016 22.28% more policies were acquired. Gross written premiums for 2016 amounted to EUR 2.2 million, presenting 29.54% more than in 2015.



**Figure 15: NLB Vita total assets and market share in traditional life insurances**

**Strong delivery capabilities across all channels – the future is digital**

The Bank continues to be a leading provider of banking services, a market leader in terms of client accessibility and market coverage with a comprehensive network of 113 branch offices, 558 ATMs, online banking services, and the Bank’s Contact Centre operating 24/7.

- Branch offices continue to be a key area for maintaining existing and creating new client relationships. In 2016 the Bank continued to modernise our branch locations according to the ‘open space’ concept, enabling simpler and more convenient interaction with clients.
- NLB’s mobile bank ‘Klikin’ – introduced in 2015 – has already attracted more than 50,000 users.
- Online banking solution NLB Klik is used by a third of the Bank’s clients.
- Mobile bankers’ team was established to enable the Bank higher degree of flexibility to provide its services at the time and place of clients’ choice in a professional, efficient, and discreet manner.
- With its Contact Centre, NLB is the only bank in Slovenia to provide clients with 24/7 access to banking services. As a first in Slovenia the Bank will introduce a video call and facility allowing for individualised service on a 24/7 basis.

**Distribution network**

**Branch network and ATMs**

**113**  
branches

**1,158**  
dedicated employees

**558**  
ATMs (33% market share)

**Internet and mobile**

**219,000**  
active online retail users

**55,000**  
mobile users within 18 months

**Call Centre**

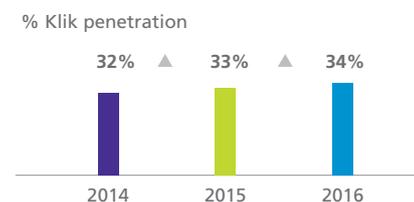
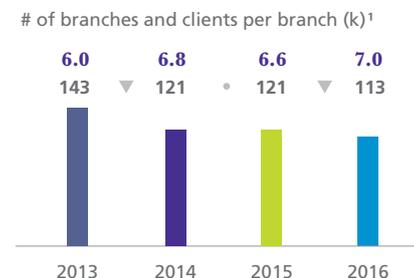
**1**  
contact centre

**91**  
specialised agents

**Description**

- Branches remain an important distribution channel for all NLB products and third party providers, focusing on advisory services
- Nationwide network with balanced coverage across region
- Team of 10 mobile bankers offering services outside branches
- NLB’s ATMs have cash-in and bill-pay functionality
- Wide range of functionalities on Internet banking with primary focus on payments
- Customers can receive, view and pay electronic invoices
- Functionality allows customers to open new deposit accounts
- Contact centre primarily focuses on helping clients with transactions and providing advice
- Contact centre is also used to conduct sales campaigns
- Key support channel for future online and multichannel functionalities<sup>2</sup>

**Migration from branches to alternative channels to boost efficiency**



Note: <sup>1</sup> Includes Small Business segment <sup>2</sup> Online chat and video call to be introduced in H1 2017

**Figure 16: Distribution overview**

The Bank is continuously improving its client experience through innovative ways to approach various segments tuned to their respective expectations.

- The Bank opened a mini-bank branch office in the creative playing centre for children, Mini-city in BTC in Ljubljana. Through play, children can learn about bank operations, the daily work of a banker, as well as gain basic financial literacy.
- The Bank continued to share knowledge with its clients in the areas of personal finances and banking. All over Slovenia, 505 local professional and educational events were organised for retail clients. The Bank uses various media platforms and formats to cater to specific client preferences – including award winning magazines and e-newsletters.

**Customers' satisfaction and loyalty**

The Bank aims to build and maintain long lasting relationships with customers, earning their loyalty so that they consider NLB as the first bank with which they conduct their financial business.

The last customers' satisfaction survey was carried out in December 2016. The Bank remains the best in attitude towards clients in retail banking and it is ahead of the competition in user experience, comprehensive product range and service range. Compared to 2015 survey the reputation of the Bank further improved. Clients are showing increased trust into the Bank and remain very loyal.

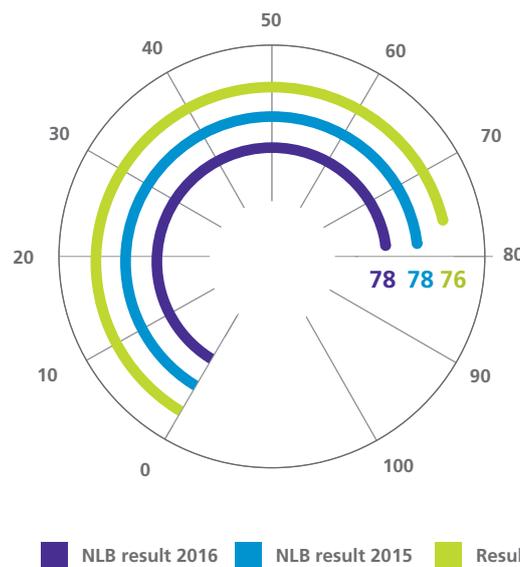


Figure 17: The Bank overall satisfaction index for retail customers' in Slovenia



**Tanja Piškur**

General Manager, Product  
Range Management

Our ambition is clear. We want to be market innovator and leader in retail banking. In technology progressive environment the evolution of digitalised products is our first priority. We understand digitally supported processes to the retail business as a must-have. For us, the future is digital.

In year 2016 we started to implement the first milestones on the path we are planning to walk in the future. As a market pioneer we introduced digital innovations in our lending process. We established increased automation of the loan origination process for the private individual segment, and an effective scoring system for Small Enterprises. We today enable our clients loan in minutes with an extremely quick process.

*We want to be market innovator and leader in retail banking. In technology progressive environment the evolution of digitalised products is our first priority.*

We were the first bank in Slovenia to roll-out contactless credit cards. We launched NFC contactless stickers for prepaid cards, and we are planning to launch virtualisations of cards in the future.

In year 2016 we launched 'Klikpro', the first mobile bank for companies on the Slovenian market. Similarly, 'Klikin', a mobile banking platform for private individuals, was upgraded and user-friendly functionalities added. We completed the implementation of E-signature in our branches. Our branches entered a modern, digitalised era with this huge step.

During the first half of 2016, we developed a new data strategy to consistently govern and manage data across NLB Group. We see the data as an essential part of successfully enhancing the customer experience. Managing data properly and using data in a smart way will help us innovate and serve our customers better.

We are implementing all our efforts in digitalisation with one single aim: to offer our clients the best service experience in the market. Improving the experience is therefore paramount and enjoys the highest priority.

”

Chapter 3.2:

# Corporate and Investment Banking in Slovenia

## Corporate Banking in Slovenia

Market leader in corporate banking

### Highlights:

- Highly professional and specialised staff, firmly committed to the clients, their needs, and requests
- User-friendly, innovative, and digitalised banking platforms for providing customers constant availability of our service, whenever and wherever
- Unique international desk, leveraging on NLB Group presence in the region
- Extensive range of financing products supported by flexible, tailor-made products and professional service
- The bank of choice for corporate business in SEE region, with an ever-growing level of customer satisfaction
- Broad product coverage of corporate and institutional clients with advisory and capital markets services as well as treasury solutions
- Increasing focus on mid-corporate and SME segment despite lower yields still obvious leader in large corporate
- Very strong and growing position in trade finance business

**Table 5: Performance of the corporate banking segment in Slovenia**

in EUR million consolidated

	Corporate banking in Slovenia			
	2016	2016*	2015	Growth**
Net interest income	45.9	48.0	55.8	-14%
Net non-interest income	30.9	30.9	29.4	5%
<b>Total net operating income</b>	<b>76.8</b>	<b>78.9</b>	<b>85.1</b>	<b>-7%</b>
Total costs	-44.6	-44.6	-44.0	1%
<b>Result before impairments and provisions</b>	<b>32.2</b>	<b>34.3</b>	<b>41.1</b>	<b>-17%</b>
Impairments and provisions	-2.7	8.6	10.4	-17%
<b>Result before tax</b>	<b>29.5</b>	<b>42.9</b>	<b>51.5</b>	<b>-17%</b>
Net loans to NBS	2,307.4		2,133.6	8%
Gross loans to NBS	2,511.3		2,429.3	3%
Deposits from NBS	1,152.0		1,172.8	-2%

\* Normalised for the effect of non-performing portfolio sale

\*\* Growth for P&L calculated based on the normalised data

**The Bank continues to maintain its leading position as the key bank and advisor for Slovenian corporates of all sizes, offering a full spectrum of financial services to its clients, including lending, cash management, payment services, trade finance, as well as advisory on capital market transactions. Excellent partnership relationships are based on a deep and genuine understanding of our clients businesses. The Bank continues to be a reliable partner to all segments of enterprises. The strategic focus is to increase support for small and micro enterprises – of which our Innovative Entrepreneurship Centre (IEC) in Ljubljana is a successful showcase of the ability to innovate and create unique opportunities in engaging with our client base in this segment.**

Very strong loan growth was realised in key, mid, and small corporate segments in 2016, showing an increase of EUR 302.3 million (+15.3% YoY), while the restructuring and work-out portfolio was reduced by EUR 158.7 million. Corporate deposits slightly decreased in 2016, with the Bank introducing an asset management fee on larger corporate deposits (>1 million as of November).

In 2016, the corporate banking segment in Slovenia realised a profit before tax in the amount of EUR 29.5 million, normalised for the effect of the non-performing portfolio sale the profit before tax would be EUR 42.9 million. The result was affected by the low interest environment and the generally very high liquidity in the market. The cost of risk was dominated by the

NPL portfolio sale, otherwise – as in the bank overall – the cost of risk was even negative (i.e. impairments and provisions have been released on a net-basis) mostly due to continued success in restructuring and work-out of the still material, although largely reduced NPL portfolio in this segment.



**Figure 18: Market share resilient despite deleveraging of the sector and competition (corporate and state net loans)\***

\* Includes PBS and KBS Bank;

Excluding the effect of the non performing portfolio sale of EUR 54 million net

Source: Bank of Slovenia, Company information

### Facts and figures – Corporate banking in Slovenia

#### Market leader in corporate banking with the largest client base in the country and robust market share dynamics

NLB is the leading corporate bank in Slovenia with the largest client base by far, servicing more than 48,000 companies, and maintaining its stronghold in all client segments. It is especially active and successful with key clients/large corporates given the depths and scale of services on offer and the tailored service model for mid and small corporates based on a simplified and more standardised offer.

Companies are supported throughout their business life cycle with the full range of banking services and with help of the Banks experts.

Despite strong competition the Bank maintained its leading position with a market share of 22.6%.

#### Pick up in lending and syndicated facilities activities

Growing optimism on the Slovenian market and pick-up of economic growth – especially strong in the export-oriented corporate segment-lead to strong volume growth in this segment.

The loan book is well balanced in short- and long-term instruments, with a visible pick-up in long-term and syndicated facilities in the amount of EUR 1.1 billion, many of which NLB was leading as agent, co-arranger, and direct participation of over EUR 360 million.

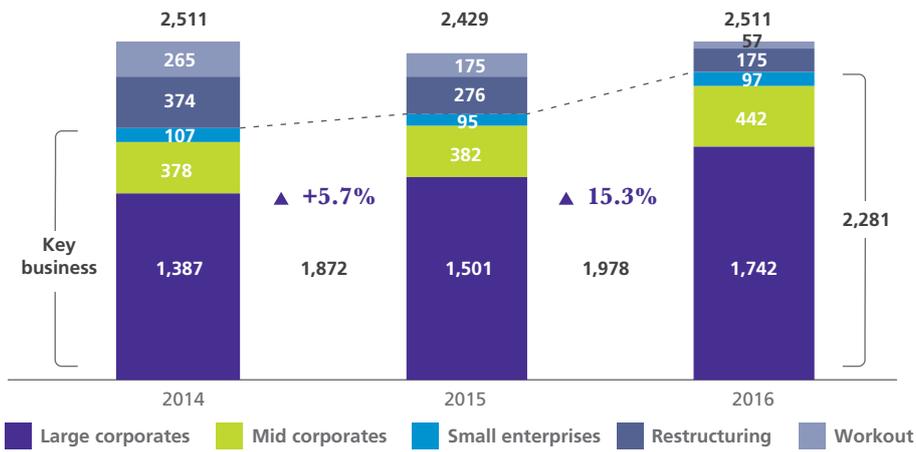
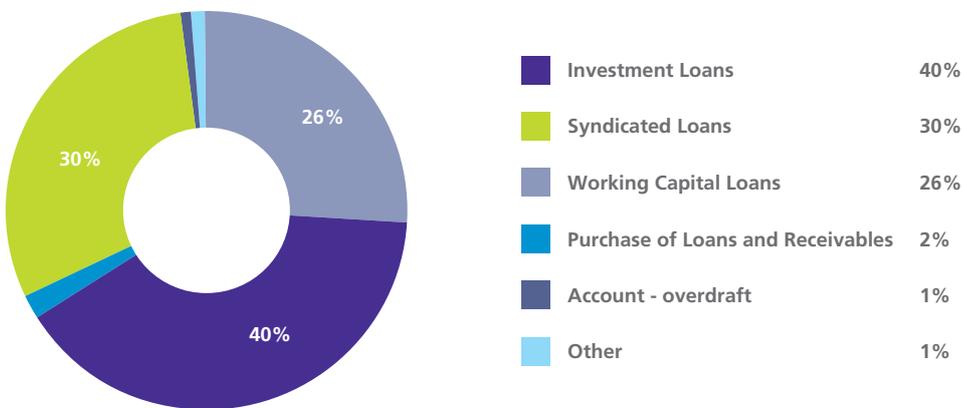


Figure 19: Evolution of business volumes/segment (in EUR million)



Note: Balance of loan portfolio of key, mid, and small corporate sales

Figure 20: Loans purpose structure

### **Innovation in Client Servicing and product offering**

#### **Offerings tailored to our client segments**

The Bank is present in all Slovenian regions and is servicing its corporate clients through its network of business centres, as well as mobile client managers. In 2016 NLB's corporate bank staff held over eight thousand meetings, two thirds of which were on client's premises.

With a special international desk the Bank ensures seamless service for Slovenian clients present in the region where NLB Group is present.

For large corporates our product range is comprehensive and client offerings tailor-made to the more sophisticated needs of this client segment. The product range includes lending, payment services, trade finance and treasury sales products, as well as the whole range of capital markets advisory services.

Special attention is given to support the Slovenian export industry – a stronghold of the Slovenian economy. NLB supported their activities with a comprehensive range of trade finance products and solutions, such as guarantees, letters of credit, documentary collection, bank payment obligations, and supply chain financing. NLB has shown continued growth in this service segment with its market share at almost 27%. The improved rating of NLB has helped to sustain its large network of correspondent banks all over the world.

The product offerings for the segment of micro and small enterprises, as well as sole proprietors are standardised and streamlined to ensure fast and simple solutions. Most common products are grouped in product packages.

The Bank has invested specifically in the higher availability and ease of access to its services for small- and medium-sized companies, including:

- With the automation of the loan approval process including creditworthiness check, 'Quick financing' up to EUR 100,000 is provided to small enterprises within 24 hours with reasonable documentation needed;
- The Bank introduced – as the first on the Slovenian market to do so – the 'All in One POS' that allows companies to easily comply with changes in tax legislation with a direct connection to the fiscal register, as well as offering connectivity to all card providers and the printing of invoices.



Note:

<sup>1</sup> Micro businesses or standard sub-segment of small enterprises (defined as small enterprises without lending exposure) are served through the retail (branch) network;

<sup>2</sup> Refers to active clients only; Active client is defined as a client who has either loan guarantee, trade finance, hedge or deposit transaction for a duration of at least 1 month or a customer who executed at least 6 transactions (credit / debit) on a business account over the last 3 months or executed at least 1 transaction via a payment card over the last 3 months;

<sup>3</sup> Also includes other clients: financial institutions, state, investment funds, foreign companies.

Figure 21: Tailored product offerings and servicing models

### **Focused on client service**

The Bank has continuously invested substantial effort in improving its standing and perception not just among large corporates – a traditional stronghold – but also among SMEs and small businesses.

### **Support to innovative entrepreneurship**

As a unique innovation of engaging with existing and prospective clients from the entrepreneurial segment, the so-called Innovative Entrepreneurship Centre (IEC) was established already in 2015. The IEC is a physical space and will also become a virtual community space in the centre of Ljubljana with flexible facilities for meeting and organising events – both for the Bank as well as the entrepreneurial ecosystem. In this hub the Bank will be connecting entrepreneurs with investors, off-takers, and suppliers to deliver practical value and build a real value chain community, in addition to offering a physical space in which companies can be set up in one stop and even more importantly, organise know-how sharing, and trainings. In 2016, the concept was very positively accepted, as proven by 188 educational and business events in IEC premises, attended by 5,895 participants, and visited by over 9,000 people.

### **Educational events**

For mid-sized enterprises regional events in cooperation with the local Chamber of Commerce have been organised. Educational events have been attended by over 500 business partners. For the third consecutive year the Bank organised in different regions traditional business breakfast client meetings, with topics on management of liabilities, assets, working capital, business ethics, and promotion of good practises of regionally recognised enterprises.



**Andrej Lasič**  
General Manager, Large Corporates

*As the largest Slovenian bank our exclusive strategic interest in the future remains supporting good business stories in the region and strengthening them with a solid financial foundation.*

“

2016 was one of the most successful years for NLB's corporate division. Our qualified experts' close monitoring of the Slovenian corporate sector, and our understanding of the distinctive needs of our clients as well as the sector at large, helped us increase NLB's loan portfolio by almost 16% compared to the previous year. Once again, we played a leading role in organising domestic and international loan syndicates, with a total volume of EUR 800 million that includes a benchmark transaction for Telekom Slovenia – the largest syndicated

loan in the history of Slovenian banking. We enhanced our business operations with a full spectrum of financial services including: lending, cash management, payment services, guarantees, and also advisory experience in capital market transactions. We have continually proven ourselves to be a responsible strategic partner to the vital part of the Slovenian economy. As the largest Slovenian bank our exclusive strategic interest in the future remains supporting good business stories in the region and strengthening them with a solid financial foundation.

## Investment Banking and Securities Service <sup>4</sup>

**Table 6: Performance of the investment banking and custody services in Slovenia**

in EUR million consolidated

	Investment banking and Custody services		
	2016	2015	Growth
Net non-interest income	6.8	5.8	18%
Total costs	-5.6	-5.5	2%
Result before tax	1.6	0.8	90%

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

**NLB is a leading provider of Investment Banking and Securities Services in Slovenia. In close cooperation with other business segments, the Bank continued its successful coverage of corporate and institutional clients with offerings in debt and equity capital markets, mergers and acquisitions (M&A), advisory, and treasury solutions. The Bank has traditionally played the role of a gateway in and out of Slovenia for capital markets, and is offering the whole range of Brokerage and Custody Services for both domestic and international clients.**

The result before tax grew strongly in 2016 and reached EUR 1.6 million (2015: EUR 0.8 million). The largest contribution to the results derives from custody services fees and derivatives.

<sup>4</sup> As included in segment Financial markets in Slovenia

### **Investment Banking – Capital markets/M&A advisory**

The Bank has a very effective team to provide our largest customers the whole range of corporate finance solutions. The Slovenian market is – although small – quite active in capital market instruments, and was helped by the low interest environment in 2016. A number of companies chose to broaden their funding base and issued both long-term and short-term instruments – most of which listed on the Ljubljana Stock Exchange.

In 2016 NLB led again in total issue volumes and number of transactions, helping to raise a total of EUR 192 million in debt capital markets, or 80% of total issued volume. The Bank has by far largest penetration in terms of ability to address issuers and domestic investors – where appropriate the Bank partners with international counterparties to work on the most complex and largest transactions to the benefit of our clients.

The Bank also led the syndication market with a total syndicated volume of almost EUR 800 million (2015: EUR 364 million), a significant increase in activities. Amongst others, the Bank organised a benchmark transaction as co-lead manager of a EUR 400 million refinancing facility for Telekom Slovenija with a mix of a syndicated loan (MLA standard) and bond instruments.

The Bank was also active in M&A and other financial advisory engagements. As financial advisor it successfully closed the sales process of shares and bank receivables of Trimo Group, which was among the largest and most complex M&A transactions in 2016 in Slovenia and the largest organised by Slovenian financial advisors.

### **Brokerage and Treasury Sales**

The Bank is the market leader in brokerage services to both retail and institutional clients with an excellent network in domestic and international markets. The total brokerage turnover in 2016 amounted to EUR 997 million, which represents a 30% growth compared to 2015 on the back of increased activities globally. In 2016 a substantial number of new retail clients joined the Bank due to changes in the set-up of the domestic central depository to trading accounts at the Bank offering further opportunities for growth.

The Bank provides standard treasury products to corporate and institutional clients for currency and interest exposures. The volume of transactions in derivatives and foreign exchange (FX) spot transactions exceeded EUR 1.3 billion.

### **Custody**

The Bank is one of the top players in custodian services for Slovenian and international customers. Based on excellent service and quality the Bank was able to win new clients, and grew its assets under custody by approximately EUR 2.5 billion to a total of EUR 12 billion. The Bank also acts as a gateway into the region using its own network and partner institutions for seamless service to its customers.

The Bank continued to invest in the highest client service and execution – successfully managing the transition to the new Target2-Securities (T2S) standard.



Efikasni

Ефикасни

Učinkoviti

Efficient

Chapter 4

Ефикасни

Efikas

Efikasni

Efikasni

Chapter 4. 1:

# Core Foreign Markets

South Eastern Europe (SEE) is the Group's core market

## Highlights

- Top market position across targeted SEE countries with EUR 65.6 billion GDP and 17.4 million population
- Leading franchise in the region, high brand recognition (unified NLB Banka branding), and client loyalty on SEE market with an attractive and positive growth markets outlook. The 2.6% real GDP growth of SEE region outpaces the Eurozone average
- The only international banking group with an exclusive focus on the SEE region
- Unique network of 242 branches and 1.1 million clients
- Independent, well capitalised, and profitable subsidiaries
- Increased profit before tax by almost 51% to EUR 67.6 million, contributing 52% to the NLB Group result
- Market innovator with focus on delivering best service experience in the market and with the ambition to lead the digital transformation of the banking industry in the region

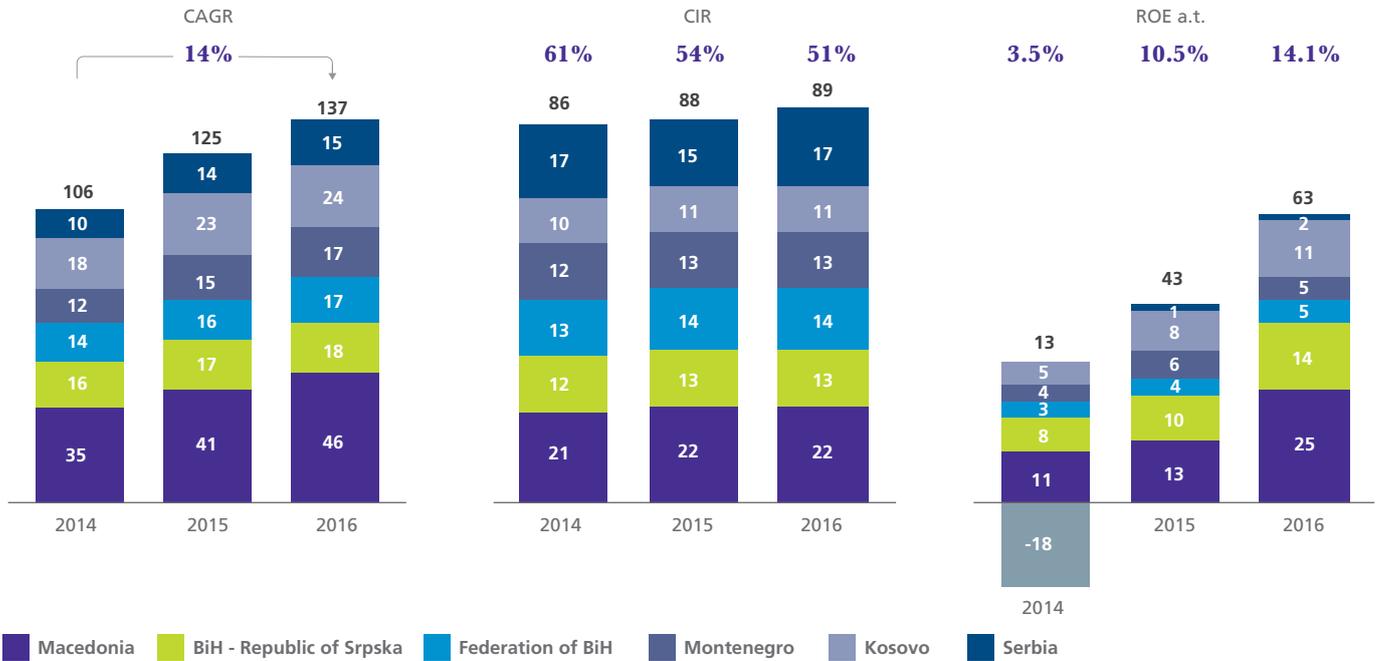
Table 7: Results of the strategic foreign markets segment

in EUR million consolidated

	Strategic foreign markets		
	2016	2015	Growth
Net interest income	136.9	125.2	9%
Net non-interest income	42.5	40.7	4%
<b>Total net operating income</b>	<b>179.4</b>	<b>165.9</b>	<b>8%</b>
Total costs	-95.5	-93.4	2%
<b>Result before impairments and provisions</b>	<b>83.9</b>	<b>72.5</b>	<b>16%</b>
Impairments and provisions	-16.3	-27.8	-41%
<b>Result before tax</b>	<b>67.6</b>	<b>44.7</b>	<b>51%</b>
of which Result of minority shareholders	5.6	3.5	62%
Net loans to NBS	2,148.0	1,967.3	9%
Gross loans to NBS	2,457.2	2,309.1	6%
Deposits from NBS	2,824.4	2,737.1	3%

The core part of the Group in foreign markets consists of six banks, one pension insurance company and two SPVs. They are distinguished by their strong reputation and recognised for their state of the art products, services, and distribution channels. In four out of six markets the Group subsidiaries have market shares exceeding 10%. Despite a competitive market environment, 2016 was successful for all core members of the Group in foreign markets – all of them posted a profit before tax, contributing in total EUR 67.6 million (2015: EUR 44.7 million) of the profit before tax of the Group representing an increase of almost 51% compared to 2015. This is a result of strong loan production, especially in Serbia,

Macedonia, and Kosovo, as well as the exceptionally low risk results in all entities. All entities have been showing positive dynamics in business evolution – operating in markets that also show higher GDP and loan growth compared to Slovenia, as well as still substantially higher margins. Subsidiaries implement Group-wide initiatives while ensuring locally anchored organic growth strategy. Within the corporate identity renewal of the Group, all banks unified their brand and corporate image under the 'NLB Banka' brand, facilitating the full exploitation of the brand and activity synergies on the Group level.



Source: Company disclosure

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

**Figure 22: Net interest income (in EUR million)**

Strategic foreign markets continued their positive trend, all core members operated with a profit in 2016. The profit before tax amounted to EUR 67.6 million, including the result of minority shareholders. The contribution to the Group result of the core foreign banks thus increased to 52% (2015: 42%).

Compared to 2015, the operating result improved mainly due to higher operating income and lower impairments and provisions. All core foreign banks intensified their loan activities in the non-banking sector with an increase in gross loans by 6%.

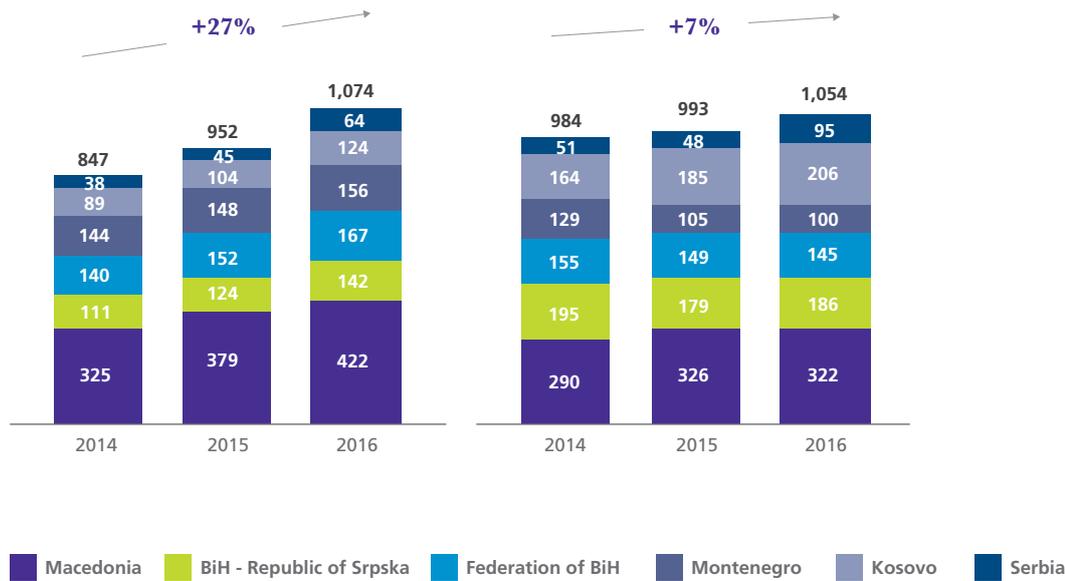
**Figure 23: Operating expenses (in EUR million)**

NLB Banka, Banja Luka; NLB Banka, Skopje and NLB Banka, Prishtina have continued their successful stories. These banks and NLB Banka, Sarajevo achieved the highest net profit ever. NLB Banka, Podgorica and NLB Banka, Beograd posted a profit for the second year in a row, and laid down solid foundations for long-term profitable growth after introducing changes to improve business efficiency and completing the implementation of a restructuring plan aimed at reducing costs, NPL ratios, and refreshing the team. In 2016, members responded to market needs in highly competitive local markets by cost rationalisation of their business.

**Figure 24: Profit after tax (in EUR million)**

In 2016, the Bank received dividends from SEE Group members in the total gross amount of EUR 23.0 million.

Banking members of the Group in SEE (in Macedonia, Bosnia and Herzegovina (two markets), Kosovo, Montenegro, and Serbia) primarily focus on the retail and SME and micro enterprise segments. In 2016 the members streamlined and modernised the distribution networks, and improved their digital offering.



Source: Company disclosure

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

**Figure 25: Net retail loans to customers (in EUR million)**

The achieved results and efforts made in 2016 therefore created the solid and sound basis to focus on healthy new business opportunities, and to respond to client needs with contemporary up-to-date solutions.

The aim for 2017 is to capitalise on synergies among the Group members in the areas of HR and business development, client centricity, introduction of modern technologies and digitalisation, increased operational excellence, cost efficiency, and profitability, as well as to assure tight and effective internal control systems.

**Figure 26: Net corp. loans to customers (in EUR million)**

The future strategic directions will be the basis for the future approach and answer to the requirements of the economic environment on the SEE markets, where strategic shifts relating to market consolidation and further optimisation of operations have already begun.

**Strategic foreign markets continued their positive trend. All core members operated with a profit in 2016.**





**Jana Benčina Henigman**  
General Manager, Core Group  
Steering and Country Manager  
for Serbia and Montenegro

*Excellent results of core Group bank members contributed approximately 67.6 million € to the Group's profits in 2016 – an increase of almost 51% from the previous year – and fills us with pride and confidence.*

“

The presence of NLB Group on various markets in the South Eastern European region is definitely one of our main assets. Excellent results of core Group bank members (from Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, and Serbia) contributed approximately EUR 67.6 million to the Group's profits in 2016 – an increase of almost 51% from the previous year – and fill us with pride and confidence. At the same time, these results inspire us to be even better, to take advantage

of Group synergies, to share our best practices, and to work even more intently together in the future under the “NLB Bank” brand. We see a lot of positive dynamics in business evolution and the resulting unexplored possibilities and opportunities for new achievements. That is why NLB Group has already defined a new medium-term strategy to reinforce its regional specialist leadership position, and set ambitious plans for further profitable growth.



**Antonio Argir**  
President of the Management Board

## NLB Banka, Skopje

*2016 has been a historic year for our bank. We achieved the highest ever annual profit of EUR 25 million, accompanied by a growth in sales, increased client satisfaction, and best brand reputation on the market, with a market share in retail of 21% and 16% in the corporate segment. Our core business, lending, increased by 5% and we realised excellent initial results in sale of non-banking products such as insurance and pension schemes, while the number of customers grew by 8%. It was the year that gave us confidence and confirmation that with the new business strategy and the organisational culture we are walking the right path. Our ambition and dedication also motivates us to continue the trail in the future.*

### Highlights:

- **#3 largest bank (based on total assets) with 51 branches**
- **Despite the international financial crisis, the bank has been continuously very profitable**
- **Large active client base of 371,000**
- **Very high 29% market share in debit cards**
- **NLB holds ~87% shareholding**

### Key strengths and strategic actions:

- **High brand awareness among the Macedonian population**
- **Strong upside potential from country's future EU entry**
- **High market concentration (top 3 players control ~60% of total assets)**
- **Consumer lending, upgraded with instant loans through credit intermediaries, remains the driver of new production**
- **Substantial dividend payout capacity**

NLB Banka, Skopje is the third largest bank in Macedonia with a market share of 16.2% in terms of total assets on its local market and the most successful subsidiary of the Group in terms of the result after tax. The bank ended the year 2016 with a net profit of EUR 25 million (2015: 13.1 million), a 90% increase compared to the previous year on the back of the strong net income growth (11% YoY), normalised cost of risk of 73 bps (2015: 218 bps), while cost efficiency (CIR) improved and reached excellent 38%. Very solid growth of highly diversified retail lending at stable attractive margins has been the basis for further strong positioning in the market.

The bank, with a tradition going back over 30 years, grew from a small bank to one of the most recognised banking brands in Macedonia. The success is a result of the bank's established corporate culture and tradition supported by modern information technology, professional personnel, and a successful market strategy, boosted by the NLB brand.

Faced with a strong banking competition, the bank improved its competitive edge with excellent technical support for digital services. Investments in upgrading the information system were made, which resulted in improvement of the quality of services and automatization of the processes.

The bank dedicated special attention to the enrichment and adjustment of its offering of products and services according to the needs of the different market segments and clients, as well as facilitation of the access to them by investing in the business

network that consists of modern branches organised as small banks, and also through investments in modern access channels to the bank and its products and services.

Constant implementation of educational and training programmes, as well as assessment and development of managerial and professional potential of employees resulted in enhancement of employee engagement in delivering the bank's results.

In 2016 the bank received the award National Champion in Macedonia granted by European Business Network for the second time in a row for its achievements and successful work.

With the retirement of Gjorgji Janchevski as long-term chief executive officer (CEO), as of 1 January 2016, Antonio Argir started as the President of the Management Board of NLB Banka, Skopje. Also, Ljube Rajevski and Damir Kuder were appointed as members of the Management Board for the new four-year mandate.

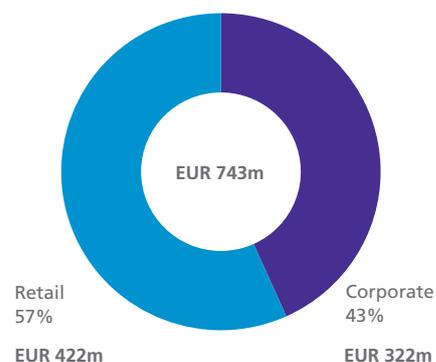


Figure 27: Net non-banking sector loan book split

Table 8: Key performance indicators of NLB Banka, Skopje

	2016	2015	Growth
<b>Income statement indicators (in EUR thousand)</b>			
Net interest income	46,327	41,344	12.1%
Net non-interest income	12,297	11,651	5.5%
Total costs	22,250	22,369	-0.5%
Provisions and impairments	8,747	16,044	-45.5%
Result after tax	24,997	13,129	90.4%
<b>Financial position statement indicators (in EUR thousand)</b>			
Total assets	1,153,091	1,119,678	3.0%
Loans and advances to non-banking sector (net)	743,341	704,657	5.5%
Deposits from non-banking sector	938,496	918,934	2.1%
Equity	129,083	113,977	13.3%
<b>Key financial indicators</b>			
Capital adequacy ratio	13.9%	14.7%	-0.8 p.p.
Interest margin	4.7%	4.3%	0.4 p.p.
Return on equity after tax (ROE a.t.)	20.8%	11.8%	9.0 p.p.
Return on assets after tax (ROA a.t.)	2.3%	1.2%	1.1 p.p.
Costs/net income (CIR)	38.0%	42.2%	-4.2 p.p.
Market share in terms of total assets*	16.2%	16.4%	-0.2 p.p.
Loans to non-banking sector (net)/deposits from non-banking sector (LTD)	79.2%	76.7%	2.5 p.p.

\* as at 31 December 2016

**NLB Banka, Banja Luka**

*I am very proud of the remarkable financial performance that our bank, with great support from NLB d.d. and in synergy within the Group, delivered in 2016. I am delighted of the value we created for our shareholders, customers, society at-large and employees. Despite difficult market conditions such as decreasing interest rates, modest economic growth, increasing regulatory requirements, rapidly evolving customer needs and expectations, as well as strong competition, we managed to achieve a net profit in the amount of EUR 14.1 million, ROE of 20%, and loan growth of 8%. We committed ourselves to developing a culture of clear focus on the customers, risk awareness, integrity, efficiency of organisation, and social responsibility. We committed ourselves to the future.*



**Radovan Bajić**  
President of the Management Board

### Highlights:

- **#3 largest bank in the Republic of Srpska (based on total assets) with universal product offering**
- **High RoE and low CIR**
- **Large network of 60 branches**
- **99.9% owned by NLB**
- **9% market share and third position in the market in Bosnia and Herzegovina (based on total assets), combined with NLB Banka, Sarajevo**
- **Despite the international financial crisis, the bank has been continuously profitable**
- **Large active client base of over 209,000**

### Key strengths and strategic actions:

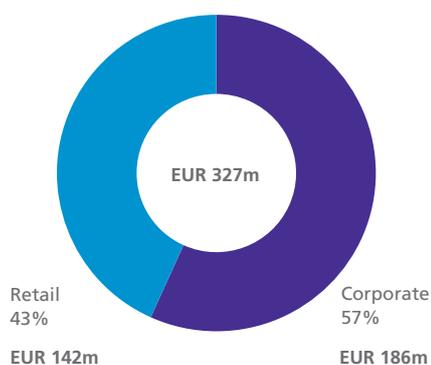
- **Solid brand reputation reflected in stable deposit base, despite decreasing deposit interest rates**
- **High customer satisfaction ratings above competitors (86% retail clients, 89% corporate clients) (Customer satisfaction study for NLB Group. Source: GFK Slovenia, Dec-2016)**
- **Substantial dividend payout capacity**

The bank is the third largest bank on the market with the largest banking distribution network in the Republic of Srpska, with a 18.9% market share in total assets representing a growth of 80 basis points compared to 2015. Despite difficult market conditions, the bank managed to achieve a net profit of EUR 14.1 million (2015: EUR 9.9 million), a 43.1% increase compared to 2015. Net interest income increased by 9.6% due to active interest rate policy and efficient management of balance sheet positions. Net non-interest income grew by 7.2%, representing over 30% of net income. Maintaining the level of costs under control resulted in an improved CIR at 47.2%.

The share in net loans in the Republic of Srpska market increased by 100 basis points and now amounts to 15.2%.

The bank's lending and payment activities are based on the broad domestic deposit base, out of which retail deposits represent a 70% share.

The bank offers a wide range of banking products and services designed for individuals, small to medium enterprises (SMEs) and large corporates to over 209,000 active clients with a growth focus on retail lending and card operations. In 2016 special attention was paid to optimising its branch network, reducing the number of branches by five, reaching 60 throughout the Republic of Srpska territory at the year end. The bank invested in digitalisation as well and launched mobile banking, while additional improvements were made in e-banking services, providing new functionalities and improving customer experience. It maintains a sizable network of ATMs. A highly-trained work force in its IT department and developed core information system provide support for customised solutions and improvements to existing services to attend the market needs.



**Figure 28: Net non-banking sector loan book split**

**Table 9: Key performance indicators of NLB Banka, Banja Luka**

	2016	2015	Growth
<b>Income statement indicators (in EUR thousand)</b>			
Net interest income	18,255	16,656	9.6%
Net non-interest income	8,819	8,223	7.2%
Total costs	12,788	12,651	1.1%
Provisions and impairments	-1,994	1,473	-
Result after tax	14,117	9,863	43.1%
<b>Financial position statement indicators (in EUR thousand)</b>			
Total assets	634,501	611,748	3.7%
Loans and advances to non-banking sector (net)	327,430	303,041	8.0%
Deposits from non-banking sector	495,438	474,323	4.5%
Equity	74,607	68,058	9.6%
<b>Key financial indicators</b>			
Capital adequacy ratio	16.3%	17.5%	-1.2 p.p.
Interest margin	2.9%	2.7%	0.2 p.p.
Return on equity after tax (ROE a.t.)	20.0%	14.7%	5.3 p.p.
Return on assets after tax (ROA a.t.)	2.3%	1.6%	0.7 p.p.
Costs/net income (CIR)	47.2%	50.7%	-3.5 p.p.
Market share in terms of total assets*	18.9%	18.1%	0.8 p.p.
Loans to non-banking sector (net)/deposits from non-banking sector (LTD)	66.1%	63.9%	2.2 p.p.

\* Market share in Republic of Srpska, as at 31 December 2016



**Lidija Žigić**  
President of the Management Board

## NLB Banka, Sarajevo

*Although 2016 was marked by strong competition in our country, we managed to keep focusing our ambitions on retail business and an intense commitment to our clients. We put special emphasis on ensuring tailored offers to clients' needs, as well as to improved corporate on-site presence with a clear focus on corporate clients. Every client counts. Acquisition of new clients, mainly in regions with growth potential and insufficient bank presence – i.e. Herzegovina, Sarajevo, and Zenica helped us strengthen our position in the Federation. We've become a reliable competitor to other banks present on the market. We have ambition, knowledge, and the will to turn market challenges into our opportunities. We are pursuing this goal with the highest commitment each day.*

### Highlights:

- **#6 largest bank in the Federation of Bosnia and Herzegovina (based on total assets) with 37 branches**
- **9% market share and third position in the market in Bosnia and Herzegovina (based on total assets), combined with NLB Banka, Banja Luka**
- **97% owned by NLB**
- **Continuously profitable since NLB has entered into the ownership of the bank**
- **Increasing cost efficiency and profitability**
- **Improved net interest income despite growing deposits volume and decreasing interest rates**

### Key strengths and strategic actions:

- **Market leader in the northern part of the Federation with potential for growth in the Sarajevo, Zenica, and Mostar regions**
- **Perceived as a local, trusted bank**

The bank currently holds sixth place in the Federation of Bosnia and Herzegovina in terms of market share in total assets. In 2016 the highest ever net profit of EUR 5.4 million (2015: EUR 4.2 million) was recorded, and the bank further improved cost efficiency (CIR of 57.1%).

The net interest income and net non-interest income of the bank grew by 7.7% and 6.0%, respectively compared to the previous year, while a substantial growth in loan and deposit portfolios was achieved. The bank kept its strong focus on retail banking, being the main gear in the achievement of the bank's overall results.

After moving its headquarters from Tuzla to Sarajevo in 2015, the bank continued to upgrade its branch network; opening a new one in Sarajevo and redesigning offices in Tuzla, Cazin, Široki Brijeg and Ljubuški to reinforce a client-centric model and raise the quality of services. The bank further strengthened its presence and appearance in the Federation of Bosnia and Herzegovina, helping retail operations to show especially encouraging trends. The loan portfolio to private individuals increased by 6% compared to 2015, and the bank reached excellent results in credit card sales and utilisation.

The main goal of the bank is continuous growth and development, with a strong focus on achieving synergies within the Group. Communication channels and services were additionally improved with particular attention devoted to the development of client relations. By doing this the bank managed to gain over 4,500 new clients and enriched its offer by launching additional products and services.

The marketing strategy focused on new and innovative channels such as internet and mobile, including social networks and the more traditional marketing communications.

The bank is paying special attention to the development of managerial and professional employee potential which combined with the introduction of performance management contributed to the enhanced performance. Personnel and talent management, as well as a succession planning process was initiated using the performance potential assessment.

As of 1 January 2017 a new Management Board was appointed, consisting of Lidija Žigić as president, Denis Hasanić and Jure Peljhan as members.

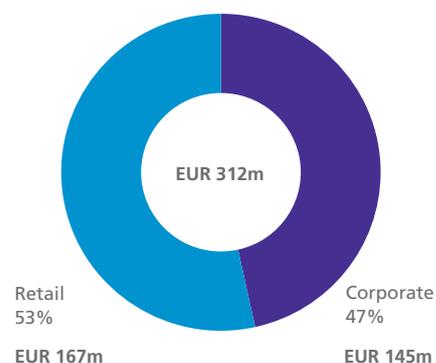


Figure 29: Net non-banking sector loan book split

Table 10: Key performance indicators of NLB Banka, Sarajevo

	2016	2015	Growth
<b>Income statement indicators (in EUR thousand)</b>			
Net interest income	16,927	15,710	7.7%
Net non-interest income	7,026	6,626	6.0%
Total costs	13,670	13,631	0.3%
Provisions and impairments	4,286	3,979	7.7%
Result after tax	5,357	4,182	28.1%
<b>Financial position statement indicators (in EUR thousand)</b>			
Total assets	497,861	476,110	4.6%
Loans and advances to non-banking sector (net)	312,012	300,715	3.8%
Deposits from non-banking sector	406,940	390,491	4.2%
Equity	60,780	55,313	9.9%
<b>Key financial indicators</b>			
Capital adequacy ratio	14.2%	13.5%	0.7 p.p.
Interest margin	3.4%	3.3%	0.1 p.p.
Return on equity after tax (ROE a.t.)	9.1%	8.1%	1.0 p.p.
Return on assets after tax (ROA a.t.)	1.1%	0.9%	0.2 p.p.
Costs/net income (CIR)	57.1%	61.0%	-3.9 p.p.
Market share in terms of total assets*	5.3%	5.5%	-0.2 p.p.
Loans to non-banking sector (net)/deposits from non-banking sector (LTD)	76.7%	77.0%	-0.3 p.p.

\* Market share in Federation of Bosnia and Herzegovina, as at 30 September 2016

## NLB Banka, Prishtina

*2016 was the most successful year since our establishment, especially in the aspect of profitability, growth, and new products. Net profit amounted to EUR 11.3 million in 2016 and was 37% higher than in 2015. An increase of our loans to non-banking sector was the highest growth in the banking system of Kosovo. Our reduction of NPL ratio of the non-banking sector to 4.4% (local methodology) was 50 basis point below average of the Kosovo banking system. We proved we are an outstanding market performer. We are also committed to proving that in every step in the future.*



**Albert Lumezi**  
President of the Management Board

### Highlights:

- **#3 largest bank (based on total assets) with 45 branches**
- **Despite the international financial crisis, the bank has been continuously very profitable**
- **NLB holds 81% shareholding**
- **Highly profitable with RoE reaching 19% in 2016**
- **Consistently lowest NPL ratio in NLB Group**

### Key strengths and strategic actions:

- **Increased use of alternative business channels (POS, contactless cards, M-banking, E-banking)**
- **Substantial dividend payout capacity**

The bank is the 3rd largest bank in Kosovo with a market share of 14.9% in total assets, and enjoys exceptional credit quality with the lowest NPL ratio in the Group. 2016 was another very successful year after ending it with a record profit of EUR 11.3 million (2015: EUR 8.2 million), the highest since it was established in 2008. In 2016 net interest and non-interest income grew compared to 2015, and already low CIR ratio improved even further and stood at 40.1%, while having the lowest NPL ratio in the Group.

The bank operates across nine major regions with a branch network of 45 offices and 68 ATM's. The bank managed to retain a good client base while facing strong market competition, utilising its successful business model and strategy. It aims to remain innovative and keep pace with its clients' demands and expectations through regular assessments of local market conditions, demands, and client suitability.

The main activities of the bank have been focused on achieving the Group standards regarding development of products and services. In 2016 the bank implemented several new products and services such as introduction of POS terminals (the most important sales project of the year), mobile banking M-klik, and a further upgrade of the e-banking solution E-Klik, being the major ones.

The bank will continue upgrades of e-banking and other banking services, focusing on integral solutions to properly address client needs. On the other hand, the bank will continue to strengthen the skills and competencies of its staff through training, in order to provide even more complex financial advice and solutions to our clients.

The approach of recognising differences and divergences between clients has been one of the key components of competitive advantage. Operating actively with clients enabled the bank to be closer to them and deliver client-tailored services.

In 2016, the bank continued to build strong relationships with domestic and international financial institutions:

- In cooperation with the IFC, the bank has developed a SME product for financing projects in energy efficiency.
- With Kosovo Credit Guarantee Fund (KCGF) the bank signed the Loan Portfolio Guarantee Agreement. The KCGF Guarantee is intended to facilitate increased lending by the Guaranteed Party to MSMEs in Kosovo, improving both the conditions of, and increasing the quantity of MSME loans, thereby stimulating economic growth.
- With EBRD the bank signed EUR 5 million credit facility under the EBRD's Trade Facilitation Programme (TFP). NLB Banka Prishtina will use the programme to help small- and medium-sized enterprises (SMEs) trade across borders. This is the first EBRD cooperation with NLB Banka Prishtina.

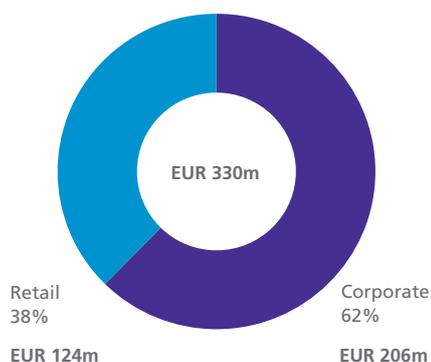


Figure 30: Net non-banking sector loan book split

Table 11: Key performance indicators of NLB Banka, Prishtina

	2016	2015	Growth
<b>Income statement indicators (in EUR thousand)</b>			
Net interest income	23,545	22,736	3.6%
Net non-interest income	4,213	3,611	16.7%
Total costs	11,118	10,781	3.1%
Provisions and impairments	4,088	6,282	-34.9%
Result after tax	11,263	8,242	36.7%
<b>Financial position statement indicators (in EUR thousand)</b>			
Total assets	516,115	464,692	11.1%
Loans and advances to non-banking sector (net)	329,608	289,339	13.9%
Deposits from non-banking sector	442,095	400,245	10.5%
Equity	62,845	59,725	5.2%
<b>Key financial indicators</b>			
Capital adequacy ratio	16.6%	17.5%	-0.9 p.p.
Interest margin	5.0%	5.3%	-0.3 p.p.
Return on equity after tax (ROE a.t.)	18.9%	14.9%	4.0 p.p.
Return on assets after tax (ROA a.t.)	2.4%	1.8%	0.6 p.p.
Costs/net income (CIR)	40.1%	40.9%	-0.8 p.p.
Market share in terms of total assets*	14.9%	14.5%	0.4 p.p.
Loans to non-banking sector (net)/deposits from non-banking sector (LTD)	74.6%	72.3%	2.3 p.p.

\* as at 31 December 2016



**Martin Leberle**  
President of the Management Board

## NLB Banka, Podgorica

*In 2016 we persuasively continued with our optimisation process of the bank's organisation. The first results confirm we are taking the right path. The bank ended the year with EUR 5.3 million of net profit and increased its cost efficiency by six percentage points. We are determined to lead the changes in the financial industry on the Montenegro market. Therefore, we put a lot of effort in the training and development of our team. We started launching new and innovative products on the market. With the finalisation of the restructuring process, we are prepared for future challenges to achieve our ambitious development goals.*

### Highlights:

- **#2 largest bank (based on total assets) with 18 branches**
- **99% owned by NLB**
- **Recently introduced bancassurance offering**

### Key strengths and strategic actions:

- **High brand awareness among Montenegrin population**
- **Efficient business network in Montenegro**
- **Upside potential from selectively increasing credit activity in the tourism industry, highway construction and energy industries**

The bank is the 2nd largest bank in Montenegro with a market share of 12.5% in total assets. After implementation of the restructuring plan, the main objectives for 2016 were increased efficiency and a reduction of the NPL portfolio, while providing a solid foundation for future business. The bank recorded a net profit of EUR 5.3 million (2015: EUR 6.2 million) and the share of NPLs decreased by 4.7 percentage points to 14.7% (2015: 19.4%), while contributing to the bank's net income at the same time. An important impact on the result had a creation of additional provisions and impairments. In a very competitive market, even seeing new entries in 2016, the bank confirmed its ability for the qualitative development of its business model.

Supported by a strong strategic partner and as member of NLB Group, it provides a complete range of traditional and modern banking services to retail and corporate clients, as well as other entities engaged in development projects in Montenegro.

In 2016, several new products were launched. The bank successfully finished its participation in approving household loans in the governmental project 1000+, by offering household loans to retail customers. In addition, a new loan facility for SME's operating in the tourism sector and loans for enrolment of students to the 'Work and Travel in USA' programme were launched. In a very competitive environment the bank has been focusing on operational efficiencies and will mainly explore growth opportunities in the retail segment.

E-banking for private persons was advanced with the aim to further enhance customer experience. In corporate and SME segments, the bank improved its relationship with customers by introducing new ways of reporting and models of communication, which led to better results in the client satisfaction index (CSI) for this segment to 85 points (increased from 83 in 2015).

Martin Leberle took over as the bank's President of the Management Board on 1 February 2016 after the previous President of the Management Board retired.

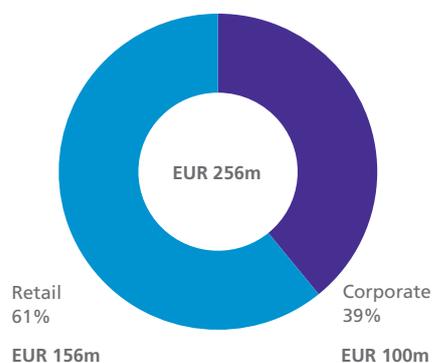


Figure 31: Net non-banking sector loan book split

Table 12: Key performance indicators of NLB Banka, Podgorica

	2016	2015	Growth
<b>Income statement indicators (in EUR thousand)</b>			
Net interest income	17,162	14,866	15.4%
Net non-interest income	4,243	4,916	-13.7%
Total costs	12,570	12,783	-1.7%
Provisions and impairments	3,505	731	379.5%
Result after tax	5,318	6,240	-14.8%
<b>Financial position statement indicators (in EUR thousand)</b>			
Total assets	473,058	484,543	-2.4%
Loans and advances to non-banking sector (net)	255,888	253,710	0.9%
Deposits from non-banking sector	361,201	379,832	-4.9%
Equity	75,787	68,624	10.4%
<b>Key financial indicators</b>			
Capital adequacy ratio	15.0%	15.9%	-0.9 p.p.
Interest margin	4.3%	3.3%	1.0 p.p.
Return on equity after tax (ROE a.t.)	7.3%	9.6%	-2.3 p.p.
Return on assets after tax (ROA a.t.)	1.1%	1.2%	-0.1 p.p.
Costs/net income (CIR)	58.7%	64.6%	-5.9 p.p.
Market share in terms of total assets*	12.5%	14.0%	-1.5 p.p.
Loans to non-banking sector (net)/deposits from non-banking sector (LTD)	70.8%	66.8%	4.0 p.p.

\*as at 31 December 2016



**Branko Greganović**  
President of the Management Board

## NLB Banka, Beograd

*Year 2016 was an exciting year of accelerated growth in all key business segments for our bank. We have significantly increased lending and loan outstanding amounts in all key segments of our business: retail, SMEs, and in particular in the agricultural producers segment. We continued to improve our processes to embrace and exploit the potential of the rapid development of digital trends in the banking industry. The successes of year 2016 are the result of the dedication and commitment of our high quality team of professionals. On the basis of a common vision and shared devotion to create a truly positive experience for our clients, we set the foundation for our prosperous future. We are ready for the challenges of tomorrow.*

### Highlights:

- **Strong focus on agrobusiness, consumer finance, and SMEs, as well as cooperation with large corporates from Slovenia**
- **~100% owned by NLB**
- **New management in place since 2014 with a strong restructuring mandate**

### Key strengths and strategic actions:

- **Demonstrated organic growth potential, being #3 bank in 2016 by gross loans increase (Source: NBS – Banking sector in Serbia)**
- **Strong brand name and recognition as a credible partner**
- **Ongoing digitalisation of the bank (new IT platform)**
- **Development of lean and efficient processes**

The bank recorded a net profit of EUR 2.2 million in 2016 (2015: EUR 1.2 million) and continued the positive performance trend for the second consecutive year, which represents a solid basis for future growth. After finishing its turnaround and comprehensive restructuring efforts, which is also supported by investment in processes optimisation, improved IT solutions, etc., the bank is increasing and repositioning its presence on the Serbian market with the opening of new branch offices. All that led to a temporary increase of CIR, with a strong awareness of cost efficiency in the future. With a low market share, the bank is strictly focusing on select target segments for the time being, especially in agrobusiness and consumer finance. In 2016, the bank significantly increased its loan production and also expects to continue its accelerated growth in 2017.

Operating as a universal bank, it provides a full range of banking products and services to retail and corporate customers in Serbia. By offering different types of payment cards, current accounts, and financing products, the bank constantly adapts its services to specific demands and requirements of its clients. During 2016 'online' loans requests were launched, and additionally preparations for an omnichannel concept were completed.

The 2016 business year was a year of significant growth of loan production and portfolio, the opening of new sales channels, digitalisation initiatives, and a strengthening of the market position, in particular in the segment of agricultural producers.

Overall, in 2016 the bank placed new loans in the amount of EUR 155 million, which is almost three times more than in 2015.

In the retail segment, the bank achieved excellent results in cash loans production reaching a YoY growth of portfolio of 44%. Following the trend of increasing digitalisation in the banking sector, the bank enabled its clients to process their loan applications online.

Outstanding results were also achieved in the corporate segment. In 2016, the bank doubled its portfolio of loans outstanding and placed three times more loans than in 2015. However, the absolute outperformer in 2016 was the segment of agricultural producers. By using an innovative approach to customer relationship the bank reached EUR 22 million in the outstanding amount at the end of 2016, and gained a market share of 5% in this growing segment of the market.

The accelerated growth in loans produced and outstanding amounts in 2016 was made possible with a new loan process and credit risk methodology introduced in 2016, which enabled efficient and fast processing of clients' applications. This big step marked an introduction of the omnichannel concept and IT environment.

The main task will continue to be further improvement of the customer experience. Emphasis will be placed on cooperation with market segments where the bank can develop competitive advantages, such as agrobusiness, and on pursuing a more distinct strategy based on digital distribution.

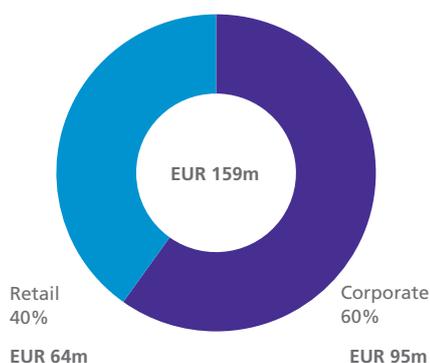


Figure 32: Net non-banking sector loan book split

Table 13: Key performance indicators of NLB Banka, Beograd

	2016	2015	Growth
<b>Income statement indicators (in EUR thousand)</b>			
Net interest income	14,748	13,760	7.2%
Net non-interest income	2,612	3,197	-18.3%
Total costs	16,980	15,470	9.8%
Provisions and impairments	-1,808	270	-
Result after tax	2,152	1,181	82.2%
<b>Financial position statement indicators (in EUR thousand)</b>			
Total assets	275,798	235,617	17.1%
Loans and advances to non-banking sector (net)	159,363	92,895	71.6%
Deposits from non-banking sector	189,962	179,788	5.7%
Equity	45,525	44,121	3.2%
<b>Key financial indicators</b>			
Capital adequacy ratio	19.1%	28.0%	-8.9 p.p.
Interest margin	6.0%	6.2%	-0.2 p.p.
Return on equity after tax (ROE a.t.)	4.7%	2.7%	2.0 p.p.
Return on assets after tax (ROA a.t.)	0.9%	0.5%	0.4 p.p.
Costs/net income (CIR)	97.8%	89.9%	7.9 p.p.
Market share in terms of total assets*	1.0%	0.9%	0.1 p.p.
Loans to non-banking sector (net)/deposits from non-banking sector (LTD)	83.9%	51.5%	32.4 p.p.

\* Market share as at 31 December 2016 (preliminary data)

Chapter 4.2:

# Financial Markets <sup>5</sup>

Simple balance sheet,  
supported by stable funding  
and robust liquidity reserves

**Simple balance sheet structure reflects sustainable and transparent business model. Strong customer franchise provides stable and price-insensitive deposit base, in addition, wholesale market access remains available if needed. The liquidity risk profile of the Group remains conservative due to low LTD and a strong liquidity buffer that can provide funding of future core growth.**

<sup>5</sup> As included in segment Financial markets in Slovenia

This segment includes income generated by the liquidity reserves, as well as the surplus from fund transfer pricing to other business segments in Slovenia. Financial markets in Slovenia recorded a profit before tax of EUR 36.5 million, in spite of challenging macroeconomic conditions, a negative interest rate environment, and low returns on the international bonds market.

Net interest income in financial markets in Slovenia decreased by 19% in 2016 due to decreasing yields in the securities portfolio, the maturity of the high yield assets and lower net interest income resulting from the high level of excess liquidity. The majority of this negative effect came from maturity of the BAMC bonds (in December 2015 and December 2016) since reinvestment yields were much lower. Decreasing LTD contributed to increased cash equivalent positions with negative carry. Management

Table 14: Performance of the Financial markets segment in Slovenia

in EUR million consolidated

	Financial markets Slovenia		
	2016	2015	Growth
Net interest income	48.3	59.9	-19%
Net non-interest income	-5.2	6.9	-175%
<b>Total net operating income</b>	<b>43.0</b>	<b>66.8</b>	<b>-36%</b>
Total costs	-6.6	-6.8	-3%
<b>Result before impairments and provisions</b>	<b>36.4</b>	<b>60.0</b>	<b>-39%</b>
Impairments and provisions	0.0	0.0	-
<b>Result before tax</b>	<b>36.5</b>	<b>60.1</b>	<b>-39%</b>
Gross loans to NBS	254.7	606.4	-58%
Deposits from NBS	70.5	110.4	-36%

Note: Investment banking and Custody services as a part of Financial markets in Slovenia segment is represented in a separate chapter.

of the structure and volume of banking book securities and hedging derivatives portfolio is aimed at optimisation of net interest income that should benefit from potential improvements of macroeconomic conditions.

Net non-interest income in financial markets in Slovenia in 2015 included the profits from non-recurring event of selling RoS bonds (EUR 5.2 million), while the 2016 result includes the negative effects from unwinding hedging derivatives and fees related to prepayment of selected wholesale funding in the total amount of EUR 3.0 million, which will benefit net interest income in the following years.

#### NLB Group asset and liability management (ALM)

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

The Group ALM performs long-term liquidity and interest rate risk planning, taking into account expected market and regulatory developments, while liaising

with Risk Management to manage the balance sheet in line with the Group's conservative risk profile. In 2016 further improvements in the governance process of Group ALCO have been implemented by upgrading the balance sheet steering function in terms of a more holistic and forward-looking simulation.

**The Group's balance sheet is very solid with low LTD (74%), a high share of liquid assets (44% of total assets), and strong capital adequacy (17%).**

In spite of a low interest rate environment, the Group managed to maintain a strong deposit base which proved to be extremely price insensitive and well-diversified. In order to keep a conservative risk profile, the Group invested predominately in high quality liquidity reserves.

Total liabilities remained broadly unchanged; an increase of customer deposits was compensated by regular repayments and prepayment of certain more expensive wholesale borrowings. Total loans to the non-banking sector did not meet non-banking sector deposit dynamics, mostly due to the reduction of the non-performing portfolio.

Regarding the interest rate risk management, a conservative position in terms of duration has been kept in response to market expectations and balance sheet structure. Exposure to interest rate risk is being monitored carefully from earnings, as well as from economic value perspective. The duration gap between interest-sensitive assets and liabilities slightly increased to 1.85 years compared to 1.76 years in 2015. However, positions are in line with the Group risk profile and within the internal and regulatory limits. Exposure to interest rate risk and basis risk is managed via responsive fund transfer prices and external pricing policy. When necessary, derivatives are also used, mainly plain vanilla interest rate swaps with an application of Hedge Accounting rules.

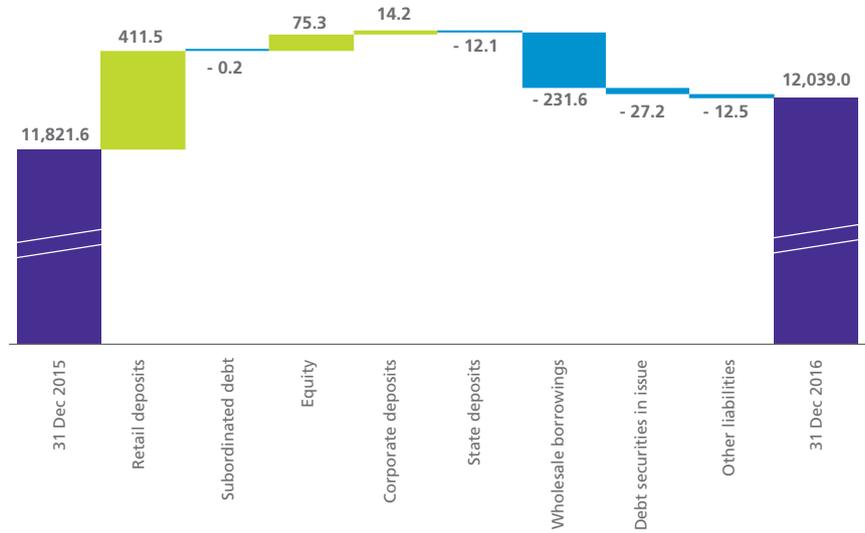


Figure 33: Key changes of NLB Group liabilities and capital in 2016 (in EUR million)

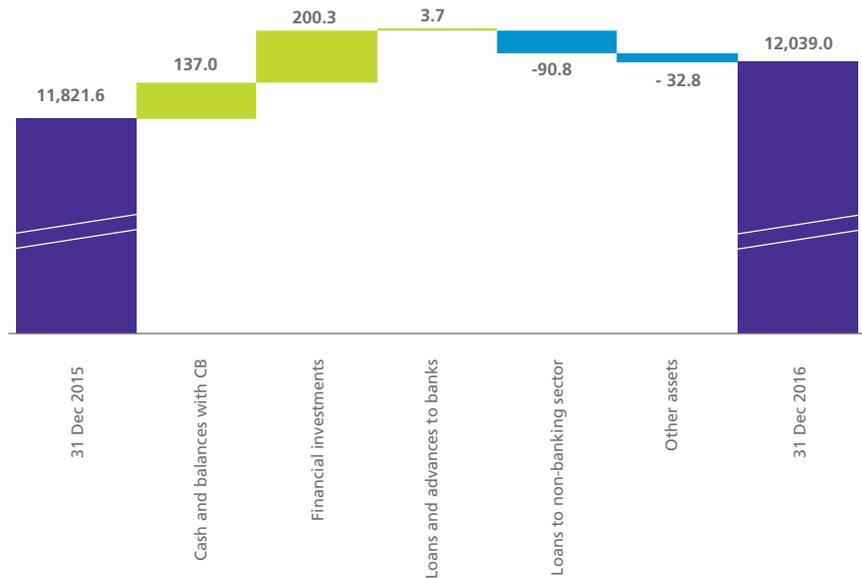


Figure 34: Key changes of NLB Group assets in 2016 (in EUR million)

Liquidity has been actively managed with a diversified funding structure and a solid buffer framework. The Group maintained a strong liquidity position with liquidity reserves, accounting for more than 40% of total assets which can provide the funding of future core growth. In 2016 further optimisation of the liability structure was done as a strong and resilient deposit

base enabled the early repayment of certain more expensive funding sources (ECB Targeted Long Term Refinancing Operations (TLTRO 1), wholesale funding, etc). The same strategy applied to all Group banking members as they are fully self-sufficient in terms of funding.

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

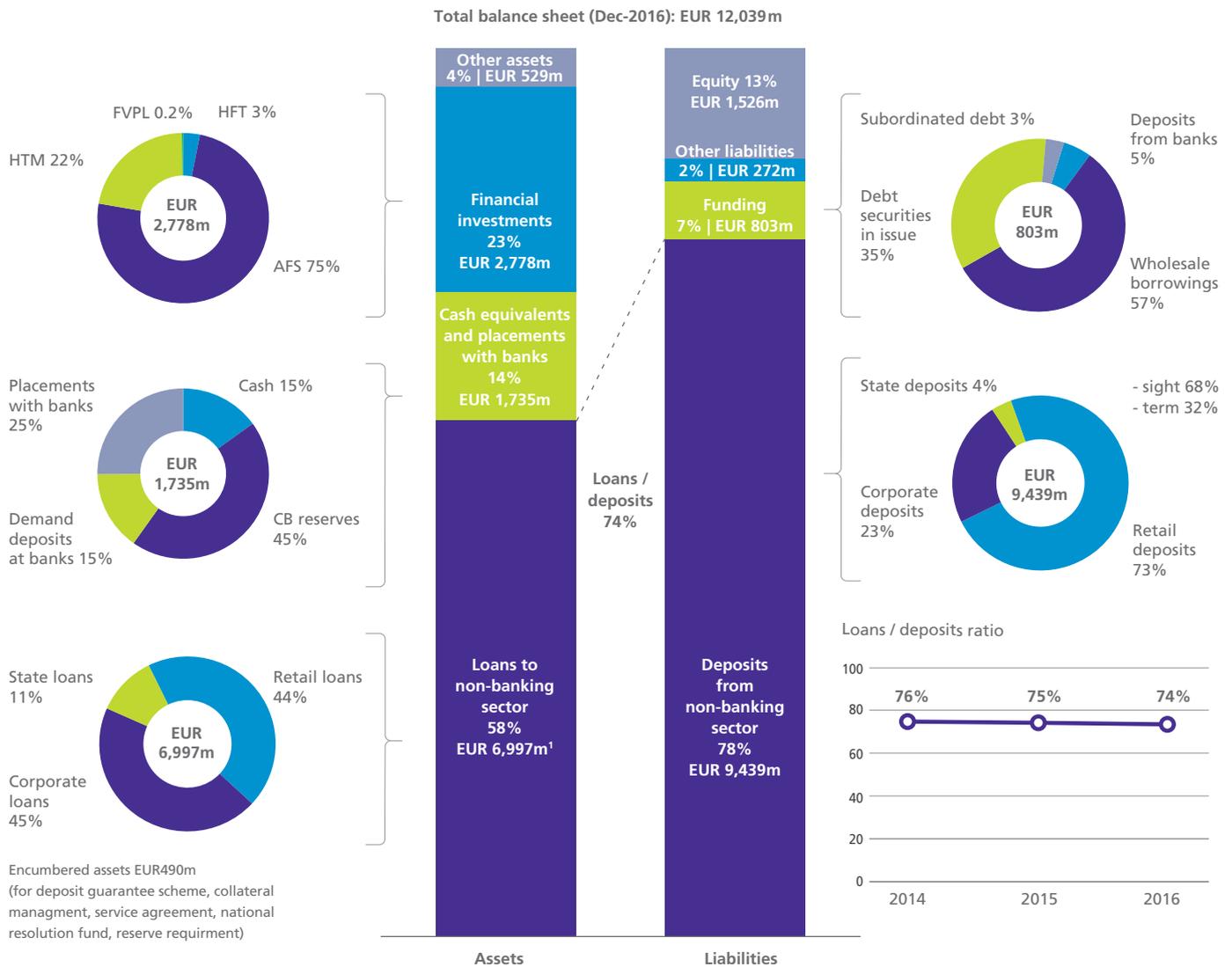


Figure 35: NLB Group balance sheet structure as of 31 December 2016

Discipline in pricing has helped to reduce interest rates for customer deposits to the historically low levels; however, the Group still managed to increase its customer deposit base, which presented 78% of the Group's total liabilities and equity as of 31 December 2016, compared to 76% as of 31 December 2015. Driven by a low interest rate environment, the main change in the funding structure was the transformation of term deposits to sight

deposit, to which the Group responded with a conservative liquidity reserves management approach. The share of sight deposits in the total balance sheet increased to 53%, however proved to be very stable according to the internal methodology for sight deposit stability.

**The Group funding structure is predominantly driven by deposits and complemented by established wholesale market access.**

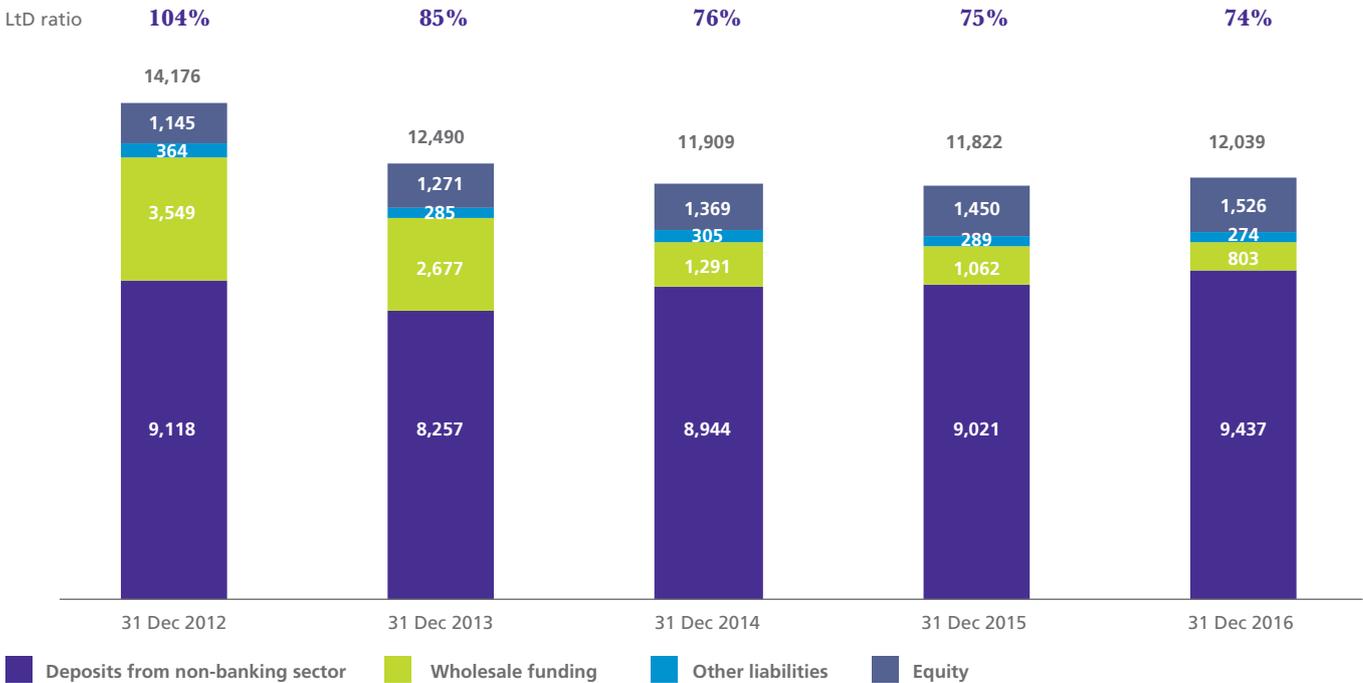


Figure 36: Evolution of funding structure confirms stable deposit base in NLB Group (in EUR million)

**Wholesale funding**

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

Due to a solid liquidity position in 2016, the Bank was not active on the international financial markets with borrowing or issuing debt instruments. Nevertheless, the Bank undertook an active management approach with the optimisation of its long-term liabilities by selected prepayments and improvement of financial conditions, and analysed capital structure for potential future optimisation. The bank regularly monitors new regulatory developments and has also

kept a constant dialogue with the regulator regarding future regulatory requirements, especially the MREL requirement.

In 2016 the Bank and the Group continued to maintain an active dialogue with its existing investor base and with a wider international capital markets community, also with its fully operative and professional Investor Relations function.

Measures for the optimisation of long term liabilities by improvement of financial conditions were undertaken within the Group as well.

**The Group liquidity buffer acts as a safety cushion in case of severe market stress**

The Group liquid assets mainly comprise of cash equivalents, transactional money, a banking book securities portfolio, and credit claims eligible for central bank secured funding operations. The liquidity buffer consists of liquid assets which are not encumbered for operational and regulatory purposes.

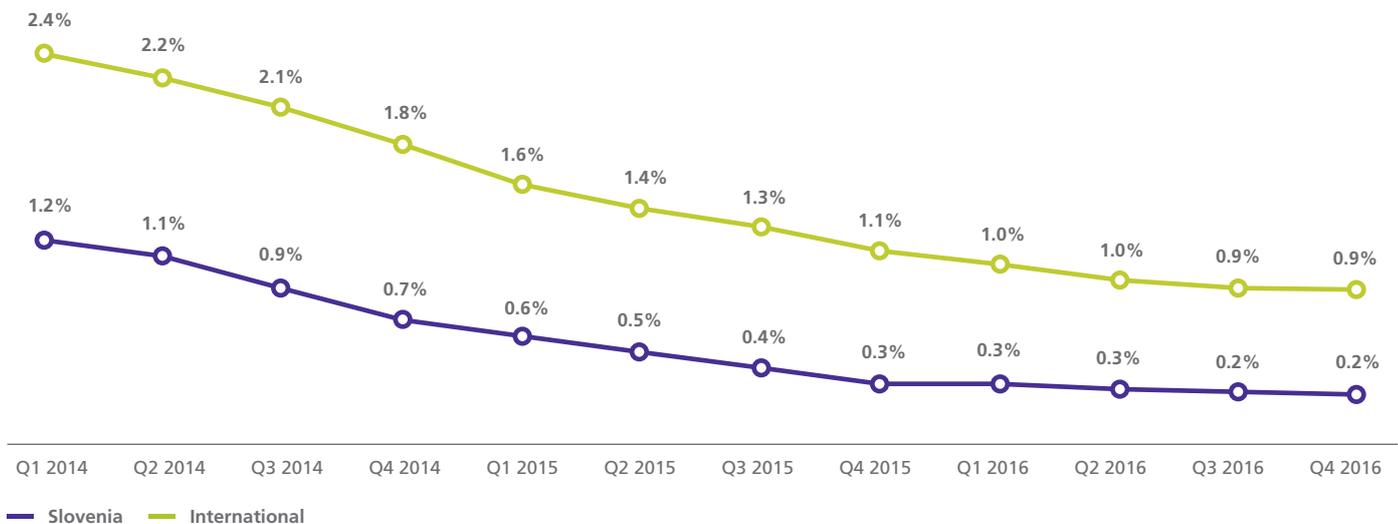


Figure 37: Decreasing deposit interest rates environment in NLB Group

The necessary volume of the liquidity buffer is determined by the internal liquidity risk stress test methodology. The liquidity gaps remained largely positive in order to fund larger repayments coming due in 2017.

portfolio is well-diversified in terms of asset class and geography to avoid risk concentration. Attitude to investments remained conservative focused on prudent tenors and rating structure.

Low interest rates and an extensive liquidity environment throughout 2016 put some pressure on the financial performance of the Group. The focus was therefore on the optimisation of the composition of the liquidity buffer and positive carry. The Group banking book securities

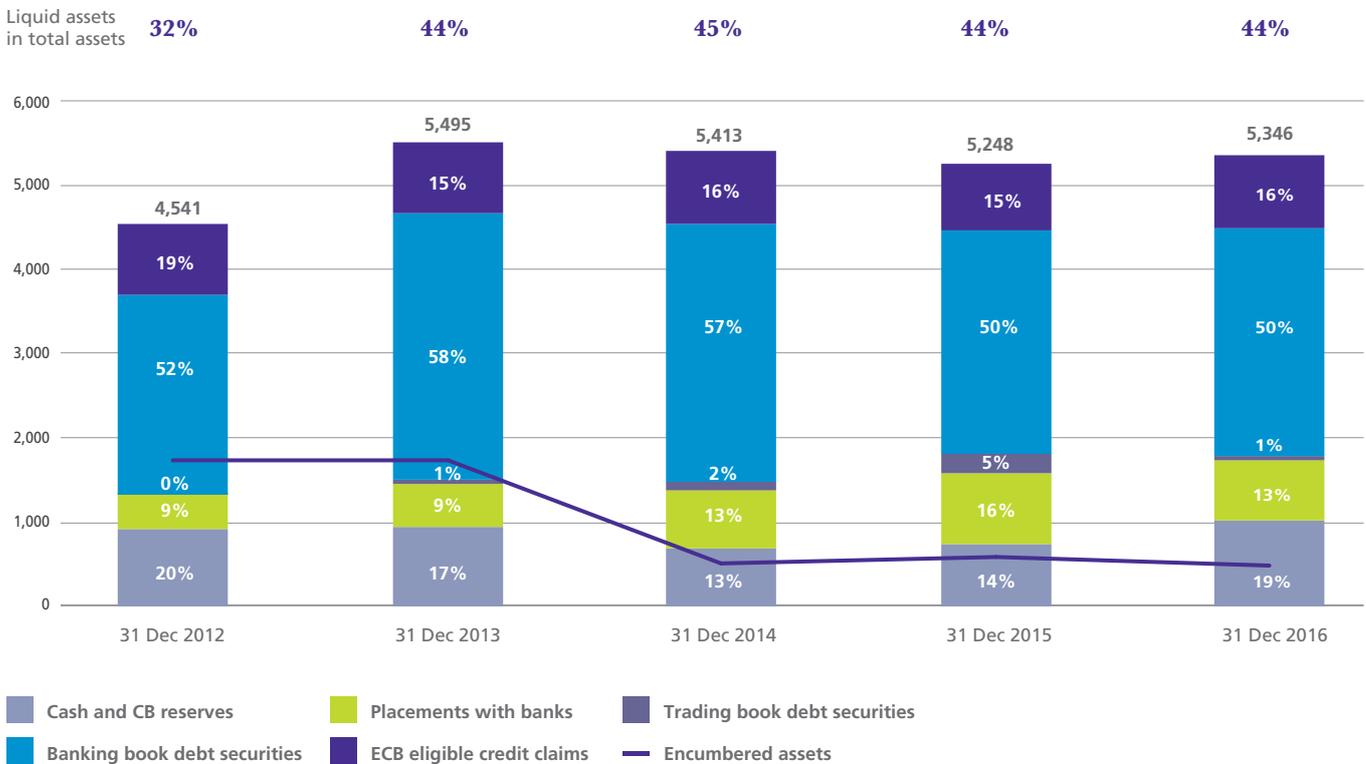


Figure 38: Evolution of NLB Group liquid assets structure reflects robust liquidity position (in EUR million)

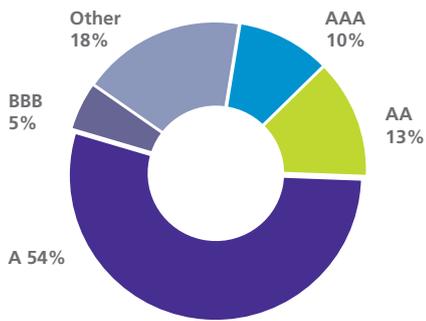
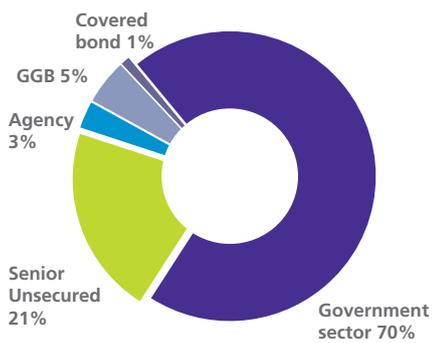
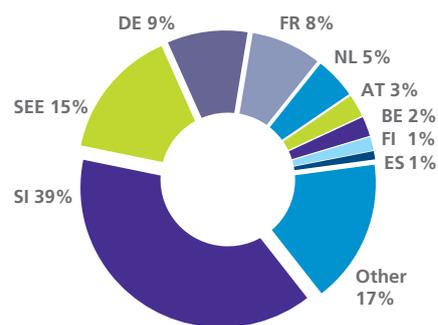


Figure 39: Banking book securities by Fitch rating as of 31 December 2016 for NLB Group



a.) Banking book debt securities by asset class



b.) Banking book debt securities by geographical structure

Figure 40: Well-diversified NLB Group banking book securities portfolio as of 31 December 2016

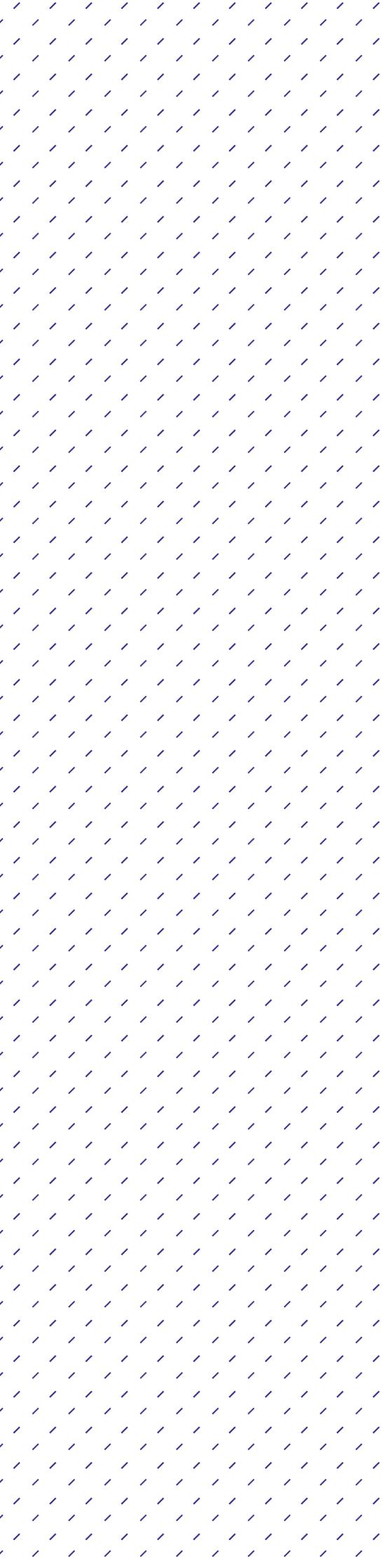
### Fixed income and FX Sales

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

The Bank offers a variety of financial instruments, from simple money market instruments to more demanding derivatives for hedging foreign exchange or interest rate risk. Besides trading with financial instruments, the Bank provides banknotes service to all Slovenian banks and savings. Yearly turnover is around EUR 350 million and represents a stable source of income.

The Bank acts as a primary dealer of treasury bills and bonds for the Ministry of Finance of the Republic of Slovenia, enabling the Bank's customers to purchase securities on the primary market. In 2016, the Bank participated in seven auctions for eighteen emissions of 3, 6, 12, and 18-month treasury bills. The Bank participated in the new issues and swaps of bonds of the Republic of Slovenia, and acted as co-lead in issuing government bond RS78. All these activities confirm the role of the Bank as the primary dealer and official liquidity provider of Eurobonds of the RoS on the MTS Slovenia market. As the only bank in Slovenia it also acts as a co-lead for ESM/EFSE. In 2016 the Bank actively participated in six bond issues, two taps, and sixteen treasury bills auctions.

**By nurturing strong relationships with global partners the Bank helps maintain its competitive advantage to provide high quality service in the field of financial instruments.**



Chapter 4.3:

# Non-core Markets and Activities

**NLB Group is following its strategy and objectives of the Restructuring Plan which define non-core markets and activities, and foresee the controlled and gradual wind down of the non-core segment. This process entails a wind down of all portfolios and consequent reduction of costs. The implementation of the strategy is pursued by a variety of measures, including the sales of entities, portfolios, individual assets, and the collection or restructuring of assets, as well as the closing of subsidiaries by liquidation proceedings.**

The result of non-core markets and activities of the Group improved significantly in 2016 compared to 2015. The segment still recorded a loss of EUR 18.9 million, though normalised by the effects of the non-performing portfolio sale the loss would amount to EUR 11.9 million. Overall, the result was substantially reduced compared to the loss of EUR 70.1 million in 2015. The result of 2016 includes additional impairments due to the non-performing portfolio sale in the amount of EUR 7.0 million, and the positive effects of the sale of an equity investment amounting to EUR 4.9 million.

One of the main achievements of the non-core segments in 2016 was a substantial decrease of their cost of operations which was reduced by as much as 19% YoY to the level of EUR 24.2 million (2015: EUR 29.8 million).

Table 15: Results of the non-core foreign markets and activities segment

in EUR million consolidated

	Non-core markets and activities			
	2016	2016*	2015	Growth**
Net interest income	15.4	15.4	21.6	-29%
Net non-interest income	10.9	10.9	-11.6	-194%
<b>Total net operating income</b>	<b>26.3</b>	<b>26.3</b>	<b>9.9</b>	<b>164%</b>
Total costs	-24.2	-24.2	-29.8	-19%
<b>Result before impairments and provisions</b>	<b>2.1</b>	<b>2.1</b>	<b>-19.8</b>	<b>-111%</b>
Impairments and provisions	-20.9	-13.9	-50.1	-72%
<b>Result before tax</b>	<b>-18.9</b>	<b>-11.9</b>	<b>-70.1</b>	<b>-83%</b>
Net loans to NBS	325.1		481.6	-32%
Gross loans to NBS	675.9		1,038.2	-35%
Deposits from NBS	26.5		28.1	-6%

\* Normalised for the effect of non-performing portfolio sale

\*\* Growth for P&L calculated based on the normalised data

Total assets in the segment of non-core markets and activities of the Group in 2016 amounted to EUR 502.6 million. Compared to the end of 2015, the figure was reduced by EUR 249.5 million as a result of the Restructuring Plan, and in line with the strategy of non-core divestment. The non-core portfolio includes assets booked in the Bank (non-strategic portfolios of Slovenian and international exposures) as well as the portfolios of non-strategic subsidiaries (funded almost entirely by the Bank). The large majority of the non-strategic assets comprise loan exposures (approximately 65%), and a smaller share of investment properties (approximately 14%), repossessed real estate (approximately 9%), equity exposures (approximately 4%), and others.

**The result of non-core markets and activities of the Group improved significantly in 2016 compared to 2015.**

### Reduction of the Bank's credit business with foreign clients

The Bank refrains from undertaking any new credit activities with corporate clients incorporated outside Slovenia, and who are not members of the groups whose headquarters or final beneficiary is in Slovenia. An important contribution to reducing the exposure in 2016 came from assets collected in pre-court and court proceedings, lowering guarantees exposures and regular repayments.

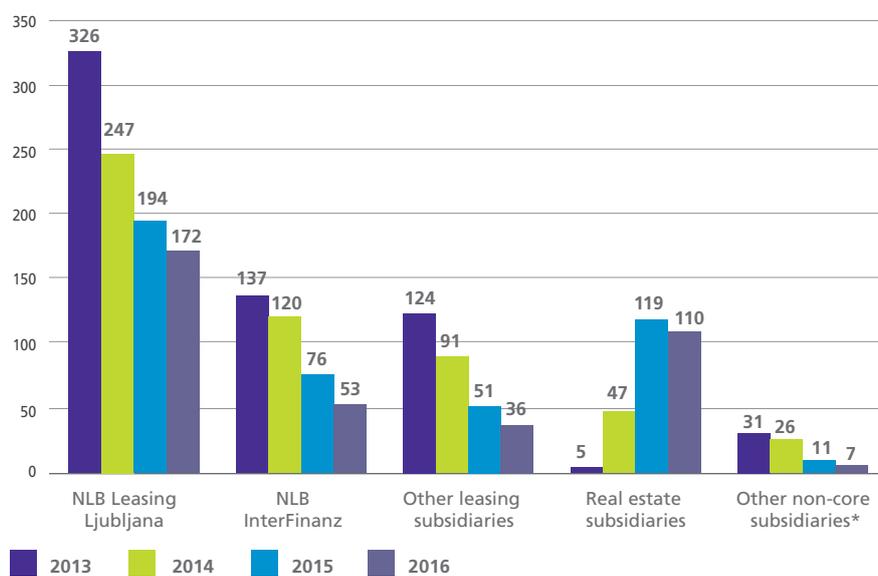
### Divestment of non-strategic Group members

With regards to closing the Group non-core members (most of which operate in leasing, factoring/trade finance, and real estate), new business has been stopped in most non-core subsidiaries, and the total portfolio has been decreasing through regular repayments, collections, restructurings, sales, etc. In 2016 the liquidation of the leasing subsidiary in Sofia (Bulgaria) was completed, while the liquidation proceedings were initiated in most of the remaining non-strategic entities, with the exception of the leasing companies in Slovenia and Bosnia and Herzegovina, and a few other non-material subsidiaries.

**An important contribution to reducing the exposure in 2016 came from assets collected in pre-court and court proceedings, lowering guarantees exposures and regular repayments.**

**Table 16: The Group entities in which liquidation was initiated in 2016**

Leasing	Factoring/Forefating	Real estate
NLB Leasing Beograd	NLB InterFinanz Zürich	
NLB Leasing Podgorica	Prvi faktor Ljubljana	OL Nekretnine Zagreb
NLB Lizing Skopje	Prvi faktor Zagreb	PRO-REM Ljubljana
Optima Leasing Zagreb	Prvi faktor Sarajevo	



\* NLB Factoring - in liquidation, NLB Propria, Prospera Plus, LHB AG

**Figure 41: Asset evolution by activity (in EUR million)**

### **Sale of NLB's equity participations**

The Bank is also divesting its equity participations, and consequently by the end of 2016 the overall asset volume of equity participations had been further reduced to EUR 21.7 million.

### **Active management of real estate assets**

A large portion of NPL in the portfolio is secured by real estate, and so the Group has set up a specialised team for repossessing, managing, and selling real estate.

Management entities were established in three relevant markets: Croatia, Serbia, and Montenegro (REAM Zagreb, REAM Beograd, and REAM Podgorica). In Slovenia PRO-REM in liquidation was carved out from NLB Leasing, Ljubljana, including assets, real estate management, and staff.

The main task of these management teams is to ensure value-preserving strategies for the management of real estate, respectively the collateral value of NPL claims by either temporarily repossessing real estate or ensuring a value-preserving divestment process of the real estate or a claim. In 2016 the team supported 236 transactions with a real estate value of approximately EUR 95 million.



Pouzdani

Доверливи

Vredni zaupanja

Trustworthy

Chapter 5

Достојни поверења

Të Besueshëm

Vredni poverenja

Pouzdani

Chapter 5. 1:

# Risk Management

Strong capital and liquidity position

**Risk management in NLB Group is in charge of assessing, monitoring, and managing risks within NLB as the main entity in Slovenia, and the competence centre for six subsidiary banks. Furthermore, it is also responsible for several ancillary services companies and a number of non-core subsidiaries which are in a controlled wind down.**

During 2016 the focus was on improving the quality of the credit portfolio with appropriate portfolio diversification in order to avoid large concentration, and to further decrease the volume of NPE towards average EU banking levels. In this very low interest rate environment, the Group is facing large excess liquidity and putting a lot of attention to the structure and concentration of the liquidity reserves, also having in mind potential adverse negative market movements. Excess liquidity and market demand for fixed interest rates products have an important influence on the potential increase in interest rate risk exposure. In this sense a lot of attention was put on interest rate risk limits for each Group member, whereby low tolerance toward this risk is reflected. The Group concluded 2016 well within its target-risk appetite, with a strong capital and liquidity position.

### Risk management principles

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

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

### Proactive risk management in 2016

In 2016 fundamental risk management documents representing the Group's Risk Appetite Statement and Risk Strategy were updated. Moreover, the Group further enhanced its risk management system in order to support the business decision-making process by upgrading its Internal Capital Adequacy Assessment Process

(ICAAP), introducing the Internal Liquidity Adequacy Assessment Process (ILAAP), enhancing internal stress testing capabilities and further upgrading comprehensive steering processes within the revised risk management framework.

One of the key aims of Risk Management is to preserve a prudent level of the Group's capital adequacy. The Group monitors its capital adequacy at the Group and individual subsidiary bank level within the established ICAAP process under both normal conditions (regulatory capital adequacy) and stressed conditions. As at 31 December 2016, the Group had a strong level of capital adequacy (CET 1) of 17%, which is well within the stated risk appetite limit, and above the EU average as published by the European Banking Authority (EBA). In line with the Supervisory Review and Evaluation Process (SREP), CET 1 and the total capital requirement for the Group in 2017 are currently fulfilled in the current and fully-loaded requirement.

The second key aim is to maintain a solid level and structure of liquidity. The Group holds a strong liquidity position at the Group and individual subsidiary bank level, which is well above the risk appetite with the liquidity coverage ratio (LCR) (according to the delegated act) of 332% and unencumbered eligible reserves in the amount of EUR 4,856 million. Even if the stress scenario were to be realised, the Group has sufficiently high liquidity reserves in place in the form of placements at the ECB, prime debt securities, and money market placements. The main funding base of the Group at the Group and individual subsidiary

bank level predominately entails customer deposits with a comfortable level of LTD in the amount of 74%, giving the Group the potential for further customer loan placements.

The improving quality of the credit portfolio represents the third and still the most important key aim, with a focus on the quality of new placements leading to a diversified portfolio of customers. The Group is actively present on the market, financing existing and new creditworthy clients. The lower indebtedness of companies in Slovenia and their successful restructuring has had a positive influence on the approval of new loans. In the retail segment, positive trends were shown throughout the region in clients' greater trust in economic developments and the related consumption and selective recovery of the real estate market. The Group puts considerable emphasis on new corporate and retail financing, the sustainability of the credit risk volatility, and the sustainable size of the subsidiary banking members.

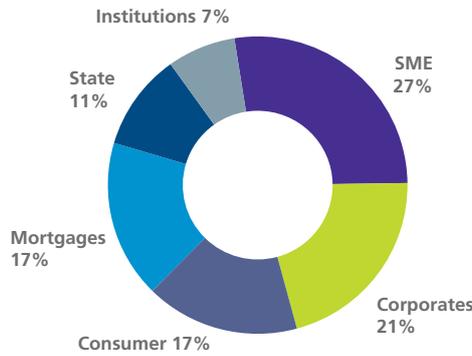
On the Slovenian market, the focus is on providing appropriate solutions for retail, medium-sized, and small enterprise segments, while on the corporate segment the Bank is reinforcing the cooperation with selected corporate clients (through different types of lending/investments instruments). All other banking members in SEE region, where the Group is present are universal banks, mainly focusing on the segment of medium-sized and small enterprises, and the retail segment. The Group puts considerable emphasis on new corporate and retail financing, sustainability of the credit risk volatility, and the sustainable size of the subsidiary banking members.

Their primary goal is to provide comprehensive services to clients by taking prudent risk management principles into account. The current structure of gross exposures (on- and off-balance sheet) consists of 33.8% of retail clients, 21.0% of large corporate clients, 27.3% of SMEs and micro companies, while the remainder of the portfolio entails other liquid assets.

The efforts resulted in the moderate formation of new NPLs and a sustainable cost of risk in 2016, also partly related to the positive macroeconomic environment conditions.

The Group developed capacities to gradually introduce a wide range of advanced approaches supported by mathematical and statistical models in the area of credit risk assessment, while in the area of stress testing, markets, and liquidity risk internally-developed models were also additionally enhanced in connection with relevant expected macroeconomic factors.

The restructuring, work-out capacities, and approaches built in the past are largely still occupied by the legacy of NPE, although increasingly focused on actively resolving new cases with a faster and more active approach to restructuring and work-out. The structured approach from the past and successful application of various restructuring tools resulted in numerous clients being cured in 2016, and their transfer to the front office. The Bank has made substantial progress in retail restructuring by focusing on a systematic approach and proactively using standardised tools for the timely restructuring of exposures to private individuals.



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

Figure 42: NLB Group structure of the credit portfolio (gross loans and advances) by segment

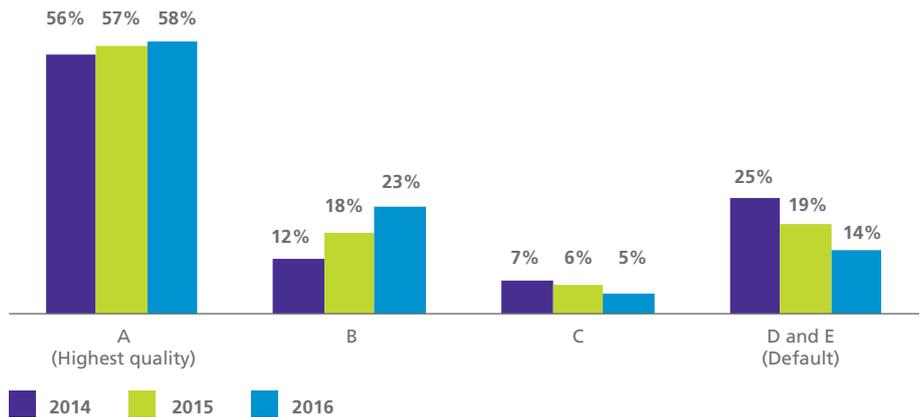
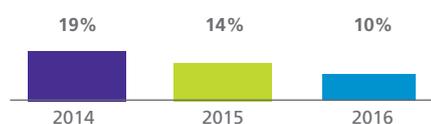


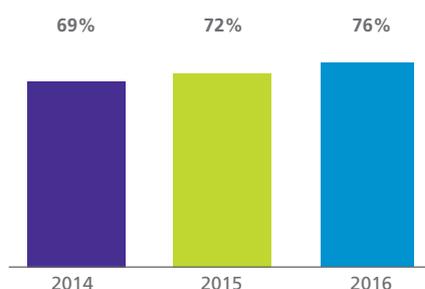
Figure 43: Structure of NLB Group credit portfolio by client credit ratings as at year end

Strong commitment to reduce the NPE legacy on the Group level continued in 2016. Precisely set targets and constant monitoring of the realisation enabled a further substantial reduction in the volume of the non-performing portfolio to be achieved. The existing non-performing credit portfolio stock in the Group was reduced from EUR 1,896 million to EUR 1,299 million, which does not include the restructured exposures in the last year, which hold good potential to be cured in 2017. The realised sale of the non-performing portfolio to investors in two tranches (corporate and retail) resulted in an NPE reduction of EUR 233.3 million. The combined result of all effects was that the share of NPLs decreased from 19.3% to 13.8%, while the share of NPE by the EBA methodology was reduced from 14.3% to 10.0%.

An important Group strength is the coverage ratio, which remains high at 76.1% (an increase of 3.9 percentage points). Further, the Group's NPL coverage ratio grew to 64.6%, which is well above the EU average as published by the EBA (44.3%). As such, it enables a further reduction in NPLs without significantly influencing the cost of risk in the next years.



**Figure 44: NLB Group NPE ratio (year-end NPE% by the EBA)**



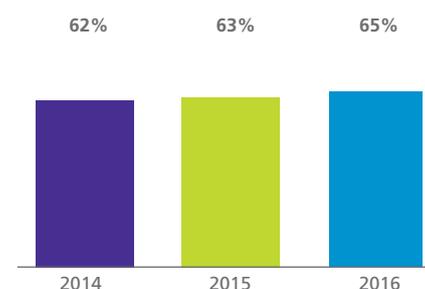
Note:  
The coverage of the gross non-performing loan portfolio with impairments on all of the loan portfolio

**Figure 45: NLB Group Coverage ratio (year-end %)**

When considering market risks, the Group pursues the orientation that such risks should not significantly affect a single Group subsidiary or the whole operations of the Group. Moreover, the Group operates its main business activities in euros, while in the case of the banking subsidiaries, beside their domestic currencies, they also partly operate in euros.

Consequently, the Group's exposure to interest rate risk is relatively low, but has recently increased moderately as a result of an excess liquidity position and a low interest rate environment. The Bank's net interest income sensitivity in the case of the Euribor increase by 50 bps would amount to EUR 14.9 million, while in the case of a decreased exposure would be lower due to zero floor clauses. Moreover, the basis point value (BPV) sensitivity of 200 bps equals 14.8% of capital.

The net open FX position is very low and amounts to less than 5.7% of capital. In the Group's banking subsidiaries in SEE the net positions are generally a bit more open than on the group level, but still in line



Note:  
The coverage of the gross non-performing loan portfolio with impairments on the non-performing loan portfolio

**Figure 46: NLB Group NPL Coverage ratio (year-end %)**

with low risk appetite and mainly limited to Euro currency.

Exposure towards trading is allowed only in the Bank as the main entity of the Group, and is very limited. As such it does not represent a material risk to the Group's operations.

In the area of operational risks, additional efforts were made with regard to proactive prevention and the minimisation of potential damage in the future. Special attention was paid to developing the 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 were established with the aim of improving the existing internal controls and reacting on time when necessary.

In addition, the Group was also diligently managing other, non-financial risks as a part of the ICAAP process, including strategic risk, reputation risk, capital risk, and profitability risk.



**Andreas Burkhardt**  
Member of the Management Board

*We reached a decisive point of the determined, focused, and responsible path we began taking three years ago. We put healthy foundations for our future operations in place.*



The year 2016 will be remembered as a year when we reached a groundbreaking point in managing our NPL. In this exceptional year we dramatically reduced NPL volume by 31% to a level of just below EUR 1.3 billion. As a result our NPL ratio came down from 25.1% in 2014 to a much more moderate 13.8%, and the NPE ratio by the EBA is already at 10%. We reached a decisive point of the determined, focused, and responsible path we began taking three years ago. We put healthy foundations for our future operations in place.

This strong performance on NPL reduction was possible due to strong results in collection and continued divestment of exposures at the asset and portfolio levels. In 2016, NLB concluded two landmark transactions by selling non-performing portfolios towards Slovenian corporate clients and towards Slovenian retail clients. Disposal of these non-performing portfolios largely contributed to the improvement of the NPE ratio, and at the same time freed up resources for an even faster work-out of the remaining non-performing exposures.

Our high coverage ratio, which remains at a level of 76.1% (an increase of 3.9 percentage points from 2015) represents additional strength to the Group's performance and stability. The Group's NPL coverage ratio grew in 2016 to 64.6%, which is well above the EU average as published by the EBA (44.3%). As such, it enables further reduction of NPLs without significantly influencing the cost of risk in the following periods.

In the future, our focus remains on monitoring the performance of restructured clients and their upgrade to the 'Cured' status. We are committed to accompany our clients throughout their life-cycle. We are devoted to be a partner in their successes and a helping hand in the times of challenges.

Chapter 5.2:

# Human Resources

## On a pervasive path toward a leaner and more efficient organisation

In the past few years, NLB has made substantial progress in improving its HR management function by introducing a system for management by objectives, development plans, promotion schemes, objective performance assessment, remuneration schemes, and an active talent management programme, that benefits employees with relevant and regular trainings and qualifications.

Since 2012, the NLB Group made determined and complex efforts to gradually reduce its number of employees in connection with efforts undertaken as part of the reorganisation. In last five years the Group reduced the number of employees by 17.1% and NLB alone by 22.3%. This strategically important step was implemented with the highest responsibility towards employees and in dialog with workers representatives.

NLB maintains a Labour Council and Labour Union, and also cooperates with the Slovenian Banking Union. NLB has established a cooperative relationship with, and is not currently in conflict with any labour unions. There are currently no material lawsuits, legal disputes, or other conflicts with employees.



**Table 17: NLB Group employees by countries**

Country	Number of employees (on 31 December 2016)
Slovenia*	3,065 (NLB: 2,885, other: 180)
Serbia	424
Bosnia and Herzegovine (Republic of Srpska, Federation of Bosnia and Herzegovina)	942
Montenegro	342
Macedonia	891
Kosovo	489
Other	22
<b>Total (NLB Group)</b>	<b>6,175</b>
<b>Total (NLB d.d. only)</b>	<b>2,885</b>

\* Note: without Bankart, Prvi Faktor, NLB Vita, Skupna PD and Sisbon.

**In the past few years, NLB has made substantial progress in improving its HR management function.**

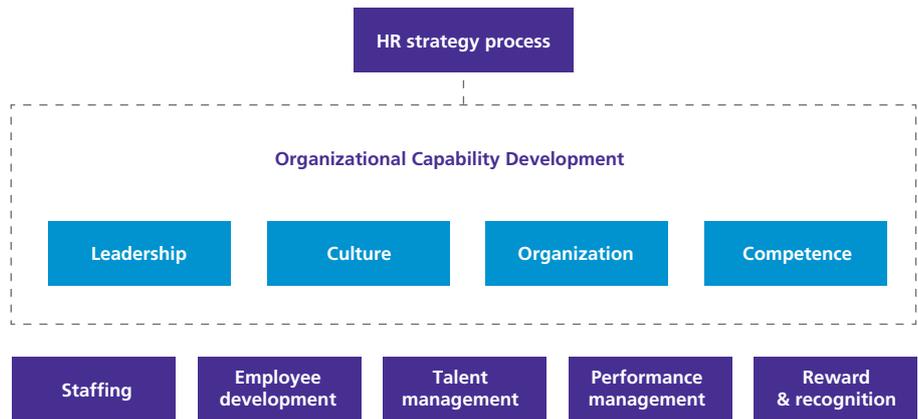
**Becoming a finely-tuned orchestra with new HR and Organisation strategy**

In 2016 the Group adopted new business strategy and initiated key strategic initiatives, aiming among others towards a leaner organisation, an optimisation of processes, and an implementation of a new IT strategy that focuses on digitalisation, simplification, and an adjustment of the organisational structure. These initiatives will also result in a decreased number of employees in the coming years. Based on this, a new HR strategy was adopted, and further HR strategies for each organisational unit (OU) aimed at employee restructuring, in particular their knowledge and skills, were adjusted for future needs and trends.

The Strategy defines nine key basic areas with their current status, the means on how to improve and achieve set goals for the end period (2021), and defines KPIs for each area with which the progress will be measured.

**Proud to be the first company in Slovenia to receive 'Top Employer' certificate**

In 2016, NLB was the first Slovenian company to receive the 'Top Employer' certificate. A survey conducted among employees in 2016 showed a better organisational climate and engagement in all the segments compared to 2015. NLB pays close attention to talent management, as well as social responsibility towards employees. NLB also received the certificate in 2017, implementing more than 60 relevant improvements in HR.



**Figure 47: HR strategy process**

**Continuing our longstanding tradition of education**

The Bank has a long tradition in the field of education, as the Training Centre of NLB (Training Centre) has been operating for more than 40 years.

Systematical employee education, a curiosity for new knowledge areas to support new processes, and combining them with new methods for knowledge transfer from coaching, mentoring, traineeship, e-education, etc. is being promoted. Through education, the Bank creates a new organisational culture and help shape new business practices since there is a direct correlation between education and business strategy.

The purpose of all these activities of the Training Centre is to empower all employees to achieve business objectives and thereby strengthen their personal development, and to act socially responsibly towards all stakeholders.

Employees are included in education consistently based on the current and future development needs of their working area, based on yearly development plans or individual career plans.

The Bank policy aims to develop employees to the greatest extent possible, and with its internal experts this is the most efficient (easier adoption to banking practice and specific needs of the workplace and work processes) and most economical way (flexible time, dedicated to a large number of employees at a lower cost). In 2016, the Bank had more than 96.2% of education opportunities conducted internally and in cooperation with approximately 120 in-house experts. 583 employees from the Group were involved in various forms of education and training in 2016.

### **Building the foundations for the future successes with talent management**

The Bank made the greatest progress in 2016 in the area of talent management. It carried out the entire process of identification and calibration of talents, and officially launched the programme of talent development. The on-boarding process was also launched systematically, HR strategies that were prepared for all organisational units were optimised, and new academies covering specific educational needs of individual organisational units were developed and organised.

Upon identification of the talents of the employees by General Managers, a calibration of talents was carried out in cooperation with the Management Board members and General Managers. Identified talents were divided into three groups: talent - leadership; talent – experts; and young talents. The final list of talents was formally approved by the Management Board.

For the purpose of developing talents the Bank designed development programmes that are content specific and cover the needs of all three talent groups. All programmes combine development activities to gain knowledge and skills of strategic management, strategic planning, and achievement of goal objectives, project management, wider ‘out of the box’ thinking, creative thinking, English learning, etc. This will be achieved by using various development activities: education, training, project work, coaching, and mentoring.

The purpose of the intensive talent development is targeted career development of the best individuals in the Bank, so that they will be ready in the future to take on the most demanding positions in the Group. In contrast, facilitating career development of talents, aims to retain the best staff.

With a view to always have highly-skilled leadership successors for all management positions, employees were identified to take part in the development programme in 2017, where they will work on their leadership competencies.

### **Remuneration system as a motivation for engaged and committed employees**

Employees’ salaries in NLB are defined by a fixed amount, while collective agreements also offer a variable component which allows NLB to reward high-performers on a quarterly basis.

NLB’s business strategy and the goals of the organisational unit are defined by the head of the organisational unit using a top-down approach, and are the basis for setting an employee’s goals. The planning of quarterly or semi-annual goals of each employee is based on the plan of the organisational unit, presented to the employees by the head of the organisational unit, which serves as the basis for:

- Semi-annual or quarterly employee performance assessments;
- Conversations between employees and their superiors about the achievement, exceeding and non-achievement of goals;
- Setting of action plans for improvements; and
- Payment of part of the salary based on personal performance.

The head of the organisational unit checks the achievement of the set goals of the organisational unit and the employee quarterly or semi-annually, and establishes any surpassing or lack of achievement or deviations, of which the superiors are informed. All of the above serves as the basis for appropriate planning and setting of goals for the next assessment period.

The goals are set according to the ‘SMART’ method, meaning that they have to be (a) specific (the goal shall be defined briefly and understandably), (b) measurable (the head of the organisational unit shall specifically define the result), (c) challenging (referring to the scope and ability of attainment of the goal), and (d) realistic, and timely (with a defined time frame).

### **Being family-friendly company**

The Full Family-Friendly Company certificate was granted to the Bank in December 2014 by the non-profit and independent organisation Ekvilib Institute, together with the Ministry of Labour, Family, Social Affairs, and Equal Opportunities. The aim of the certificate is easier coordination of the private and professional lives of employees.

Key benefits for the employees:

- A free weekday off to escort children on their first day of school; escort kids in the last year of elementary school or high school to the information open day in high schools or colleges; move into their new place; escort a family member in case of serious illness
- The potential of flexible working hours or paid leave hours to introduce children into pre-school
- Paid absence from work due to extraordinary family reasons
- Organisation of childcare activities during the summer and winter holidays (NLB Happy holidays) by the Bank
- An offer of additional benefits on banking services, including financial assistance for employees
- New Years gifts for children and gifts for newborns, as well as social aid for children of deceased employees of the Bank to aid their studies
- A full day off from work due to the utilisation of excess working hours even if they attained them with overtime work that was not mandatory.

The management staff is annually informed of the activities and measures of a family-friendly company and needs to complete a mandatory e-learning programme. The respective activities and measures are also taught in the Bank's School for leaders. Managers and directors are assessed by subordinates with the 360 degrees method, part of which also includes the evaluation of the ability of a manager to reconcile the work and private lives of employees.

Group members need to uphold their implemented measures and activities that have been set through the certification process. Throughout the process, the work is accompanied by the evaluator/consultant, on the basis of annual reports and audited by Ekvilib Institute.

The number of employees benefitting from measures increases each year. In 2016, 7,974 employees benefitted from the measures, meaning that on average each employee benefitted from the measures 2.6 times per year. The Bank also adds new measures each year.

#### **Improving organisational climate and employee engagement**

The effects of NLB's HR Strategy are measured with an organisational climate and employee engagement survey, which assesses the motivation level of its employees and their willingness to invest effort above expectations, with both contributing to a successful corporate performance. The survey showed that the share of engaged employees in 2016 grew by 7% compared to 2015. The share of those actively disengaged decreased by as much.

When measuring the organisational climate, NLB focused on individual perceptions and descriptions of the social environment. NLB evaluated 16 different categories, where the highest scores were achieved in the following categories: quality, management, and motivation. The greatest positive change was seen in these categories: affiliation to the organisation, organisation, and motivation. Compared to 2015 the situation improved in all 16 categories.

A total of 72.36% of NLB's employees participated in this survey, which is considered an above-average participation level in Slovenia. 71% of employees responded to the last survey conducted in NLB in 2015 and 61% in 2014.

> 980

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

> 118,000

hours of education in 2016

> 1,000

educational programmes implemented in 2016



**Vesna Vodopivec**  
 General Manager, Human Resources  
 and Organisation Development

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As we evaluate the positive results of 2016, we must not forget to praise those who deserve it – our employees. Such results can only be achieved with engaged workers, who are experts in their fields, and who constantly invest in their knowledge. This is something that our bank and the entire NLB Group firmly support. In 2016 NLB d.d. obtained the 'Top Employer' certificate for the first time. We are committed to helping our employees do excellent work, and to their continued development

*As we evaluate the positive results of 2016, we must not forget to praise those who deserve it – our employees. Such results can only be achieved with engaged workers, who are experts in their fields, and who constantly invest in their knowledge.*

as well, which is why our bank was proud to accept this certificate that recognises that the conditions employers create for their people do matter. We will continue to support further development of our employees, and enhance our Talent programme in the entire NLB Group. We are convinced that strategic goals are more easily achieved through the nurturing of hard-working, dedicated experts.



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Chapter 6

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Chapter 6. 1:

# IT and Processing Operations

## Information Technology

### **Building our competitive advantage on the basis of a new IT strategy**

Technology is the essence of the modern social and business environment. Therefore, information technology presents the cornerstone of all operations in NLB. An agile IT function plays crucial role in ensuring high levels of information security and availability, as well as building a sustained competitive advantage on the market.

NLB is on the way to taking one of its most important transformational steps in its history. With implementation of new banking services and functionalities, based on digitalisation of products, processes, and customer experience, the Bank is

implementing significant business changes that will considerably change its operations, as well as its culture. The cornerstone of this transformation process is and will be in IT.

In 2016 the Bank confirmed its new IT strategy. It includes the following major aspects: Enterprise Architecture, Governance & Processes, Financials, Sourcing, Innovation, and Group Synergies. The future governance addresses key points in the existing governance model, as well as the changes necessary for successful implementation of IT and business strategies through 2020.

**Infrastructure overview in Slovenia**

• = 10 units

 **2**  
data centres with  
disaster recovery capability

 **2**  
IBM mainframes

 **150**  
physical servers



 **330**  
virtual servers



 **800 TB**  
of disk storage



 **450**  
active network devices



 **558**  
ATMs



**Infrastructure in foreign  
bank subsidiaries**



International subsidiaries operating independently based on right-sized solutions for the market

To achieve its goals defined in the new strategy, NLB Group plans to initiate a top-down review of its current technology architecture and define a transition path towards a simplified, less complex IT landscape, which will be able to support the high demands of a real-time/data-driven /omnichannel environment. Such a transition will likely involve long-term efforts spanning several years in order to realise anticipated benefits such as the reduction of certain costs and a defending the NLB Group’s position as a market leader. More actively identifying and pursuing group synergies are also high on the agenda.

**The year of introduction of innovative products and maintenance of high security standards**

An agile IT function continues to be seen as the key to a sustained competitive advantage. In 2016 the Bank retained high levels of information security and availability, with the current bank reliability standing at 99.97%. To maintain a high level of information security and ensure compliance with applicable data protection and privacy laws, NLB pursues the continued improvement of its technology and operations.

One of the most important tasks IT performed in 2016 was the introduction of ‘Klikpro,’ a mobile bank for companies. The first version, which was “live” in July, enabled users to review their accounts’ balances, details of the payments orders, manual entry of UPN, and as well “take a photo and pay” functionality, with a value-added tax (VAT) calculator, and more. The graphical layout was refreshed as well. Upgrade of the application in December 2016 additionally enabled payments to foreign countries, exchange offices, and certain other new functionalities. The Bank already had 3,403 users of Klikpro by the end of 2016.

Similarly, 'Klikin,' a mobile banking platform for private individuals, was upgraded and user-friendly functionalities such as "take a photo and pay," automatic filing of the receiver's data in a Universal Payment Form (UPN), and the sending of payment details to an e-mail address were enabled. Here as well, the graphical layout was changed and modernised. Klikin enjoyed a great client response, and already had 55,433 users by the end of 2016.

The other significant project the Bank completed was the implementation of E-signature in all branches. Beside the E-signature itself, credit flow processes were optimised, and all entry documents are now only available in electronic format. All documents are stored in a central archive in real time and are immediately available to all authorised Bank employees through the front end systems. This is yet another step towards advancing digitalisation as a cornerstone of keeping up and creating a competitive edge on the market in the future.

The Bank successfully emphasises its position as market innovator with the introduction of unique mobile and online platforms which enable its clients' services such as the "take a photo and pay" function, the ability to transfer funds through a phone address book, and the introduction of video calls and chat features on the Bank's website. We are planning to be the first bank to offer an end-to-end loan process.

### **Modern infrastructure for future challenges**

The Bank's commitment to following a path of digitalisation is putting full attention on establishing modern infrastructure. In year 2016 we ensured successful digital support to the largest Slovenian vault. As a sole financial institution we achieved the largest market share in an issued certificate in Slovenia, and we are planning to introduce the cloud technology for remote signature in 2017. We provide an effective outsource of payment processing at the national and regional levels.

NLB is in the process of setting up a new data infrastructure and data management practices which will, over time, provide standardised global data infrastructure services to all NLB bank's core subsidiaries. This new data ecosystem will allow the NLB Group to take advantage of synergies in various areas of banking operations and business.

### **The Bank's commitment to following a path of digitalisation is putting full attention on establishing modern infrastructure.**

### **Today's projects are the foundations for the digital era**

Our IT department is putting large effort in introducing the synergies in the NLB Group wherever this is applicable. So far, three areas are defined, CRM, Omnichannel (Users Experience), and BI (Business Intelligence). Products which suit all banks in the Group will be centrally procured and a support group with a high level of knowledge will be established in various banks with the tasks to support specific areas for all Group members.

The Bank will focus on customer-oriented scenarios (customer relationship management (CRM), BPM, or Customer experience platform) in sourcing the target architecture components. Tangible synergies can be achieved across the Group with strong governance and unified solutions in the areas of digital frontends, data management, and CRM.

## Processing operations

### Retaining the position of leader and most trusted payment service provider

In 2016 the Bank succeeded in retaining its market position as the leading and most trusted payment service provider. Special attention was dedicated to quality, reliability, and security of payments services to adequately accommodate ever-demanding and changing needs of the Bank's retail and corporate clients. In the field of payment processing further improvements of efficiency and automation resulted in a higher rate of Straight through Processing (STP) transactions.

The Bank's partners are the leading industry providers offering the highest level of expertise, even as much as regional banks that know profoundly well about the markets important for clients. The Bank account network was additionally streamlined in 2016, and the Bank currently holds 46 accounts with 36 leading providers. It is likely that this trend shall continue, not only from a compliance, but also profitability perspective.

In line with the digitalisation trends and anticipated regulatory changes, the Bank has initiated a number of different development activities (internally and with stakeholders) in order to timely respond to new challenges and to make necessary adaptations. In this respect two projects were introduced in 2016, namely The Instant Payments Project and the project to introduce a quick response (QR) code on UPN. The objective is to advance customer experience by faster execution of their payments (instantly, i.e. in less than 10 seconds) and simplified initiation of payment orders and their processing (using QR code).

### Through process optimisation towards agile and dynamic operations of financial instruments

In 2016, the Bank continued with rationalisation and optimisation of operations and implemented a number of improvements and automations for back office processes. Most important were in the process of a supporting brokerage, where the Bank increased the number of clients by 150%, due to the mandatory transfer of client assets from registry accounts at Central Securities Clearing Corporation (KDD) to trading accounts. With engagement and dedication the Bank provides a comprehensive and professional service to clients, ensuring effective operational and settlement risk management and optimising costs.

As integration of the Slovenian capital market into TARGET2-Securities (T2S), a single pan European platform for securities settlement in central bank money is taking place in the beginning of 2017, the majority of adaptations had to be ensured already in 2016. Beside adaptations of services for the Bank's own securities settlement operations, services for the clients in the context of T2S Payment Bank were newly developed (the Bank will be the only bank in Slovenia offering access to Dedicated Cash Accounts in T2S to other clients).

**Through further optimisation of processing and by following the trends of digitalisation, the Bank is striving to provide improved customer experience.**

### **Establishing the largest cash processing centre in Slovenia**

Cash Processing supplies branches and ATMs of the Bank with cash, and ensures constant availability of high quality banknotes and coins for the whole branch network. In addition, the Bank's central vault supplies cash for branch and ATM networks of 12 other banks in Slovenia.

In 2016 NLB's Cash Processing team completed a substantial investment project, which was the Bank's largest investment project in recent years. The largest cash processing centre in Slovenia has been constructed in Ljubljana. It has enabled automation of processes and consequently a reduction of costs in this area. To cover all specifics of cash processing, NLB has developed its own IT application. This enables appropriate support for automated processing of cash, as well as automated capturing and transfer of data. NLB has also developed an online environment in which information about cash orders can be exchanged with its clients. As a result, NLB's clients (banks and companies) are able to send orders for cash services and monitor statuses of their orders. The Bank is continuously developing internal processes and relationships with customers. Consequently, in 2016 the majority of paper work related to cash transportation was digitalised through implementation of a mobile phone application.

**In 2016 NLB's Cash Processing team completed a substantial investment project, which was the Bank's largest investment project in recent years. The largest cash processing centre in Slovenia has been constructed in Ljubljana.**



László Pelle  
Member of the Management Board

“

The banking industry is facing real challenges. Developing new technologies brings new methods of operations and cutting-edge business models, while regulatory institutions keep setting new rules to stay current with that rapid development. NLB wants customers who need and seek innovative services. We want to offer novel approaches and never-before-seen solutions that facilitate operations through every channel. The modern world is becoming extremely mobile. We want to be with our customers every step of the way.

*We want to offer novel approaches and never-before-seen solutions that facilitate operations through every channel. The modern world is becoming extremely mobile. We want to be with our customers every step of the way.*

We are rapidly adapting our information technology to trends in banking digitalisation. In 2016 we introduced several innovative digital product solutions, such as the mobile application 'NLB Klikpro' that enables companies, entrepreneurs, and private individuals with small businesses simple 'Check – pay – order' services at their fingertips. The incentives set in our ambitious 2016 - 2020 strategy are essentially based on upgrading and delivering modernised IT capabilities by establishing or updating key elements of our IT application architecture.

In addition to supporting target business improvements, we aspire for a leaner, more agile, and cost-effective IT architecture, so we'll be able to respond to the main digital challenges of the industry. Through digital technologies, utilisation of our data warehouse, and an agile delivery organisation we are building a solid foundation toward being in a more competitive mid- to long-term position, as well as simplifying our client's daily business.

Chapter 6.2:

# Internal Audit

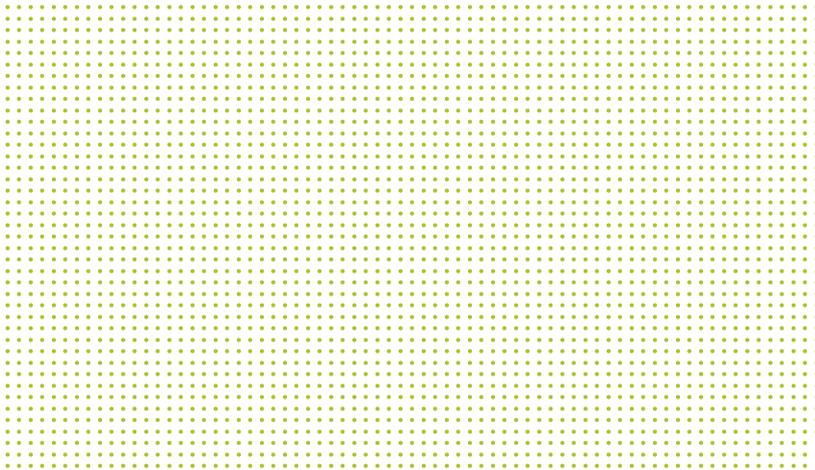
**Internal Audit monitors decision-making process in all areas of NLB Group, reviews key risks in its operations, advises management at all levels, and deepens understanding of the Bank's operations. Furthermore, it provides independent and impartial assurances regarding the management of key risks,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

Internal Audit is an independent, objective, and advisory control body responsible for a systematic and professional assessment of the effectiveness of risk management procedures, completeness and functionality of internal control systems, and the management of the Group operations on an ongoing basis. Internal Audit reports to the Management Board and directly to the Supervisory Board. It provides impartial assurance to the Management Board and the Supervisory Board that risks in key areas of the Bank i.e. risk management, lending, restructuring and NPL, IT and IT security, divestment of non-core activities, compliance, corporate governance, and others are managed properly. The best practice examples and international guidelines provided by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), Internal Control (IC) and Enterprise Risk Management (ERM) represent the main criteria for the Bank's internal controls system and effective risk management.



24,454

hours were spent in reviews



57

experts worked on 12 internal audit services of the Group



42

planned and extraordinary audit assignments were conducted by Internal Audit of the Bank in 2016



**Active in the entire Group**

Internal Audit performs its tasks and responsibilities based on its own discretion and in compliance with the annual audit plan as approved by the Management Board and confirmed by the Supervisory Board. Based on its internal methodology and comprehensive risk analysis plan for 2016 intended 40 audit reviews, out of which 36 were conducted. The number also includes a quality review of Internal Audit function in all six banking members of the Group. Furthermore, six extraordinary audits were conducted, mainly on the request by the regulator and the Management Board of the Bank.

**Implementation of uniform rules**

In its activities Internal Audit puts a lot of focus on monitoring the implementation of the audit recommendations; updating the internal audit manual, training, and education; advising management; and ensuring high quality and professional operations of the internal audit function within the Group. Internal audit also introduces uniform rules of operation of the internal audit function and regularly monitors the compliance with these rules within the Group.

**The highest standards were followed**

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

- International Standards for the Professional Practice of Internal Auditing
- Banking Act or other relevant law which regulates the operations of a Group member
- Code of Ethics of Internal Auditors and
- Code of Internal Auditing Principles.

Chapter 6.3:

# Compliance and Integrity

**A key element for long-term success is to follow reasonably set rules and agreed values. Therefore, the Group is strengthening the compliance function and diligence of its operations. This is a commitment of all employees of the Group.**

The Bank is constantly building, strengthening, and supporting a culture of compliance and diligence. Banking is a highly regulated industry, which makes the business operations more and more demanding. An institution can cope with this challenge with a systemic approach toward compliance risk mitigation. It is important to ensure that employees and decision-makers know and understand the purpose and goals of regulations. Systematically monitoring the legal and regulatory environment and evaluating its effects on the Bank has therefore become a significant part of everyday life and work. One of the most important tasks in this area in 2016 was further successful alignment of the Bank to a new law on banking which was adopted in 2015, as well as to other applicable regulations. To ensure sound information flow and issue addressing, Compliance function is reporting to the Management Board and to the Supervisory Board of the bank.

The Bank complies with national regulations on Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF), including the Guidelines of the BoS. The RoS is a member of EU and thus subject to the standards of the Financial Action Task Force (FATF) and the European legislation based on them, i.e. the fourth EU directive in the area of Money Laundering and Terrorist Financing Prevention (MLTFP).<sup>6</sup> Pursuant to the Slovenian MLTFP Act, the bank is obliged to ensure that its branches and majority-owned subsidiaries with head offices in third countries apply the same measures. The Group members must fully comply with the Slovenian legislation on MLTFP (the basis for establishing compliance in the Group are Minimum Standards for Compliance and Integrity). The coordination of the implementation of the MLTFP system in the Group also includes the oversight and review of the MLTFP system.

Every strong compliance programme reaches beyond pure regulatory issues and deals also with ethics and integrity within the organisation. Such a programme encourages the employees and other stakeholders to business behaviour that is aligned with a strong positive organisational culture. The new compliance policy, which was adopted in 2016, is based on the framework of internationally recognised standards of compliance management.

There is a great emphasis on prevention, namely preventing the harmful conducts and incidents in the Bank. In 2016 employees of all levels were informed and trained on non-acceptance of violations of rules and other obligations. Periodically, Compliance and Integrity distributed news

about issues of compliance, be it from a regulatory perspective or about ethics and integrity and prepared workshops and mandatory e-trainings about business ethics, prevention of corruption, personal data protection, and other relevant topics connected to everyday work. Special attention is dedicated to advisory support for employees who have dilemmas about issues from the compliance field – mainly connected to regulatory questions, conflict of interests, acceptance of gifts, etc. Compliance and Integrity dedicated over 1,000 working hours for advisory support to employees in 2016.

An anonymous reporting line for whistle blowers has been established and an internal investigation process is in place and running.

A new methodology and process for assessing enterprise compliance risks were developed. The assessment is enabling the Bank to continuously reduce the compliance risks with already prepared mitigation measures. The same procedure for enterprise compliance risk assessment is being used for other members of the Group with a goal to identify, assess, and mitigate compliance risks on the Group level.

<sup>6</sup> Directive (EU) 2015/849 of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

### **The new compliance policy, which was adopted in 2016, is based on the framework of internationally recognised standards of compliance management.**

In 2016 the BoS closed the order from 2013 under which the Bank had to review and assess the reasons for past losses. The Bank has successfully fulfilled the task and implemented a variety of improvements in the system and organisation of the Bank, including the ones that are eliminating shortcomings identified in the systematic review of NPL. By completing this chapter of the past, the Bank is able to be fully committed to the future.



Posvećeni

Посветени

Predani

Committed

Chapter 7

Посвећени

Të Përkushtuar

Posvećeni

Posvećeni

Chapter 7.1:

# Overview of NLB Group's Financial Performance 2016

## Income statement

The net profit for 2016 was EUR 110.0 million, which is 20% higher than 2015. The Bank contributed EUR 65.6 million, other strategic Group banks EUR 57.7 million, while non-core members contributed negatively, but with lower loss compared to the previous year.

This result is based on the following key drivers:

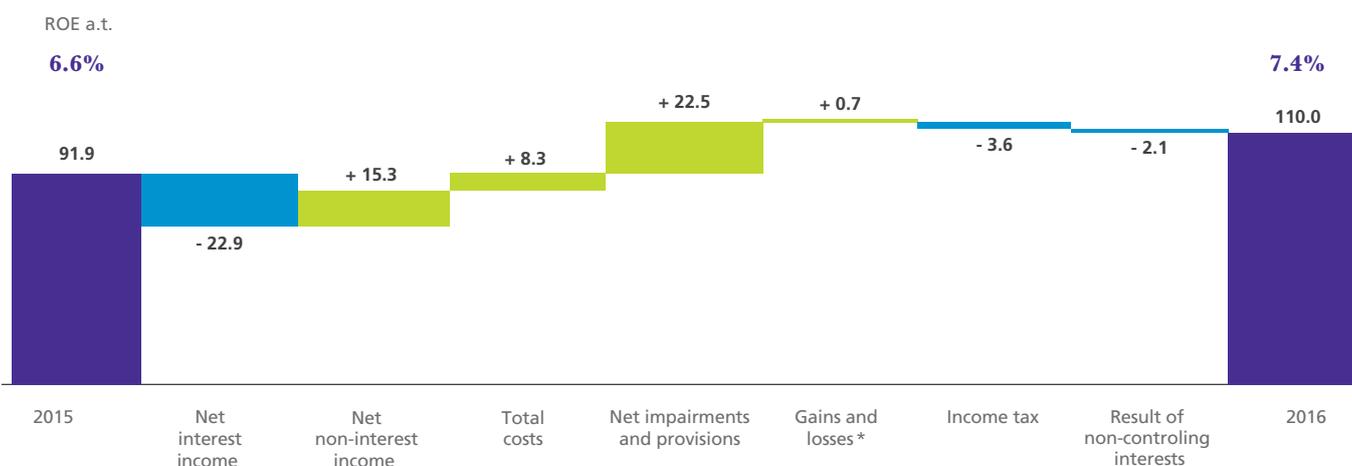
- Solid performance in key business areas with very positive profit evolution, especially in foreign strategic subsidiaries, and solid recovery in loan demand in all key business areas resulting in 8% asset growth YoY over all key business segments (retail/corporate Slovenia, foreign strategic markets)
- A successful cost-reduction process with substantial savings achieved specifically in general and administrative expenses (-7% YoY)
- A very solid performance in the cost of risk, being substantially lower than last year although fully accommodating the effects of the non-performing portfolio sale
- Resilient fee and commission income and positive results from asset disposals (Visa shares, Trimo).

Table 18: Income statement of NLB Group and NLB

in EUR million

	NLB Group			NLB d.d.		
	2016	2015	Change YoY	2016	2015	Change YoY
Net interest income	317.3	340.2	-7%	174.9	208.0	-16%
Net fee and commission income	145.7	147.1	-1%	95.3	98.1	-3%
Dividend income	1.2	1.3	-8%	1.1	1.3	-9%
Net income from financial transactions	19.9	3.8	417%	13.3	8.9	50%
Net other income	-8.3	-9.1	-8%	-0.9	-2.9	-70%
Net non-interest income	158.4	143.2	11%	108.8	105.3	3%
<b>Total net operating income</b>	<b>475.7</b>	<b>483.4</b>	<b>-2%</b>	<b>283.7</b>	<b>313.3</b>	<b>-9%</b>
Employee costs	-165.4	-163.2	1%	-103.2	-101.8	1%
Other general and administrative expenses	-95.8	-102.8	-7%	-58.9	-64.0	-8%
Depreciation and amortisation	-28.3	-31.9	-11%	-18.9	-21.4	-12%
<b>Total costs</b>	<b>-289.5</b>	<b>-297.8</b>	<b>-3%</b>	<b>-181.0</b>	<b>-187.2</b>	<b>-3%</b>
<b>Result before impairments and provisions</b>	<b>186.2</b>	<b>185.6</b>	<b>0%</b>	<b>102.7</b>	<b>126.1</b>	<b>-18%</b>
Impairments of AFS and HTM financial assets	-0.3	-4.7	-94%	-0.3	-2.6	-89%
Credit impairments and provisions	-26.1	-50.9	-49%	-15.2	-28.1	-46%
Investments in ass.&JV - using the equity method	-12.3	-	-	-37.6	-50.3	-25%
Other impairments and provisions	-22.0	-27.6	-20%	-10.8	-7.0	55%
<b>Impairments and provisions</b>	<b>-60.6</b>	<b>-83.1</b>	<b>-27%</b>	<b>-64.0</b>	<b>-88.0</b>	<b>-27%</b>
Gains less losses from capital investments in subsidiaries, associates and joint ventures <sup>1</sup>	5.0	4.3	16%	28.9	13.7	110%
<b>Profit before income tax</b>	<b>130.6</b>	<b>106.8</b>	<b>22%</b>	<b>67.7</b>	<b>51.8</b>	<b>31%</b>
Income tax	-15.0	-11.4	32%	-3.9	-8.0	-51%
Result of non-controlling interests	5.6	3.5	62%	0.0	0.0	-
<b>Profit for the period</b>	<b>110.0</b>	<b>91.9</b>	<b>20%</b>	<b>63.8</b>	<b>43.9</b>	<b>45%</b>

Note: <sup>1</sup> NLB d.d. includes dividends from subsidiaries, associates and joint ventures



Note: \* Gains less losses from capital investments in subsidiaries, associates and joint ventures

Figure 48: Profit after tax of NLB Group – evolution YoY (in EUR million)

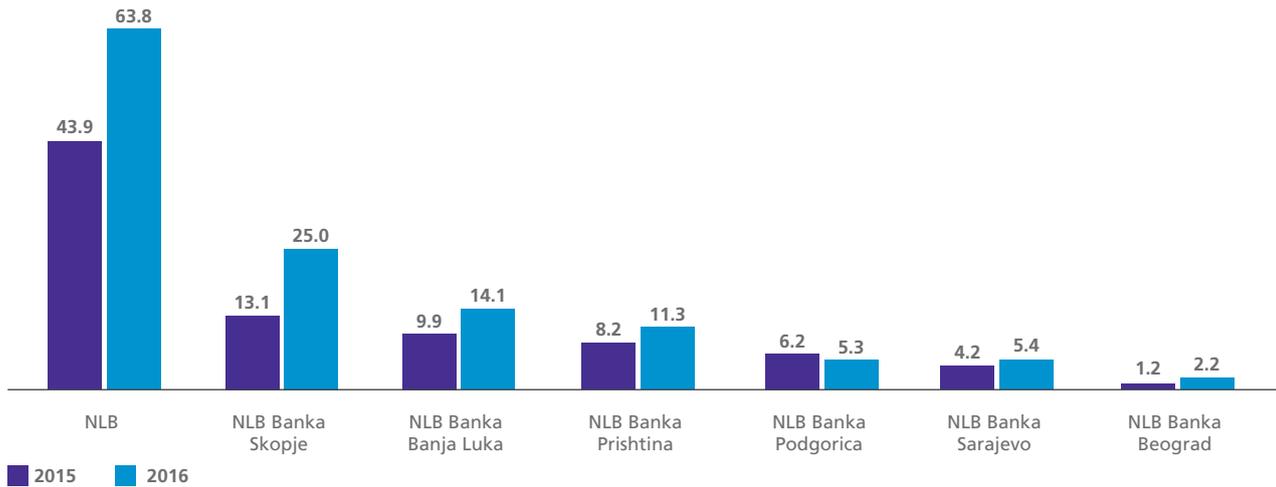


Figure 49: Profit after tax of the NLB Group banks (on a stand alone basis) - evolution YoY (in EUR million)

Most of the banks in the Group increased their profit after tax compared to 2015 in spite of an unfavourable market situation with an extremely low and partially negative interest rate environment, a high level of excess liquidity, and fierce competition for good investment projects.

The result of the Bank increased by 45% compared to 2015, and includes dividends from core subsidiaries, associates, and joint ventures in the amount of EUR 28.7 million. In August 2016, the Bank paid a dividend of EUR 43.9 million to owner, the first time since 2009.

Profit before impairments and provisions of the Group totalled to EUR 186.2 million, which is EUR 0.7 million higher than 2015.

Non-recurring results turned out to be EUR 19.9 million higher YoY, of which EUR 9.4 million is attributable to non-recurring effects in 2016. The Bank divested a non-core equity stake (Trimo) at a profit of EUR 5.5 million (comprising of a realised gain on equity investment and fee received as a financial consultant for the bank syndicate), Visa shares at a profit of EUR 7.8 million, and recognised a restructuring charge of EUR 3.8 million.

The recurring results were mainly influenced by a solid improvement in costs (-3% YoY) and strong dynamics in the composition of interest income:

- The stable performance in interest income in key business activities at EUR 243.0 million (2015: EUR 244.4 million) – strong growth in strategic foreign markets (+9.4% YoY to EUR 136.9 million) offset by lower interest income due to higher margin pressure in Slovenia, espe-

cially in the corporate segment (-14.0% YoY) with more stable results in retail (-6.5% YoY normalised by the impact of the non-performing portfolio sale), where high growth of new loans in last quarter of 2016 was recorded and

- The rapid decline in interest income from financial markets (mostly invested in medium-term investment grade securities) and the expiry of higher yielding bonds received by the BAMC in 2013.

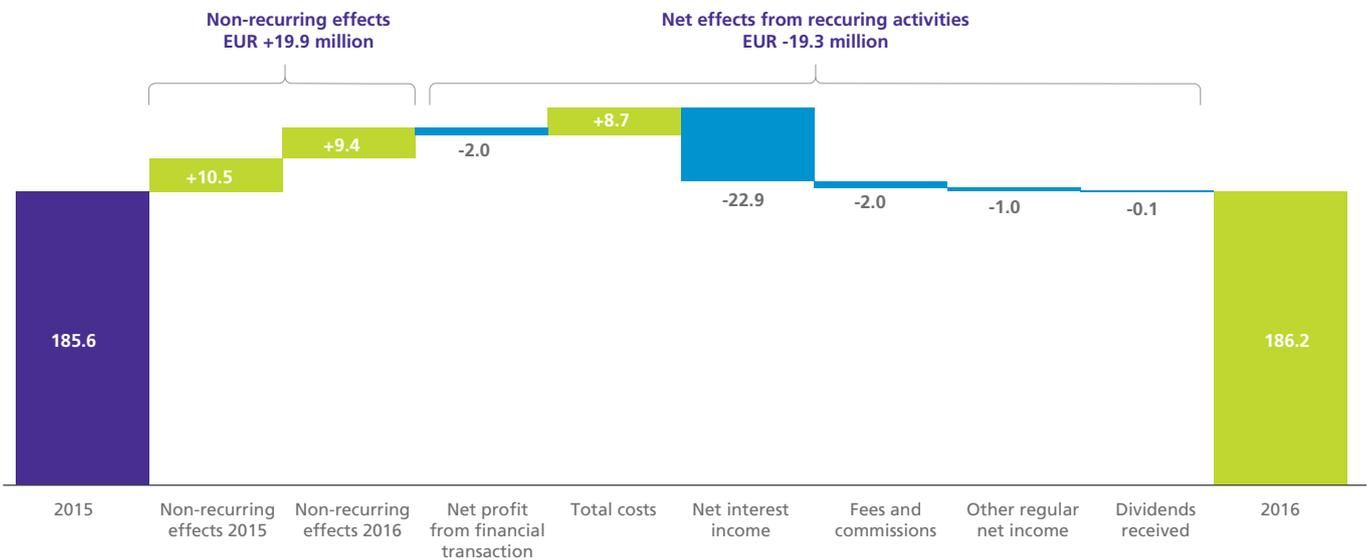


Figure 50: Profit before impairments and provisions of NLB Group – evolution YoY (in EUR million)

**Net interest income**

Net interest income of the Group accounted for 66.8% of the Group’s total net revenues, decreasing by 6.7% YoY to EUR 317.3 million, mostly due to falling interest income in Slovenia – especially in the financial markets segments given the historically low yield environment. The Group continued with the very active management of its interest expenses, repaying or repricing some funding lines and continuously adjusting deposit pricing to the prevailing low interest rate environment, thereby substantially reducing interest expenses (-30.9% YoY). As a reaction to the negative deposit rates quoted by the ECB, the NLB partially introduced asset management fees for larger deposits placed by corporates in Slovenia.

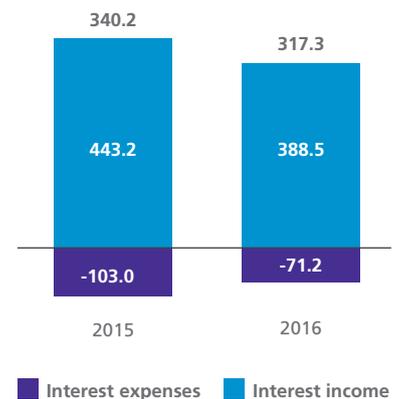


Figure 51: Net interest income of NLB Group (in EUR million)



**Figure 52: Net interest income of NLB Group by segments (in EUR million)**

Net interest income in key business activities remained very stable overall, with the higher pressure from business in Slovenia being offset by the higher growth in Strategic Foreign Markets.

Net interest income in financial markets decreased predominantly due to the continuous reinvestment of the securities portfolio at lower yields, and the expiry of higher yielding securities received from the BAMC (EUR 300 million expiring already in 2015, EUR 300 million expiring at the end of 2016).

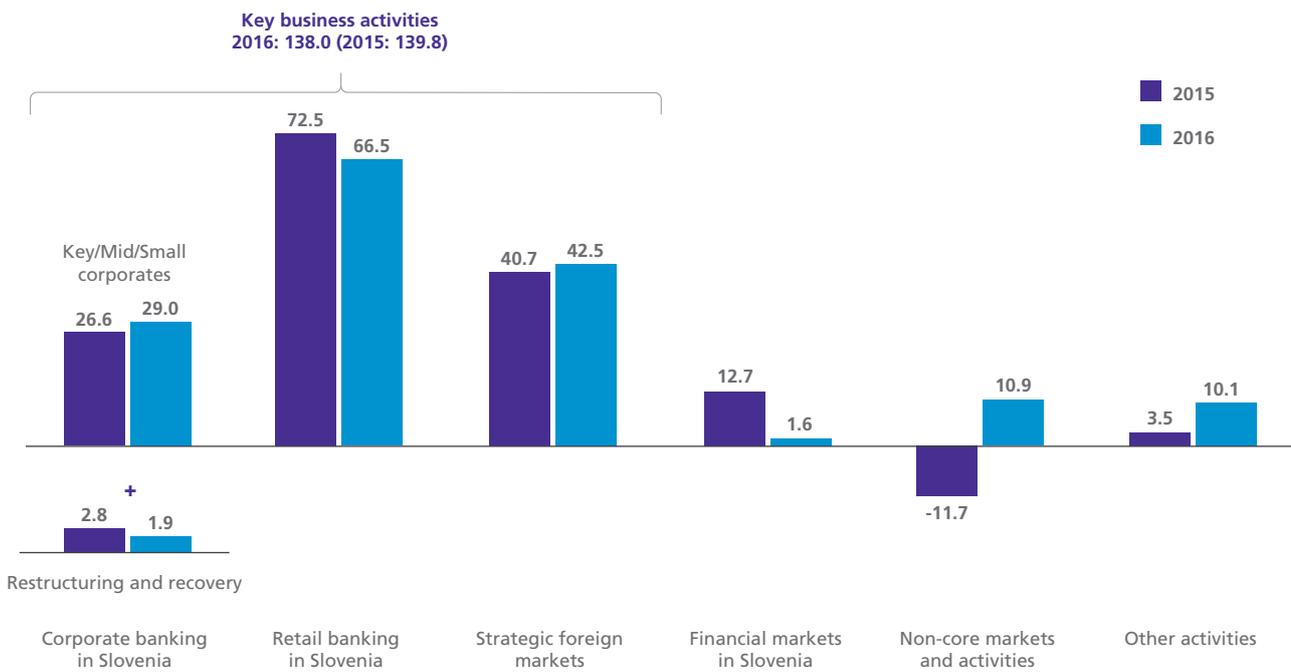
In line with the strategy of the Group, non-core markets and activities decreased and consequently net interest income was lower.

#### Non interest income

Net non-interest income of the Group was EUR 15.3 million higher than 2015 at the level of EUR 158.4 million (2015: EUR 143.2 million), primarily due to the positive non-recurring effects from asset disposals in 2016 (Visa, Trimco), while the negative non-recurring effects incurred in 2015.

The net non-interest income of Key business activities continues to be resilient in both Slovenia and in strategic foreign markets. Some decline was noted in retail banking in Slovenia, largely explained by the new regulation on card pricing.

Net non-interest income in financial markets in Slovenia was EUR 11.1 million lower as the 2015 result included profits from the non-recurring event of selling RoS bonds (EUR 5.2 million), while the 2016 result includes the negative effects in the amount of EUR 3.0 million from the prepayment of wholesale funding.



**Figure 53: Net non-interest income by segments of NLB Group (in EUR million)**

Non-core markets and activities in 2016 include the positive non-recurring income from the sale of non-strategic equity investments, while in 2015 the result was burdened by the non-recurring FX charge.

The other activities segment includes income from non-bank services for external customers (EUR 8.8 million), the non-recurring income from the VISA EU share transaction (EUR 7.8 million), and payments to the SRF and the DGS in the amount of EUR 8.5 million, as well as restructuring charges recognised in the Bank (2016: EUR 3.8 million).

**Net fees and commissions**

The most important source of net non-interest income is net fees and commissions, which remained very resilient at the level of EUR 145.7 million (2015: EUR 147.1 million) with the Group making increased efforts to grow its ancillary revenue base with fee-based products such as insurance and asset management. Some decline in cards and ATM operations was notably due to the negative effects of the EU Directive in the area of card operations (MiFiD).

**Lower operating costs**

Costs continue to be a focus of management attention. Costs declined overall by 3% YoY in 2016. Special attention was given in 2016 to general and administrative expenses with substantial savings achieved (-7% or EUR 7.0 million YoY). The cost-reduction trend is present in most members of the Group, especially the non-strategic ones.

Employee costs were higher mainly due to the reintroduced payment of supplementary pension insurance for employees, the higher holiday allowance paid in the Bank, and one-off costs incurred with HR redundancies in NLB Banka Beograd in a total amount of EUR 0.9 million. The Group also created provisions totalling EUR 10.6 million in anticipation of future HR redundancies envisaged in Slovenia (shown in Other Provisions in the Financial Statement).

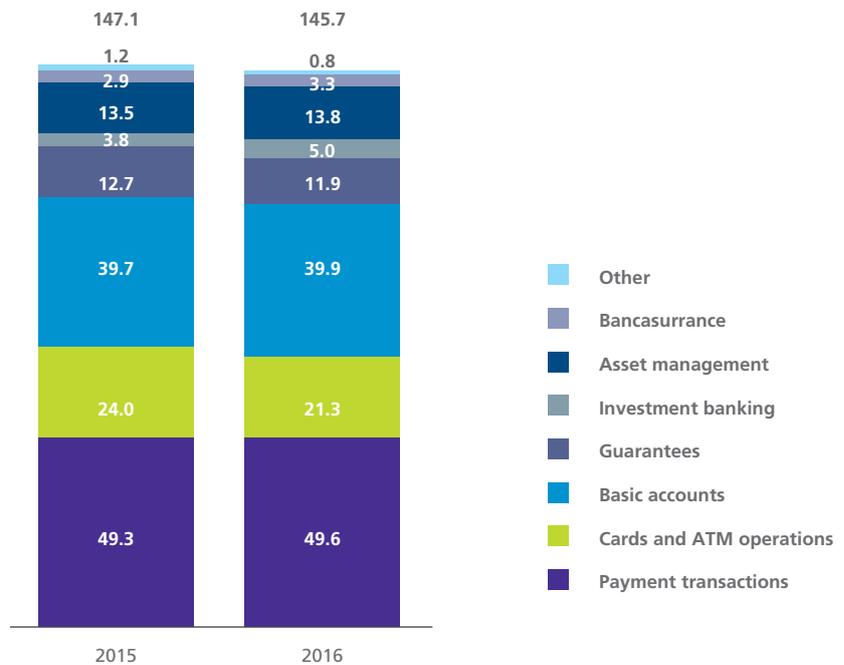


Figure 54: Structure of net fees and commissions of NLB Group (in EUR million)

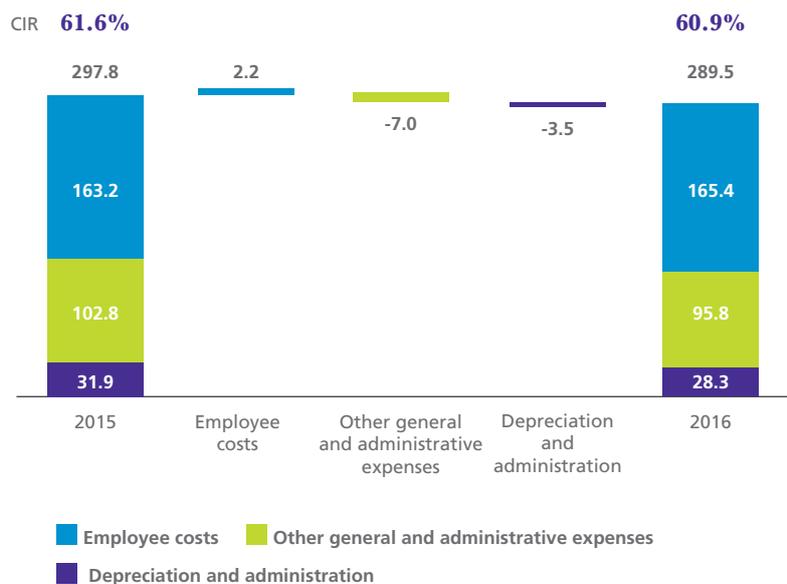


Figure 55: Total costs of NLB Group – evolution YoY (in EUR million)

CIR **61.6%**

**60.9%**

As a result, the CIR amounted to 60.9%, namely a slight improvement (0.8 percentage point) compared to 2015.

Going forward, NLB Group will aim to significantly improve operational efficiency by focusing on the transition to STP processing via online channels with the consequent further rationalisation of the traditional network, employee, and other general and administrative costs, while ensuring a reduction of the remaining non-core cost base in an accelerated manner:

**Low net impairments and provisions**

Net impairments and provisions amounted to EUR 60.6 million, which is 27% less than in 2015 due to the improvement in the quality of the credit portfolio’s structure, the positive effects from the successful restructuring, and the resolution of non-performing receivables. Accordingly, the net cost of risk decreased from 75 basis points to 38 basis points despite the additional impairments related to the non-performing portfolio sale in the amount of EUR 25.8 million.

Other impairments and provisions were established in a net amount of EUR 22.0 million, of which most material were HR provisions (EUR 10.6 million) and impairments of real-estate assets (EUR 3.3 million).

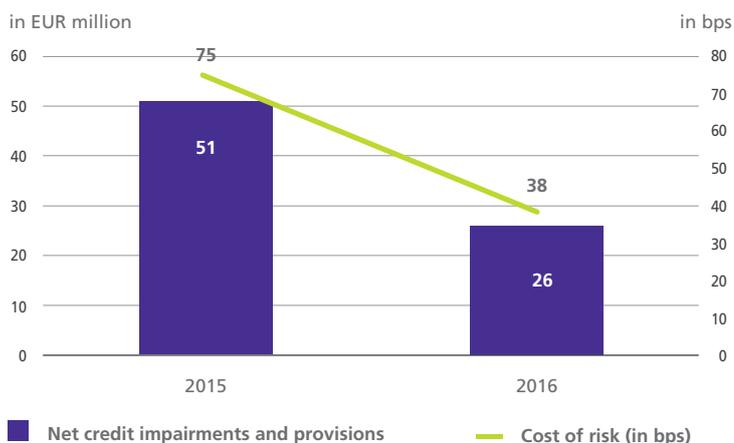


Figure 56: NLB Group credit impairments and provisions, costs of risk (in bps)

## Statement of financial position

Table 19: Statement of financial position of NLB Group and NLB

in EUR million

	NLB Group			NLB d.d.		
	31 Dec 2016	31 Dec 2015	Change	31 Dec 2016	31 Dec 2015	Change
Cash, cash balances at central banks and other demand deposits at banks	1,299.0	1,162.0	12%	617.0	496.8	24%
Loans to banks	435.5	431.8	1%	408.1	345.2	18%
Loans to customers	6,997.4	7,088.2	-1%	4,928.9	5,220.7	-6%
Gross loans	7,900.8	8,351.0	-5%	5,433.7	5,915.4	-8%
- corporate	3,917.4	4,282.3	-9%	2,769.1	3,063.0	-10%
- individuals	3,190.7	3,050.8	5%	1,990.2	1,957.9	2%
- state	792.7	708.3	12%	674.4	585.0	15%
- BAMC bonds	-	309.6	-100%	-	309.6	-100%
Impairments	-903.4	-1,262.8	-28%	-504.7	-694.7	-27%
Financial assets	2,778.0	2,577.7	8%	2,295.2	2,086.7	10%
- Held for trading	87.7	267.4	-67%	87.7	267.9	-67%
- Available-for-sale, held to maturity and designated at fair value through income statement	2,690.3	2,310.3	16%	2,207.6	1,818.8	21%
Investments in subsidiaries, associates and joint ventures	43.2	39.7	9%	346.7	353.1	-2%
Property and equipment, investment property	280.5	301.2	-7%	98.6	103.2	-4%
Intangible assets	34.0	39.3	-14%	23.3	29.6	-21%
Other assets	171.4	181.7	-6%	60.0	71.5	-16%
<b>Total assets</b>	<b>12,039.0</b>	<b>11,821.6</b>	<b>2%</b>	<b>8,778.0</b>	<b>8,706.8</b>	<b>1%</b>
Deposits from customers	9,439.2	9,025.6	5%	6,617.4	6,298.3	5%
- corporate	2,182.6	2,168.5	1%	1,442.3	1,416.0	2%
- individuals	6,905.1	6,493.5	6%	4,943.5	4,630.1	7%
- state	351.5	363.6	-3%	231.7	252.1	-8%
Deposits from banks and central banks	42.3	58.0	-27%	75.0	96.7	-22%
Debt securities in issue	277.7	305.0	-9%	277.7	305.0	-9%
Borrowings	455.4	671.3	-32%	342.7	536.1	-36%
Other liabilities	271.6	284.1	-4%	200.3	228.6	-12%
Subordinated liabilities	27.1	27.3	-1%	-	-	-
Equity	1,495.3	1,422.8	5%	1,264.8	1,242.2	2%
Non-controlling interests	30.3	27.6	10%	-	-	-
<b>Total liabilities and equity</b>	<b>12,039.0</b>	<b>11,821.6</b>	<b>2%</b>	<b>8,778.0</b>	<b>8,706.8</b>	<b>1%</b>

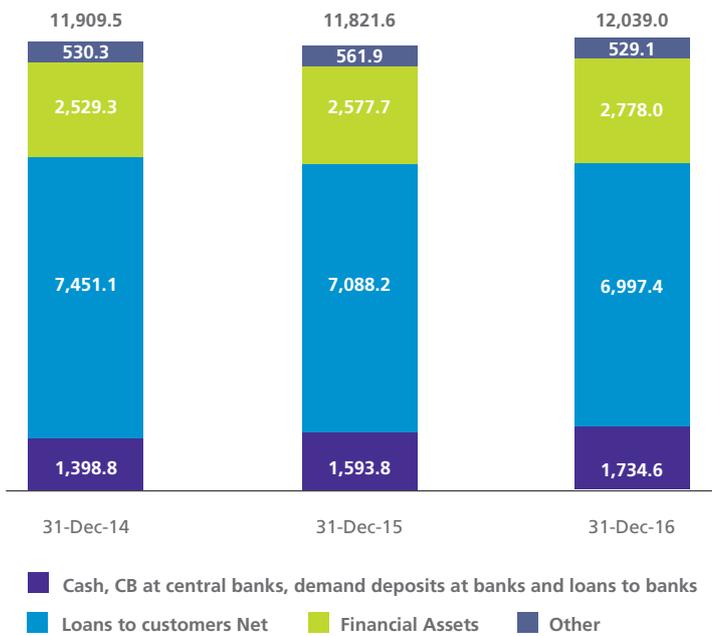


Figure 57: Total assets of NLB Group – structure (in EUR million)

Total assets increased by EUR 217.4 million in 2016 due to excess liquidity in all core markets and the continued inflow of deposits. In Slovenia the Bank benefits from a particularly strong deposit franchise with a market share in excess of our market share on total assets.

Gross loans in Key business activities increased by EUR 483.5 million, or 7.7% compared to the end of 2015. Very strong volume growth was shown in the corporate segment in Slovenia with an increase of EUR 302.3 million (+15.3% YoY), followed by growth in strategic foreign markets (+EUR 148.2 million or 6.4%). This represents a very solid basis for the future evolution of the core performing client portfolios.

Loans to Retail clients in Slovenia rose by EUR 33.1 million, normalised by the effects of the non-performing portfolio sale the increase would have been EUR 87.4 million (+4.2% YoY) in line with the market evolution a noticeable pickup in activities in the housing loans segment.

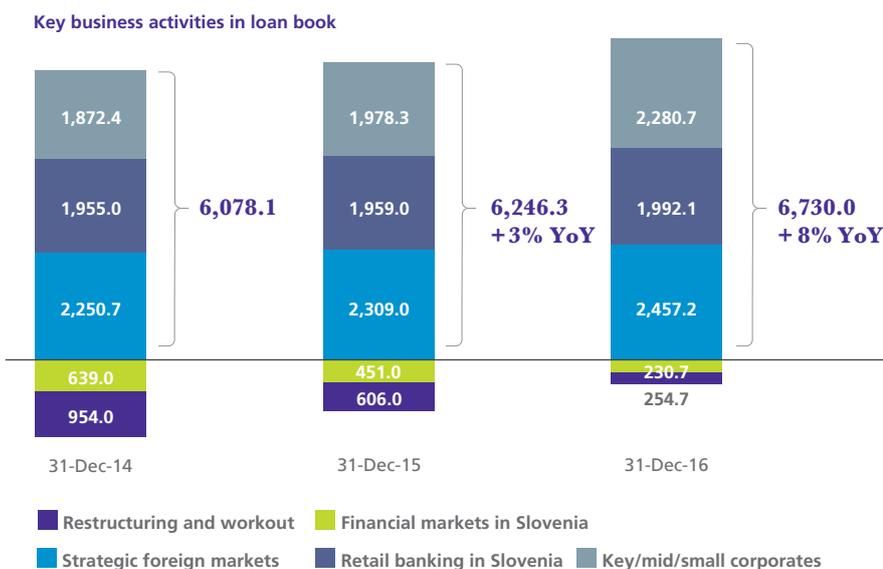


Figure 58: NLB Group gross loans to customers by core segments (in EUR million)



Figure 59: Group gross loans to customers by non-core segment (in EUR million)

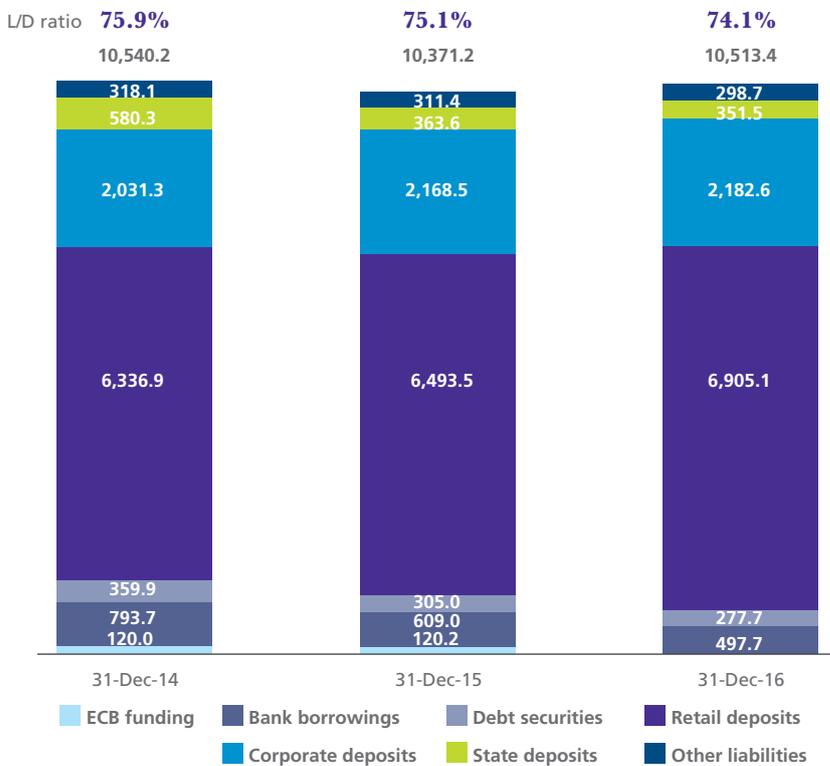


Figure 60: Total liabilities of NLB Group – structure (in EUR million)

Thanks to the continuous efforts to wind down non-core exposures with a dedicated taskforce, gross loan volumes continued to decline to the level of EUR 675.9 million (-34.9% YoY), now representing 8.5% of total gross loans outstanding.

The non-core segment assets continued to decline substantially to a level of EUR 503 million (2015: EUR 755 million, -33% YoY).

Total liabilities increased to EUR 10,513.4 million, chiefly due to an increase in customer deposits.

Deposits from customers rose, accounting for 90% of the total funding of the Group. The retail segment deposits were 6% higher, the corporate ones remained stable, while government deposits decreased. Given the negative ECB deposit rate, the Bank introduced a fee on larger corporate deposits, with the threshold being adjusted gradually.

At the end of December 2016, the LTD (net) was 74% on the Group level, having decreased by 1.0 percentage point compared to the end of December 2015. The Group thus shows a robust self-funding capacity, also supporting the planned growth predominantly in retail lending.

## Capital and Capital Adequacy

Currently applicable legislation prescribes three capital ratios which express different levels of capital quality:

- CET 1 ratio (between CET 1 capital and RWA), which must be at least 4.5%;
- Tier 1 ratio (between Tier 1 capital and RWA), which must be at least 6%;
- Total Capital Ratio (between Total capital and RWA), which must be at least 8%.

In addition to the aforementioned ratios, the Bank must meet other requirements that are being imposed by the supervisory institutions or by the legislation:

- Pillar 2 (or SREP Process) requirements: bank specific, obligatory requirements;
- Capital buffers: system of buffers to be added on top of capital adequacy requirement – not obligatory, however breaching of the buffers triggers limitations in payment of dividends and other distributions from capital. Some of the buffers are prescribed by law for all banks and some of them are bank specific (for the Group, other systemically important institutions buffer (O-SII buffer) of 1% is prescribed as of 2019);
- Pillar 2 Guidance: bank specific, not obligatory, and not affecting dividends or other distributions from capital.

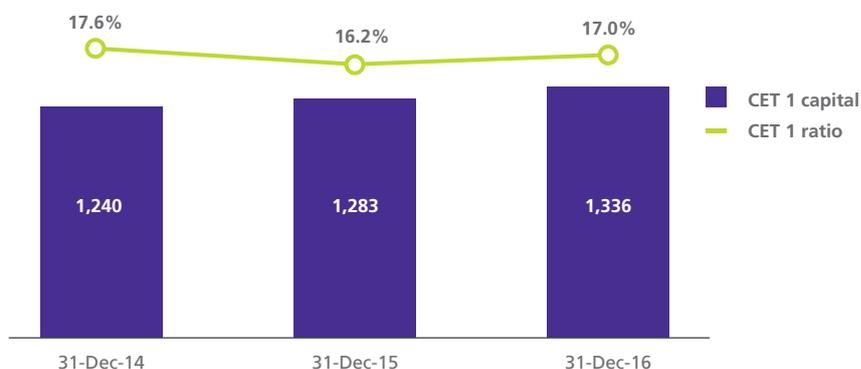


Figure 61: NLB Group CET 1 capital (in EUR million) and CET 1 ratio (in %)

At the end of 2016, the total requirement regarding CET 1 capital amounted to 12.75% RWA on a consolidated basis. It consisted of the following requirements:

- SREP requirement of 12.75% RWA (including Pillar 1 requirement, Pillar 2 requirement and – in line with then applicable SREP methodology – also the capital conservation buffer of 0.625% RWA); and
- Combined buffer requirement of 0% RWA; as the O-SII buffer is not yet in force, it consisted only of: Countercyclical buffer: 0% RWA.

In 2017, a total capital ratio of 12.75% RWA is required on consolidated basis, consisting of:

- SREP requirement of 11.50% RWA (including Pillar 1 and Pillar 2 requirements); and
- Combined buffer requirement estimated at 1.25% RWA; as the O-SII buffer is not yet in force, it consists of:

- Capital conservation buffer: 1.25% RWA, and
- Countercyclical buffer: estimated to 0% RWA.

The Group capital is currently exclusively comprised of CET 1 capital, i.e. capital of the highest quality, therefore all three capital ratios (CET 1 ratio, Tier1 ratio, and Total capital ratio) are the same.

At the end of 2016, the three capital adequacy ratios for the Group stood at 17.0% (or 0.8 percentage point higher than at the end of 2015) and for the Bank at 23.4% (or 0.8 percentage point higher than at the end of 2015). The improvement of the Group's capital adequacy derives mainly from retained earnings and to a lesser degree from drop in RWA.

The capital adequacy of the Group remains at a level which covers all current and announced regulatory capital requirements, including capital buffers and other currently known requirements.

Chapter 7.2:

# Corporate Governance

## **The General Assembly of the Bank**

The shareholders exercise their rights related to the Bank's affairs at General Assembly of the Bank. The 100% shareholder of the Bank is the Republic of Slovenia, which is represented at the General Assembly by the Slovenian Sovereign Holding (SSH).

The Bank's General Assembly adopts decisions in compliance with the legislation and the Bank's Articles of Association. The authorisations 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 other: adopting and amending the Articles of Association, the use of distributable profit, granting of a discharge from liability to the Management and Supervisory Board, changes in the

Bank's share capital, appointing and discharging members of the Supervisory Board, remuneration and profit-sharing by members of the Supervisory and Management Boards and the employees, annual schedules and characteristics of the issues of securities convertible to shares, and equity securities of the Bank.

On 10 February 2016 the 26th General Assembly of the Bank was held, where rights of the Republic of Slovenia as the only shareholder of the Bank were represented by SSH. The General Assembly adopted amendments to the Articles of Association of the Bank. Significant changes included an increase in the number of Supervisory Board members from seven to nine.

**The 100% shareholder of the Bank is the Republic of Slovenia, which is represented at the General Assembly by the Slovenian Sovereign Holding (SSH).**

At the 27th General Meeting dated 4 August 2016 the General Assembly acknowledged the Annual Report 2015 and decided on profit distribution for the year 2015 in the amount of EUR 43.9 million, which was allocated to the sole shareholder of the Bank (EUR 2.194 per share). The General Assembly also confirmed the election of four new members of the Supervisory Board after four of the previous members of the Supervisory Board handed in their resignations. With this action Supervisory Board of the Bank was complete.

**Corporate Governance of the Group**

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

The roles, authorisations, and responsibilities of individual bodies and organisational units, as well as the ensuring of their coordinated operations to achieve the set business goals are stipulated comprehensively in the Corporate Governance Policy of the Group. In the Bank, these tasks are the responsibility of Core Group Steering Department and Non-strategic Equity Investments Department.

The Group is governed:

a) In accordance with fundamental corporate rules through various bodies of the Group members:

- by voting at general meetings of the Group members
- with proposals for appointing the managements of the Group members
- with proposals for appointing representatives of the Bank to supervisory bodies
- by exercising supervision through the supervisory bodies of the Group members
- through participation of representatives of the Bank in various committees and commissions of the Group members;

b) By mechanisms providing efficient business control in all business lines, harmonisation of the operating standards, and exchange of information between the Group members according to the Business Line principle;

c) By additional supervision of the Group members by Internal Audit of the Bank and Compliance and Integrity of the Bank, as well as external supervisors (e.g. the ECB, the Bank of Slovenia, external auditors, and local regulators).

In recent years the concept of corporate governance of the Group was upgraded and the role of members of the Management Board of the Bank and management of the Group members strengthened. The target composition of supervisory bodies in the Group members was established, the functioning of the supervisory bodies optimized, and the reporting and standards related to the harmonisation of operations simplified. In line with strategic aspirations, the concept

of ‘country managers’ was introduced in 2016 with the main goal to support and steer the members, as well as to be a strong link between members and the Bank and to facilitate best practice sharing on different levels. Currently, one country manager is covering Serbia and Montenegro, another covers both entities in Bosnia and Herzegovina.

Competences of the management bodies, the Articles of Association, and other data related to corporate governance is available on the following site: <https://www.nlb.si/corporate-governance>.

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

## Supervisory Board

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

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

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

The Supervisory Board of the Bank held its 31st regular meeting on 19 February 2016.

The Supervisory Board members elected Janko Gedrih as their Chairman and Sergeja Slapničar, Ph.D. as his Deputy.

On 15 April 2016, the Bank's Supervisory Board acknowledged the resignation statements of the president and two members of the Supervisory Board: Janko Gedrih, Anton Macuh, and Anton Ribnikar, and agreed to a shorter notice period entering into force on the same day.

Pursuant to the Bank's Articles of Association, the Supervisory Board then appointed Primož Karpe as the new chairman, and elected members of committees of the Supervisory Board and committee's chairmen and their deputies. The Supervisory Board at the time had six members (Primož Karpe – Chairman, Sergeja Slapničar, Ph.D. – Deputy Chairwoman, Tit A. Erker, Uroš Ivanc, Andreas Kligen, and László Urbán, Ph.D. (members)). In August 2016 Tit A. Erker offered his resignation from post. The Supervisory Board of the Bank acknowledged his resignation statement on the session dated 3 August 2016, and agreed with his proposal to discontinue the function as member of the Supervisory Board of the Bank entering into force on the same day.

As already mentioned in the section of the General Meeting of the Bank at the 27th General Meeting dated 4 August 2016, four new members of the Supervisory Board were elected. Therefore, from the mentioned date the composition of the Supervisory Board is as follows: Primož Karpe – Chairman; Sergeja Slapničar,

Ph.D. – Deputy Chairwoman; Uroš Ivanc; Andreas Kligen; László Urbán, Ph.D.; David Eric Simon; David Kastelic; Matjaž Titan; and Alexander Bayr (members).

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

**The highest objectives include solid operations and following of strategic guidelines, as well as the trust of the owners and business partners in the functioning of the Bank.**

**Primož Karpe****Chairman of the Supervisory Board**

Term of office: 2016 to 2020

**Education:**

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

**Career:**

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

**Other important positions and achievements:**

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

**Membership in the Supervisory****Board committees:**

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

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

- Angler d.o.o. – Director.

**Sergeja Slapničar, Ph.D.****Deputy Chairwoman of the Supervisory Board**

Term of office: 2013–2017

**Education:**

- Ph.D. 2001 (Faculty of Economics, University of Ljubljana)
- Further training during her master's, doctoral, and postdoctoral studies at the University of Bristol, University of Glasgow, and the London School of Economics
- Master of Science in management and organisation (MScBA) in 1998

**Career:**

- Associate Professor of Accounting and Auditing at the Faculty of Economics of the University of Ljubljana
- Coordinator of postgraduate Studies of Accounting and Auditing
- Chairwoman of the Academic Unit for Accounting and Auditing (2007-2013)

**Other important functions****and achievements:**

- She published a number of papers in renowned international scientific journals on the effect of performance measurement and remuneration of managers on their decision-making;
- A member of the European and American Academic Accounting Associations, and Society for Neuroeconomics
- Was a member of the Supervisory Board of Krka d.d. between 2010 and 2015,
- A member of the Council of the Agency for Public Oversight of Auditing from 2008 to 2010, and since 2007 she has been the chairwoman of the settlement committee for disputes between minority

and majority shareholders at squeeze-outs and delisting

- She trains executives at the Business Excellence Centre of the Faculty of Economics, the Slovenian Directors' Association, the Bank Association, and the SIQ

**Membership in the Supervisory****Board committees:**

- Audit Committee (Chairwoman),
- Risk Committee (Member)

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

- Asperia d.o.o., Lesce (Director).

**Alexander Bayr****Member of the Supervisory Board**

Term of office: 2016–2020

**Education:**

- Faculty of Economics in Innsbruck (1985)

**Career:**

- Director of Corporates and Real Estate, BAWAG, Vienna (since 2013)
- CEO, BAWAG banka d.d., Ljubljana (2009-2012)
- Real Estate Projects, BAWAGPSK, Vienna (2008-2012)
- Management Board Member, Istrobanka a.s. Bratislava, Slovakia (BAWAG) (2004-2008)
- Management Board Member, Ludova banka a.a., Bratislava, Slovakia (Volksbank) (2000-2004)
- Sales Manager, Ascom Austria (1998-2000)

- Deputy Head of Large Corporates Department, Deutsche Bank, Austria (1997-1998)
- Key Customer Account Manager, Österreichische Volksbanken Ag (1987-1997)
- Sales Manager, Unilever (1985-1987)

**Other important functions****and achievements:**

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

**Membership in the Supervisory****Board committees:**

- Audit Committee (Member)

**Uroš Ivanc****Member of the Supervisory Board**

Term of office: 2013–2017

**Education:**

- Master of Science in management and organisation (MScBA), IMB study programme (Faculty of Economics, University of Ljubljana)
- Since 2004 CFA – Chartered Financial Analyst (CFA Institute)

**Career:**

- Member of the Management Board of Zavarovalnica Triglav d.d. (since July 2014),
- CFO Executive Director for Finance of Zavarovalnica Triglav d.d. (2006-2014 July)
- Director General of Slovenijales d.d. (in 2008; position held temporarily for a period of five months)

- Portfolio manager of the pension fund Triglav Group in the Republic of Serbia (2007-2012)
- started to gain experience in leading positions as head of corporate finance (2004)

**Other important functions and achievements:**

- Member of the Management Board of Triglav INT d.d. and member of the Board of Directors Triglav d.o.o.,
- Since 2005 member of many Supervisory Boards of the companies in the Triglav Group and outside (Triglav Skladi d.o.o.; Lovčen Osiguranje, a.d., Podgorica; Triglav Osiguranje, a.d.o., Beograd; Triglav Osiguruvanje, a.d., Skopje, Skupna pokojninska družba d.d., and others)
- President of the CFA Society of Slovenia

**Membership in the Supervisory**

**Board committees:**

- Remuneration Committee (Chairman)
- Audit Committee (Deputy Chairman)

**Membership in management bodies**

**of related or unrelated companies:**

- Zavarovalnica Triglav d.d., Ljubljana – member of the Management Board;
- Triglav INT, holdinška družba d.d., Ljubljana – member of the Board of Directors;
- Triglav d.o.o. – member of the Board of Directors.

**David Kastelic**

**Member of the Supervisory Board**

Term of office: 2016–2020

**Education:**

- Master of Science at the Faculty of Economics and Business in Maribor (2010)
- Bachelor of Science in Mechanical Engineering at the Faculty of Mechanical Engineering in Maribor (1994)

**Career:**

- President of the Management Board, Zavarovalnica Sava (since 2016)
- President of the Management Board, Zavarovalnica Maribor (2013-2016)
- Member of the Management Board, Zavarovalnica Maribor (2006-2013)
- Executive Director of Property Insurances, Zavarovalnica Maribor (2004-2006)
- Assistant Executive Director, Zavarovalnica Maribor (2002-2004)
- Head of Damages Assessment and Liquidation (PE Maribor), Zavarovalnica Maribor (2000-2002)
- Head of Car Damage, Zavarovalnica Maribor (1998-2000)
- Supervisor of Key Account Managers, Philip Morris Ljubljana (1996-1998)
- Supervisor of Sales Promoters, Philip Morris Ljubljana (1994-1996)
- Sales Promoter, Philip Morris Ljubljana (1993-1994)

**Other important functions and achievements:**

- Member of the Management Board of Sava osiguranje in Serbia and in the same period also a member of the Management Board of Sava Tabak in Macedonia (2007-2012)
- Chairman of the Supervisory Board of Velebit životno osiguranje in Croatia (2007-2008)
- Member of the Council of the Slovenian Insurance Association, a member of the Supervisory Board of the Jedrski pool and Chairman of the Audit Committee of the Jedrski pool (since 2014)
- Honorary Consul of the Republic of Brazil in Slovenia (since 2013)

**Membership in the Supervisory**

**Board committees:**

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

**Membership in management bodies**

**of related or unrelated companies:**

- Jedrski pool, member of the Supervisory Board;
- Zavarovalnica Sava d.d., president of the Management Board.

**Andreas Klingen****Member of the Supervisory Board**

Term of office: 2015-2019

**Education:**

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

**Career:**

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

**Other important functions****and achievements:**

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

**Membership in the Supervisory****Board committees:**

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

**David Eric Simon****Member of the Supervisory Board**

Term of office: 2016–2020

**Education:**

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

**Career:**

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

**Other important functions and achievements:**

- Primary expertise in credit, restructuring and NPLs

**Membership in the Supervisory****Board committees:**

- Risk Committee (Member)
- Remuneration Committee (Member)

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

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

**Matjaž Titan****Member of the Supervisory Board**

Term of office: 2016-2020

**Education:**

- Faculty of Law in Ljubljana, Bachelor of Law (2005)

**Career:**

- Owner and Consultant, Licet, naložbe in svetovanje d.o.o. (since 2012)
- Advisor to the Management Board, KDD Centralna klirinško depotna družba d.d. (2009-2012)
- Head of Legal Consulting Department, KDD - Centralna klirinško depotna družba d.d. (2007-2008)
- Intern, Higher Court of Ljubljana (2006-2007)
- Lawyer, KDD - Centralna klirinško depotna družba d.d. (2005-2007)
- Legal practice, Law Firm Miro Senica in odvetniki, Ljubljana (2003-2005)

**Other important functions and achievements:**

- Member of the Supervisory Board of KDD d.d. (2010-2014)
- Member of NUG (National User Group) at the Bank of Slovenia for the integration of the Slovenian capital market into T2S
- Arbiter for the Investment Fund Association and substitute member of the Committee for the issue of the licenses to stockbrokers (since 2012)
- has been cooperating with the Ministry of Finance in the area of transposing the EU Directives concerning the area of clearing and settlement, and has been a member of the High Stakeholder Group at the Bank of Slovenia supervising the

integration of the Slovenian capital market into T2S (since 2013)

- Member of the working group in Eurosystem in relation with the finality of settlement and insolvency (2015-2016)
- Contributor of Market in Financial Instruments Act, Book Entry Securities Act, Companies Act and Takeover Act.

**Membership in the Supervisory****Board committees:**

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

**László Urbán, Ph.D.****Member of the Supervisory Board**

Term of office: 2016–2020

**Education:**

- Completed Advanced Management Program, Harvard Business School, Cambridge, MA (2000)
- Univ. Doctorate at Budapest University of Economics, Hungary (1985)
- Master of Arts, Budapest University of Economics, Hungary (1982)

**Career:**

- Adjunct Professor at Central European University Business School (since 2012)
- Member of the Supervisory Board at European Bank for Reconstruction and Development (EBRD; 2010-2011)
- Chief Financial Officer and Member of the Board of Directors at OTP Bank (2007-2009)
- Director, General Secretariat at National Bank of Hungary (2005-2006)

- Vice President, Business Planning Director at Citigroup, New York (2000-2005)
- Deputy CEO and member of the Board of Directors at Postabank, Hungary (1998-2000)
- Director of Planning and Chief Economist at ABN-AMRO Bank, Hungary (1996-1998)

**Other important functions and achievements:**

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

**Membership in the Supervisory****Board committees:**

- Risk Committee (Member)

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

- none

### Committees of the Bank's Supervisory Board

The Supervisory Board appoints committees that prepare proposals for resolutions of the Supervisory Board, ensure their implementation, and perform other expert tasks. At the end of 2016 the Bank had four operational committees.

#### The Audit Committee

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

Composition of the Committee is as follows: Sergeja Slapničar, Ph.D. (Chair), Uroš Ivanc (Deputy Chair), Primož Karpe, and Alexander Bayr (Member).

#### The Risk Committee

monitors and drafts resolutions for the Supervisory Board in all areas of risk relevant to the Bank's operations. In consults on the current and future risk appetite and the risk management strategy, this Committee helps conduct control over senior management as regards implementation of the risk management strategy.

Composition of the Committee is as follows: Andreas Klingen (Chair), László Urbán, Ph.D. (Deputy Chair), Sergeja Slapničar, Ph.D., and David Eric Simon (Members). There were five sessions of the Risk committee in 2016.

#### The Nomination Committee

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

Composition of the Committee is as follows: Primož Karpe (Chair), David Kastelic (Deputy Chair), Anderas Kligen, and Matjaž Titan (Members).

#### The Remuneration Committee

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

Composition of the Committee is as follows: Uroš Ivanc (Chair), Matjaž Titan (Deputy Chair), David Kastelic, and David Eric Simon (Members).

### Management Board of the Bank

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

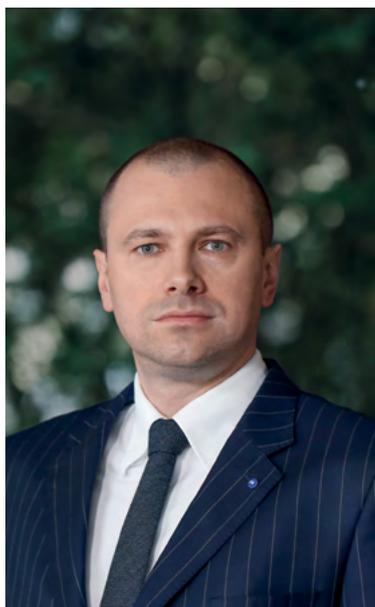
The President and members of the Management Board of the Bank are appointed by the Supervisory Board for a period of five years. The Supervisory Board may also recall them. The selection is not based only on the legal conditions, but also the internal acts and the recommended national and European guidelines on good practice. Every member has to fit the professional profile prepared before the selection procedure.

As a result of certain differences in views with the Bank's owner, Janko Medja, the chief executive officer submitted his letter of resignation on 5 February 2016. The Supervisory Board of the Bank adopted on 5 February 2016 the resolution on mutually agreed early termination of the term of office of the President of the Management Board entering into force on the same day. Until 6 July 2016, the three member Management Board of the Bank had been chaired by Blaž Brodnjak as the Deputy President of the Management Board.

Blaž Brodnjak was unanimously appointed as the President of the Management Board of the Bank at the Supervisory Board meeting held on 4 July 2016. In addition, the Supervisory Board appointed László Pelle as the Chief Operating Officer (COO), who started to perform his function on 26 October 2016. In the same session the President and members of the Management Board (Chief Financial Officer (CFO), Chief Risk Officer (CRO), and Chief Operating Officer (COO)) were appointed for a new five-year term, effective 6 July 2016.

The Management Board of the Bank consists of Blaž Brodnjak (member since 1 December 2012, Deputy President since 5 February 2016, and president/ Chief Executive Officer (CEO) since 6 July 2016) and members Archibald Kremser as acting CFO (since 31 July 2013), Andreas Burkhardt as acting CRO (since 18 September 2013), and László Pelle as acting COO (since 26 October 2016).

**We are aware of our tasks in managing and representing the Bank. We direct its operations to make it even more successful not only today, but also tomorrow. We are responsible to the company, its stakeholders, and clients, and we fulfill promises and achieve goals.**



### **Blaž Brodnjak**

President and CEO / CMO

Term of office: 2016-2021

#### **Education:**

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

#### **Career:**

- Head of Group Corporate and Public Finance Division in the Hypo Alpe Adria Group in Klagenfurt (2010-2012)
- Proxy of the Management Board of Zavarovalnica Triglav (2009-2010)
- Member of the Management Board of Bawag banka (2005-2009)
- Head of Corporate Banking at Raiffeisen Krekova banka (2004–2005)

#### **Other important functions and achievements:**

- Was a chairman or member of the supervisory boards of 11 banking, 3 insurance, and 1 production company

#### **Direct responsibility:**

Executive area of the Bank, for CEO:

- Corporate Communication and Strategy
- Legal and Secretariat
- Human Resources and Organisation
- Core Group Steering

Retail and Private Banking and Corporate Banking (CMO)

#### **Membership in management or supervisory bodies related or unrelated companies:**

##### **Chairman of the Supervisory Board:**

- NLB Banka, Sarajevo
- NLB Banka, Banja Luka
- NLB Banka, Skopje

##### **Member of the Supervisory Board:**

- NLB Skladi, Ljubljana (until 10 January 2017)
- NLB Vita, Ljubljana



**Andreas Burkhardt**

Member of the Management Board, CRO

Term of office: 2016-2021

**Education:**

- MBA degree, University of Dayton (1999)
- University of Augsburg, School of Business Administration and Economics, graduation (“Diplom-Kaufmann”) (1999)

**Career:**

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

**Other important functions and achievements:**

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

**Direct responsibility:**

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

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

Chairman of the Board of Directors:

- NLB Banka, Podgorica

Member of the Supervisory Board:

- NLB Banka, Sarajevo
- NLB Banka, Banja Luka



### Archibald Kremser

Member of the Management Board, CFO

Term of office: 2016-2021

#### Education:

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

#### Career:

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

#### Other important functions and achievements:

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

#### Direct responsibility:

- Accounting
- Controlling
- Financial Markets
- Investment Banking and Custody
- Global Real Estate Asset Management
- Non-Core Equities and Subsidiaries
- Accounts Administration and Payroll

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

##### Chairman of the Board of Directors:

- NLB Banka, Beograd
- NLB Banka, Prishtina



### László Pelle

Member of the Management Board, COO

Term of office: 2016-2021

#### Education and training:

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

#### Career:

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

- Head of Card Department, Project leader of VISA implementation, initiated VISA card programme in Hungary. Rolled-out ATM and POS networks in branches of Postabank and Savings Bank Corporation, Hungary (1992-1994)

#### Other important functions and achievements:

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

#### Direct responsibility:

Chief Operating Officer:

- Business Analysis
- Procurement and Corporate Real Estate Management
- Information Technology
- Payments Processing
- Cash Processing
- Treasury and Financial Markets Processing
- Corporate Banking Processing
- Retail Banking Processing

### Collective decision-making bodies

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

#### The Corporate Credit Committee

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

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

#### The Corporate Credit Sub Committee

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

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

#### NLB Group Assets and Liabilities Committee

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

#### The Group Real Estate Asset Management Committee

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

#### The Development Council

adopts decisions related to the portfolio of development with an IT element. As a rule, the meetings of the Committee are

convened once a month. The Committee has six members. The Chairman is the member of the Management Board in charge of operations (COO).

#### The Sales Board

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

#### NLB Operational Risk Committee

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

#### NLB Retail Credit Committee

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

### **Advisory bodies of the Bank's Management Board**

#### **The Watch List Committee**

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

#### **Risk Committee**

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

The Management Board is to perform individual tasks of the Management Board appointed a working body that operates at the lowest level, namely:

- The Committee for new and existing products
- The Group Real Estate Asset Management Sub Committee.



Odgovorni

Одговорни

Odgovorni

Responsible

Chapter 8

Одговорни

Përgjegjës

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Chapter 8. 1:

# Events After the End of the 2016 Financial Year

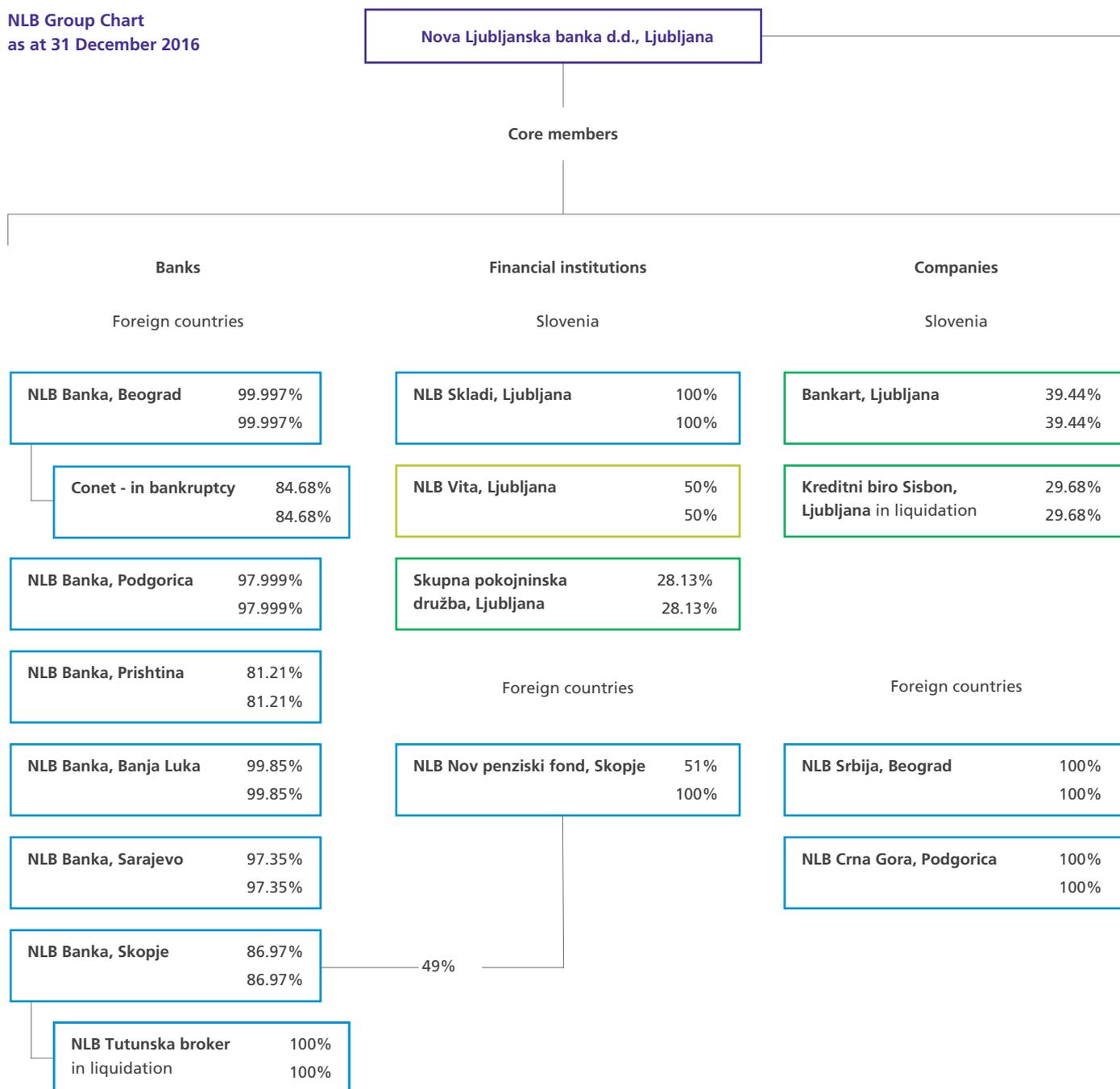
In February 2017, NLB d.d. concluded a sale transaction of its major non-core equity participation by which the value of the remaining non-core equity portfolio was reduced to EUR 0.9 million.

In 2017 activities for the potential sale of the company NLB Nov penziski fond, Skopje were initiated. Any such sale will be pursued only upon receipt of an adequate offer.

NLB received 24 actions for damages from erased bondholders with a mark NLB26 and ISIN code SI0022103111 in balance sheet date from the end of year 2016 until now in total principal amount of EUR 2,116,189.31. Among these, only one exceeds EUR 1 million. NLB believes that there are not grounds for such claims.

Sergeja Slapničar, a member of NLB Supervisory Board tendered her resignation on 13 March 2017; based on the agreement of the Supervisory Board her function terminated on 20 March 2017.



**NLB Group Chart  
as at 31 December 2016**


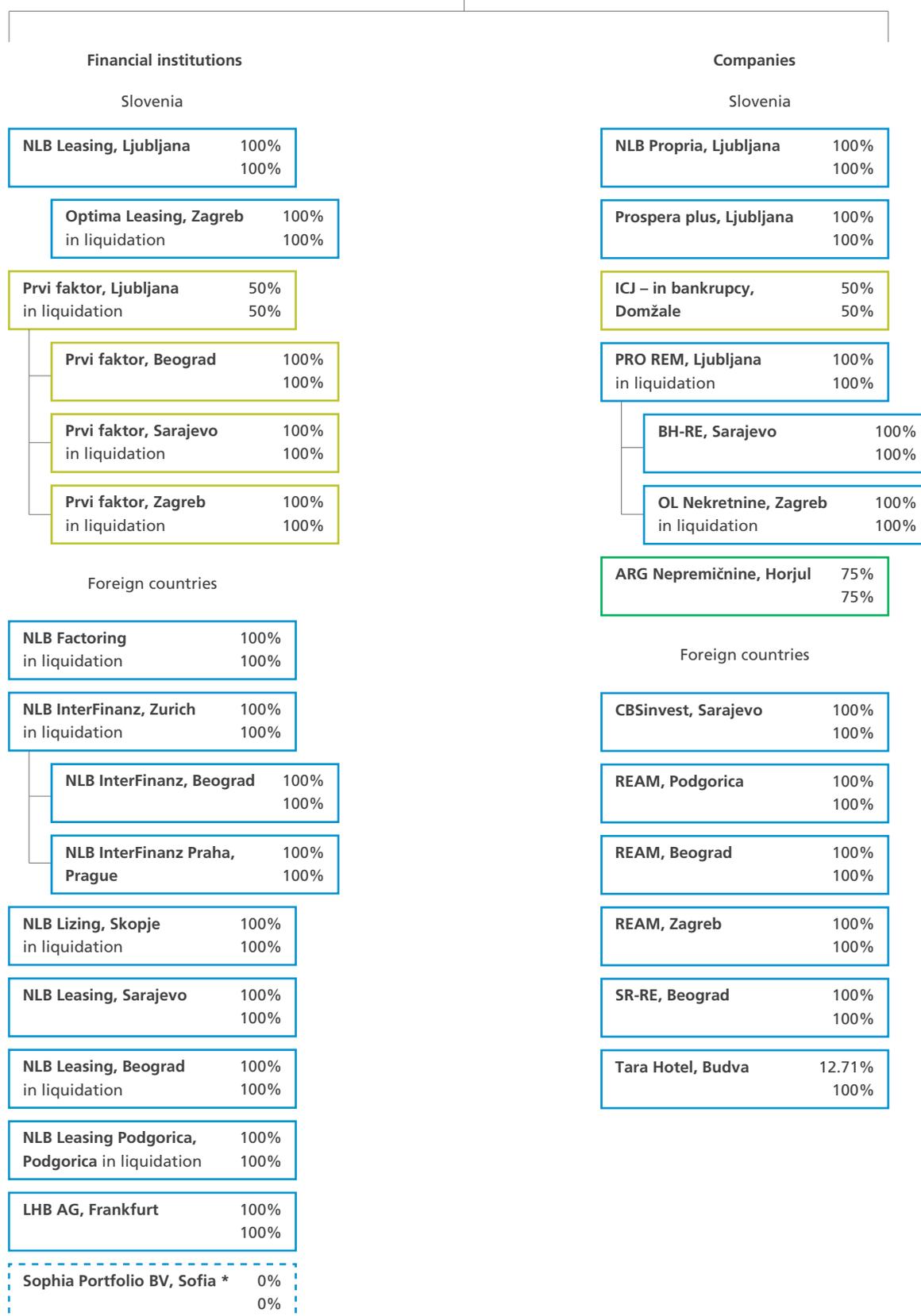
The chart shows voting rights shares. The Group includes entities according to the definition in the Financial Conglomerates Act (Article 2).

■ **Subsidiary**    ■ **Associate**    ■ **Joint venture**

Company Name	%	direct share
	%	indirect share at the Group level

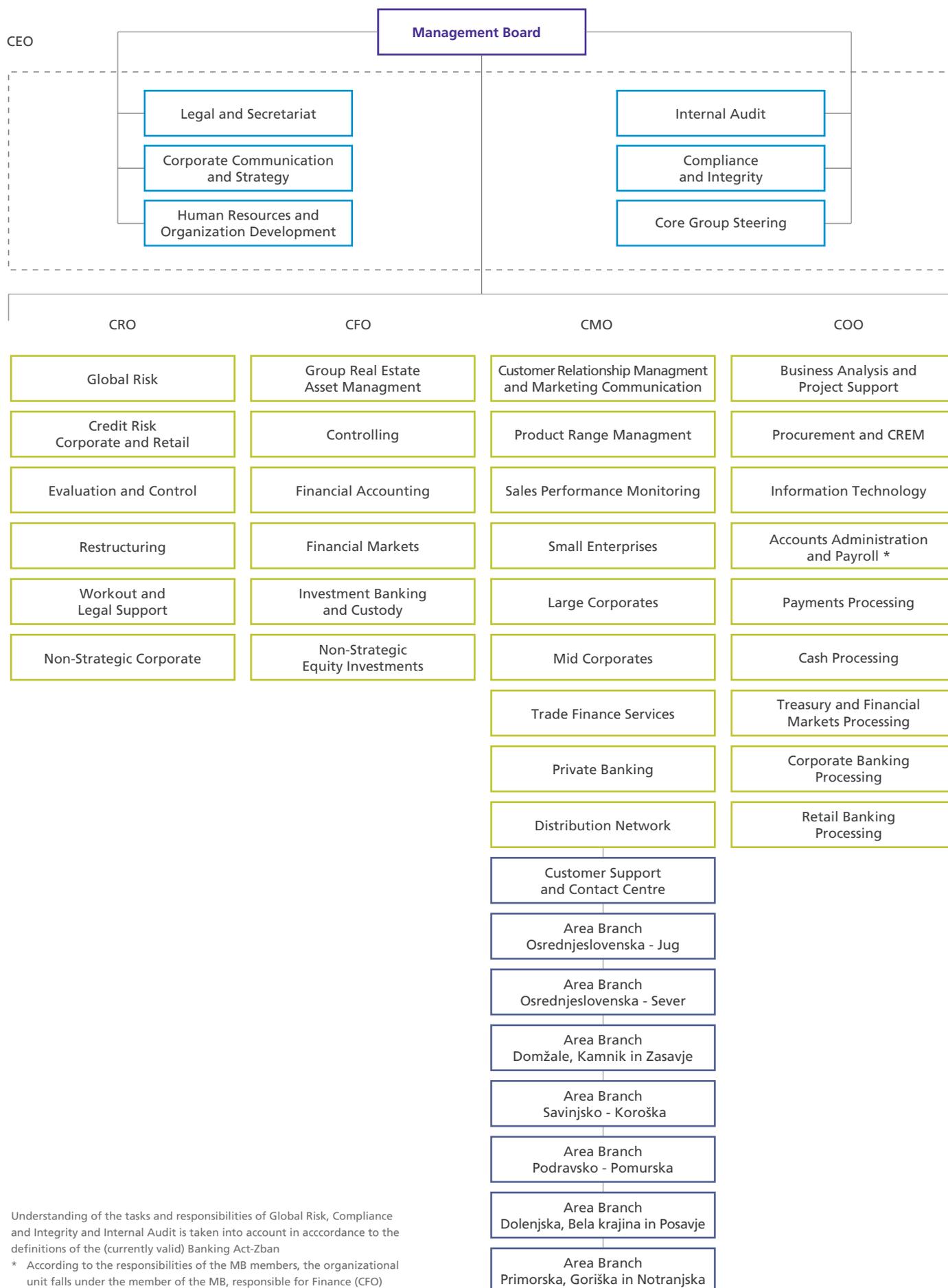
\* chart includes percentage share in voting rights

## Non-core members





## Organizational Structure of NLB as at 31 December 2016



Chapter 8.2:

# Corporate and Social Responsibility

Responsible to clients,  
employees, society

**The Bank has the important social responsibility mission – in addition to creating good operating results, it is actively involved in the environment of operations in order to contribute to a higher quality of life for all residents. The Bank is responsible to the clients, employees, society as a whole, and to the environment.**

Special attention is given to knowledge and lifelong learning, which has become a way of life. By helping young people on their path to financial independence, various incentives are directed to act responsibly for a prosperous future. One such initiative is the long-lasting support of sports – with an emphasis on sports for young people.

The Bank is very active in promoting entrepreneurship, and so the establishment of NLB IEC in 2015 has actively contributed to the business climate and financial mentoring in Slovenia.

Simultaneously, the Bank remains a supporter of the arts and promotes the preservation of cultural heritage. We take special pride in the tradition of being involved in numerous humanitarian projects which are supported in cooperation with clients and employees.

### Promoting Entrepreneurship

In 2016, IEC, which was established to improve the business climate and financial mentoring in Slovenia, hosted close to 200 events organised on its own initiative or in cooperation with recognised Slovenian partners. Various business themes were presented to over 9,000 event participants. IEC is a premise which is conducive to socialising and business creation – and also received the jury award from Zavod Big for the ‘Best Interior of 2016’.

### Promoting Financial Literacy

In January 2016 a mini-bank branch for children was opened in BTC, called ‘MiniCity Ljubljana.’ There were 10 events, where young children are being taught about the banking business.

The Bank is expanding a programme called “Financial Literacy for Young People” in Slovenian primary and secondary schools. The Bank’s experienced lecturers teach about the extremely important skill, how to wisely deal with money, which is one of the most important prospect in personal and business life. In 2016 there were more than 40 lectures of this nature.

The same initiative is an ongoing practice in NLB Banka, Podgorica, which besides donations for school equipment, also gives recurrent lectures to help young people on the path toward financial independence.

### Caring for Employees

Project ‘Healthy Bank’ was established years ago to promote health awareness and encourage a healthy lifestyle among employees. The emphasis is on prevention, identification of potential disease symptoms, and lifestyle changes. In June 2016 an e-book with instructions and a calendar of ongoing workshops was released. In 2016 over 986 employees were included in the programme and participated in more than 37 lectures and 18 whole-day workshops.

The Bank is also highly involved in the education of its employees, and committed to high quality standards as an ever-learning organisation. Within the NLB Training Centre, it educates its employees to the greatest extent with experts from their own fields, and transfers the knowledge to other employees.

The Bank owned a Full Certificate of a ‘Family-Friendly Company’ for the second full year. It strives to ensure that employees have a better balance between work and family obligations, offering numerous activities.

All these measures were expressed in the increased satisfaction and motivation of employees. In 2016 satisfaction of employees increased by 3% compared to 2015, and 8% compared to 2014. Significantly encouraging results are also recorded in other areas of the organisational climate, which is reflected in the increasing share of dedicated employees. In 2016, the figure was 51%, while in 2015 it was 44%.

### Supporting professional sport and encouraging Sports for Youth

The Bank continues to support top Slovenian athletes, who are the greatest ambassadors of Slovenia in the world. As a Golden sponsor of the Slovenian Alpine Ski Team’s for the nineteenth year now, the Bank enhanced the sponsorships in the past three years to other important sport federations in Slovenia as well: handball, sailing, and table tennis. Together with the federations, the Bank and its employees shared the excitement of great success at the 2016 Olympic Games in Rio.

The initiative ‘NLB Sports for Youth’ was successfully expanded in 2016 in order to encourage and responsibly educate young people. The Bank connected and financially supported more than 70 sports clubs of various disciplines and regions in Slovenia. This initiative supports content of the programme that is rich in fair play education, promotes responsible behaviour, and emphasises the importance of recreation in general. The programme was also established to connect various local communities in Slovenia and raise the level of sports participation, as well as socially responsible practices among youths.

NLB Banka, Podgorica actively supports Montenegrin athletes in basketball, football, and tennis. The tennis NLB Royal Cup 2016 traditionally brings together athletes, business partners, and the local community.

### Humanitarian projects

In June 2016 the Bank successfully carried out the campaign to raise funds for the purchase of essential medical equipment at Slovenian maternity hospitals. By connecting clients and humanitarian aspect, the Bank donated funds for each housing loan sold in June, and raised in total EUR 55,400. The amount was donated to six maternity hospitals where it was cheerfully accepted by staff, mothers, and their families.

A similar campaign continued in December 2016. Funds were collected for children patients with cancer of the Pediatric Clinic in the main Medical Centre in Ljubljana. The Bank branches installed contribution boxes where together with other donations more than EUR 20,000 accumulated during a month-long period.

The Bank is proud that employees take part in socially responsible activities. Entering the summer season it began with NLB Sports Games with a social touch. Employees, in addition to sports activities, took part in renewing the external and internal premises of local sports and recreation facilities in Martjanci, thereby pleasing the village community which has more than 5,000 inhabitants.

In cooperation with the Red Cross, a traditional successful blood donor campaign was conducted, attended by 78 employees. The Bank also participated in another traditional campaign in the organisation by the Red Cross called "Take them to the Sea" and "It's Nice to Share." The NLB Call Centre, with bank employees and many Slovenian celebrities,

raised funds from donors. The total amount raised exceeded EUR 64,000.

NLB Banka Prishtina in September 2016 organised the event "Dance for Mothers and Children" in order to raise funds for pediatric equipment of not yet born children. Together with a number of donors almost EUR 40,000 were collected.

### Concern for Art and Cultural Heritage

Throughout 2016 five broadly visited exhibitions were organised and displayed in NLB Gallery Avla. For the 45th anniversary of the Bank's headquarters in Ljubljana, the Bank in cooperation with the Museum of Architecture and Design Centre organised a high profile international event with prominent representatives of the design profession, social sciences, economics, and education, entitled "Development Potentials and Strategies - The Way Forward?" The event symbolically took place in IEC.

The Group has the most recognisable art gallery in NLB Banka, Skopje. In 2016 a total of 13 high profile exhibitions of local and foreign artists were organised.

**The Bank connected and financially supported more than 70 sports clubs of various disciplines and regions in Slovenia. This initiative supports content of the programme that is rich in fair play education, promotes responsible behaviour, and emphasises the importance of recreation in general.**



## List of Figures

Figure 1: Three consecutive years of increased profitability (in EUR million)	23
Figure 2: Profit before tax of NLB Group by segments (in EUR million)	24
Figure 3: Net interest margin (in %)	25
Figure 4: Total costs of NLB Group (in EUR million)	26
Figure 5: Slovenia: Growth of retail sales and industrial production indices	34
Figure 6: Annual loan growth in the Slovenian banking system	35
Figure 7: Retail banking leader in Slovenia	44
Figure 8: Overview of the market shares in Slovenian banking sector	46
Figure 9: Evolution of business volumes/segment	46
Figure 10: NLB's structure of retail loan book	47
Figure 11: Tailored product offerings and servicing models	48
Figure 12: E-pen	48
Figure 13: Assets in management and number of private banking clients	49
Figure 14: Assets in mutual funds under management of NLB Asset Management and their market share	49
Figure 15: NLB Vita total assets and market share in traditional life insurances	50
Figure 16: Distribution overview	51
Figure 17: The Bank overall satisfaction index for retail customers' in Slovenia	52
Figure 18: Market share resilient despite deleveraging of the sector and competition (corporate and state net loans)*	56
Figure 19: Evolution of business volumes/segment (in EUR million)	57
Figure 20: Loans purpose structure	57
Figure 21: Tailored product offerings and servicing models	59
Figure 22: Net interest income (in EUR million)	68
Figure 23: Operating expenses (in EUR million)	68
Figure 24: Profit after tax (in EUR million)	68
Figure 25: Net retail loans to customers (in EUR million)	69
Figure 26: Net corp. loans to customers (in EUR million)	69
Figure 27: Net non-banking sector loan book split	74
Figure 28: Net non-banking sector loan book split	77
Figure 29: Net non-banking sector loan book split	80
Figure 30: Net non-banking sector loan book split	83
Figure 31: Net non-banking sector loan book split	86
Figure 32: Net non-banking sector loan book split	89
Figure 33: Key changes of NLB Group liabilities and capital in 2016 (in EUR million)	92
Figure 34: Key changes of NLB Group assets in 2016 (in EUR million)	92
Figure 35: NLB Group balance sheet structure as of 31 December 2016	93
Figure 36: Evolution of funding structure confirms stable deposit base in NLB Group (in EUR million)	94
Figure 37: Decreasing deposit interest rates environment in NLB Group	95
Figure 38: Evolution of NLB Group liquid assets structure reflects robust liquidity position (in EUR million)	96
Figure 39: Banking book securities by Fitch rating as of 31 December 2016 for NLB Group	97
Figure 40: Well-diversified NLB Group banking book securities portfolio as of 31 December 2016	97
a.) Banking book debt securities by asset class	97
b.) Banking book debt securities by geographical structure	97
Figure 41: Asset evolution by activity (in EUR million)	102

Figure 42: NLB Group structure of the credit portfolio (gross loans and advances) by segment	108
Figure 43: Structure of NLB Group credit portfolio by client credit ratings as at year end	108
Figure 44: NLB Group NPE ratio (year-end NPE% by the the EBA)	109
Figure 45: NLB Group Coverage ratio (year-end %)	109
Figure 46: NLB Group NPL Coverage ratio (year-end %)	109
Figure 47: HR strategy process	114
Figure 48: Profit after tax of NLB Group – evolution YoY (in EUR million)	133
Figure 49: Profit after tax of the NLB Group banks (on a stand alone basis) - evolution YoY (in EUR million)	134
Figure 50: Profit before impairments and provisions of NLB Group – evolution YoY (in EUR million)	135
Figure 51: Net interest income of NLB Group (in EUR million)	135
Figure 52: Net interest income of NLB Group by segments (in EUR million)	136
Figure 53: Net non-interest income by segments of NLB Group (in EUR million)	137
Figure 54: Structure of net fees and commissions of NLB Group (in EUR million)	138
Figure 55: Total costs of NLB Group – evolution YoY (in EUR million)	138
Figure 56: NLB Group credit impairments and provisions, costs of risk (in bps)	139
Figure 57: Total assets of NLB Group – structure (in EUR million)	141
Figure 58: NLB Group gross loans to customers by core segments (in EUR million)	141
Figure 59: Group gross loans to customers by non-core segment (in EUR million)	142
Figure 60: Total liabilities of NLB Group – structure (in EUR million)	142
Figure 61: NLB Group CET 1 capital (in EUR million) and CET 1 ratio (in %)	143

### List of Tables

Table 1: Key financial caption for NLB Group and NLB	6
Table 2: Movement of key macroeconomic indicators in Slovenia and the Economic and Monetary Union	34
Table 3: Trends in the key macroeconomic indicators for selected countries in SEE	36
Table 4: Performance of the retail banking segment in Slovenia	45
Table 5: Performance of the corporate banking segment in Slovenia	55
Table 6: Performance of the investment banking and custody services in Slovenia	62
Table 7: Results of the strategic foreign markets segment	67
Table 8: Key performance indicators of NLB Banka, Skopje	74
Table 9: Key performance indicators of NLB Banka, Banja Luka	77
Table 10: Key performance indicators of NLB Banka, Sarajevo	80
Table 11: Key performance indicators of NLB Banka, Prishtina	83
Table 12: Key performance indicators of NLB Banka, Podgorica	86
Table 13: Key performance indicators of NLB Banka, Beograd	89
Table 14: Performance of the Financial markets segment in Slovenia	91
Table 15: Results of the non-core foreign markets and activities segment	101
Table 16: The Group entities in which liquidation was initiated in 2016	102
Table 17: NLB Group employees by countries	113
Table 18: Income statement of NLB Group and NLB	133
Table 19: Statement of financial position of NLB Group and NLB	140



Stručni

Професионални

Strokovni

Professional

Chapter 9

Професионални

Profesional

Profesionalni

Profesionalni

Nova Ljubljanska banka d.d., Ljubljana

# Audited Financial Statements of NLB Group and NLB d.d. Pursuant to the International Financial Reporting Standards

as adopted by the European Union

## 2016



# Contents

<b>Independent Auditor's Report</b>	<b>180</b>
<b>Statement of Management's Responsibility</b>	<b>185</b>
<b>Income Statement</b>	<b>186</b>
<b>Statement of comprehensive income</b>	<b>187</b>
<b>Statement of financial position</b>	<b>188</b>
<b>Statement of changes in equity</b>	<b>190</b>
<b>Statement of cash flows</b>	<b>191</b>
<b>1. General information</b>	<b>193</b>
<b>2. Summary of significant accounting policies</b>	<b>193</b>
2.1. Statement of compliance	193
2.2. Basis for presenting the financial statements	193
2.3. Comparative amounts	193
2.4. Consolidation	193
2.5. Investments in subsidiaries, associates, and joint ventures	194
2.6. Goodwill and bargain purchases	194
2.7. A combination of entities or businesses under common control	194
2.8. Foreign currency translation	194
2.9. Interest income and expenses	195
2.10. Fee and commission income	195
2.11. Dividend income	195
2.12. Financial instruments	195
2.13. Impairment of financial assets	198
2.14. Forborne loans	199
2.15. Repossessed assets	199
2.16. Offsetting	200
2.17. Sale and repurchase agreements	200
2.18. Property and equipment	200
2.19. Intangible assets	200
2.20. Investment properties	200
2.21. Non-current assets and disposal groups classified as held for sale	200
2.22. Accounting for leases	201
2.23. Cash and cash equivalents	201
2.24. Borrowings with characteristics of debt	201
2.25. Other issued financial instruments with characteristics of equity	201
2.26. Provisions	202
2.27. Contingent liabilities and commitments	202
2.28. Taxes	202
2.29. Fiduciary activities	202
2.30. Employee benefits	203
2.31. Share capital	204
2.32. Segment reporting	204
2.33. Critical accounting estimates and judgments in applying accounting policies	204
2.34. Implementation of the new and revised International Financial Reporting Standards	206
<b>3. Changes in subsidiary holdings</b>	<b>211</b>
<b>4. Notes to the income statement</b>	<b>212</b>
4.1. Interest income and expenses	212
4.2. Dividend income	212
4.3. Fee and commission income and expenses	213

4.4.	Gains less losses from financial assets and liabilities not classified at fair value through profit or loss	214
4.5.	Gains less losses from financial assets and liabilities held for trading	215
4.6.	Foreign exchange translation gains less losses	215
4.7.	Other operating income	216
4.8.	Other operating expenses	216
4.9.	Administrative expenses	217
4.10.	Depreciation and amortisation	218
4.11.	Provisions for other liabilities and charges	218
4.12.	Impairment charge	219
4.13.	Gains less losses from capital investments in subsidiaries, associates, and joint ventures	220
4.14.	Income tax	220
4.15.	Earnings per share	221
<b>5.</b>	<b>Notes to the statement of financial position</b>	<b>221</b>
5.1.	Cash, cash balances at central banks, and other demand deposits at banks	221
5.2.	Trading assets	222
5.3.	Financial instruments designated at fair value through profit or loss	223
5.4.	Available-for-sale financial assets	224
5.5.	Derivatives for hedging purposes	226
5.6.	Loans and advances	228
5.7.	Held-to-maturity financial assets	232
5.8.	Non-current assets classified as held for sale	233
5.9.	Property and equipment	233
5.10.	Investment property	235
5.11.	Intangible assets	236
5.12.	Investments in subsidiaries, associates and joint ventures	237
5.13.	Other assets	242
5.14.	Movements in allowance for the impairment of banks, loans, and advances to customers and other financial assets	243
5.15.	Trading liabilities	245
5.16.	Financial liabilities, measured at amortised cost	246
5.17.	Provisions	248
5.18.	Deferred income tax	252
5.19.	Income tax relating to components of other comprehensive income	254
5.20.	Other liabilities	255
5.21.	Share capital	255
5.22.	Accumulated other comprehensive income and reserves	255
5.23.	Capital adequacy ratios	256
5.24.	Off-balance sheet liabilities	258
5.25.	Funds managed on behalf of third parties	259
<b>6.</b>	<b>Events after the reporting date</b>	<b>261</b>
<b>7.</b>	<b>Risk management</b>	<b>261</b>
7.1.	Credit risk management	263
7.2.	Market risk	286
7.3.	Liquidity risk	299
7.4.	Information regarding the quality of debt securities	314
7.5.	Management of non-financial risks	315
7.6.	Fair value hierarchy of financial and non-financial assets and liabilities	316
7.7.	Offsetting financial assets and financial liabilities	325
<b>8.</b>	<b>Analysis by segment for NLB Group</b>	<b>326</b>
<b>9.</b>	<b>Related-party transactions</b>	<b>330</b>



This is a translation of the original report in Slovene language

## INDEPENDENT AUDITOR'S REPORT

### To the Shareholder of Nova Ljubljanska Banka, d.d.

#### Opinion

We have audited the separate financial statements of Nova Ljubljanska Banka, d.d. ("the Bank") and the consolidated financial statements of NLB Group ("the Group"), which comprise the statement of financial position and consolidated statement of financial position as at December 31 2016, the income statement and consolidated income statement, the statement of other comprehensive income and consolidated statement of other comprehensive income, the statement of changes in equity and consolidated statement of changes in equity, the statement of cash flows and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report. We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate and consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of matter

We draw attention to Note 5.17. to the separate and consolidated financial statements, which describe the uncertainty related to the outcome of the lawsuits filed against NLB d.d. by two Croatian banks which have not yet been decided. Our opinion is not modified in respect of this matter.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.



#### Contingent liabilities relating to legal matters

The Bank/Group is involved in various legal matters as defendant. We focused on this area because of the potential significance of these commitments and contingencies (in particular as they relate to the asserted claim from the Privredna banka Zagreb (PBZ) and Zagrebačka banka (ZaBa) against the Bank). The assessment as to whether or not a liability should be recognized and whether amounts can be reliably estimated includes, to a certain extent, judgment from management. We determined this to be a significant item for our audit and a key auditing matter. Note 5.17. to the separate and consolidated financial statements, describes the uncertainty related to the outcome of the lawsuits filed against the Bank/Group by two Croatian banks in detail.

Our procedures included, amongst others, an assessment of the legal advice obtained by the Bank/Group as well as periodic meetings with management and review of board minutes to discuss developments in legal proceedings and asserted claims. We also obtained confirmations from the Bank/Group's external legal counsels in order to compare their expert opinions to management's position on measurement and/or disclosures in relation to the legal case.

We assessed the adequacy of the disclosures included in Note 5.17. of the separate and consolidated financial statements and added emphasis of matter in our audit opinion in respect of this matter.

#### Credit risk and individual impairment of loans and advances to customers

The carrying amount of loans given to customers amounts to 6,9 billion EUR (or 57% of total assets) at the Group and 4,8 billion EUR (or 66% of total assets) at the Bank. Impairment of loans and advances to customers is a highly subjective area due to the level of judgment applied by management in determining credit impairments. Experience from previous years has shown that banks can face serious problems and capital shortfalls in periods of recession and financial crisis, which can have material impact on the separate and consolidated financial statements and pose threat to the going concern assumption. Mainly, the highest risk is related to assessment of individual impairments for loans. For further information, refer to Note 7.1. of the separate and consolidated financial statements.

We understood and evaluated the processes for identifying impairment events within the loan portfolios, as well as the impairment assessment processes for loans within the restructuring unit and run-off portfolio. We assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate impairment. We tested a sample of performing loans with characteristics that might imply an impairment event had occurred (for example a customer experiencing financial difficulty or approaching a refinancing deadline) to assess whether impairment events had been identified by management.

For a sample of individually impaired loans, we understood the latest developments at the borrower and the basis of measuring value of impairment and considered whether key judgments were appropriate given the borrowers' circumstances. We also re-performed management's impairment calculation. In addition, we tested key inputs to the impairment calculation including the expected future cash flows and valuation of collateral held, and discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower and appropriate for the purpose.

We assessed the adequacy of the Bank's/Group's disclosures included in Note 7.1. of the separate and consolidated financial statements.



#### Information technology (IT) systems and controls over financial reporting

We identified IT systems, and controls over financial reporting as an area of focus as the Bank/Group's financial accounting and reporting systems are heavily dependent on complex systems and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively. Therefore, we have identified IT systems and controls over the financial reporting as a key audit matter.

We involved EY internal experts in assessing and testing the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to the financial reporting. We examined the framework of governance over the Bank/Group's IT organization and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. Where necessary we also carried out direct tests of certain aspects of the security of the Bank/Group's IT systems including access management and segregation of duties.

#### **Other information**

Other information comprises the information included in the separate and consolidated Annual Report other than the separate and consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the separate and consolidated financial statements is, in all material respects, consistent with the separate and consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Bank and the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

#### **Responsibilities of management, supervisory board and the audit committee for the separate and consolidated financial statements**

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of the separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and Group or to cease operations, or has no realistic alternative but to do so.

The audit committee and supervisory board are responsible for overseeing the Bank's and the Group's financial reporting process.



#### Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee and the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee and the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee and the supervisory board, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ljubljana, 28. March 2017

Janez Uranič  
Director  
Ernst & Young d.o.o.  
Dunajska 111, Ljubljana

**ERNST & YOUNG**  
Revizija, poslovno  
svetovanje d.o.o., Ljubljana 1

Primož Kovačič  
Certified auditor



### Statement of Management's Responsibility

The Management Board hereby confirms its responsibility for preparing the financial statements of NLB and the consolidated financial statements of NLB Group for the year ending on 31 December 2016, and for the accompanying accounting policies and notes to the financial statements.

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and with the requirements of the

Slovenian Companies Act and Banking Act so as to give a true and fair view of the financial position of NLB Group and NLB as at 31 December 2016, and their financial results and cash flows for the year then ended.

The Management Board also confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were prepared according to the principles of prudence and good management. The Management Board further confirms that the financial

statements of NLB Group and NLB, together with the accompanying notes, have been prepared on a going-concern basis for NLB Group and NLB, and in line with valid legislation and the International Financial Reporting Standards as adopted by the European Union.

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

### The Management Board



**László Pelle**  
Member of the  
Management Board



**Archibald Kremser**  
Member of the  
Management Board



**Andreas Burkhardt**  
Member of the  
Management Board



**Blaž Brodnjak**  
Chief Executive Officer

## Income Statement

in EUR thousand

	Notes	NLB Group		NLB	
		2016	2015	2016	2015
Interest and similar income	4.1.	388,494	443,203	215,550	269,000
Interest and similar expense	4.1.	(71,189)	(103,001)	(40,672)	(60,993)
<b>Net interest income</b>		<b>317,305</b>	<b>340,202</b>	<b>174,878</b>	<b>208,007</b>
Dividend income	4.2.	1,238	1,346	1,144	1,264
Fee and commission income	4.3.	194,371	195,710	123,014	128,896
Fee and commission expense	4.3.	(48,706)	(48,640)	(27,728)	(30,828)
<b>Net fee and commission income</b>		<b>145,665</b>	<b>147,070</b>	<b>95,286</b>	<b>98,068</b>
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	4.4.	14,788	10,659	14,639	10,685
Gains less losses from financial assets and liabilities held for trading	4.5.	6,921	(18,877)	336	(25,304)
Gains less losses from financial assets and liabilities designated at fair value through profit or loss		235	(3)	-	-
Fair value adjustments in hedge accounting	5.5.a)	(3,239)	231	(2,437)	231
Foreign exchange translation gains less losses	4.6.	1,158	11,831	738	23,251
Gains less losses on derecognition of assets		867	(624)	252	(450)
Other operating income	4.7.	24,442	27,329	12,267	13,234
Other operating expenses	4.8.	(33,204)	(35,083)	(13,176)	(15,133)
Administrative expenses	4.9.	(261,160)	(265,984)	(162,083)	(165,813)
Depreciation and amortisation	4.10.	(28,345)	(31,856)	(18,880)	(21,410)
Provisions for other liabilities and charges	4.11.	(4,357)	696	482	5,153
Impairment charge	4.12.	(56,288)	(83,801)	(64,433)	(93,114)
Gains less losses from capital investments in subsidiaries, associates and joint ventures	4.13.	5,006	4,312	28,915	13,747
Net gains or losses from non-current assets held for sale		(432)	(690)	(220)	(567)
<b>Profit before income tax</b>		<b>130,600</b>	<b>106,758</b>	<b>67,708</b>	<b>51,849</b>
Income tax	4.14.	(14,975)	(11,380)	(3,925)	(7,968)
<b>Profit for the year</b>		<b>115,625</b>	<b>95,378</b>	<b>63,783</b>	<b>43,881</b>
Attributable to owners of the parent		110,017	91,914	63,783	43,881
Attributable to non-controlling interests		5,608	3,464	-	-
Earnings per share/diluted earnings per share (in EUR per share)	4.15.	5.5	4.6	3.2	2.2

The notes are an integral part of these financial statements.

## Statement of comprehensive income

in EUR thousand

	Notes	NLB Group		NLB	
		2016	2015	2016	2015
<b>Net profit for the year after tax</b>		<b>115,625</b>	<b>95,378</b>	<b>63,783</b>	<b>43,881</b>
<b>Other comprehensive income after tax</b>		<b>6,331</b>	<b>(12,859)</b>	<b>2,740</b>	<b>(6,650)</b>
<b>Items that will not be reclassified to income statement</b>					
Actuarial gains/(losses) on defined benefit pensions plans		1,515	(1,975)	1,466	(706)
Share of other comprehensive income/(losses) of entities accounted for using the equity method		(6)	69	-	-
Income tax relating to components of other comprehensive income	5.19.	(191)	738	(191)	740
<b>Items that may be reclassified subsequently to income statement</b>					
<b>Foreign currency translation</b>		<b>(1,910)</b>	<b>(2,685)</b>	<b>-</b>	<b>-</b>
Translation gains/(losses) taken to equity		(1,910)	(2,685)	-	-
<b>Cash flow hedges (effective portion)</b>		<b>2,703</b>	<b>509</b>	<b>2,703</b>	<b>509</b>
Net valuation gains/(losses) taken to equity	5.5.d)	(343)	(78)	(343)	(78)
Transferred to profit or loss	5.5.d)	3,046	587	3,046	587
<b>Available-for-sale financial assets</b>		<b>3,899</b>	<b>(8,496)</b>	<b>171</b>	<b>(8,562)</b>
Valuation gains/(losses) taken to equity	5.4.c)	18,529	(2,316)	14,652	(314)
Transferred to profit or loss	4.4. and 4.12.	(14,630)	(6,180)	(14,481)	(8,248)
Share of other comprehensive income/(losses) of entities accounted for using the equity method		2,731	(2,804)	-	-
Income tax relating to components of other comprehensive income	5.19.	(2,410)	1,785	(1,409)	1,369
<b>Total comprehensive income for the year after tax</b>		<b>121,956</b>	<b>82,519</b>	<b>66,523</b>	<b>37,231</b>
Attributable to owners of the parent		116,383	79,032	66,523	37,231
Attributable to non-controlling interests		5,573	3,487	-	-

The notes are an integral part of these financial statements.

## Statement of financial position

in EUR thousand

	Notes	NLB Group		NLB	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	1,299,014	1,161,983	617,039	496,806
Trading assets	5.2.	87,699	267,413	87,693	267,880
Financial assets designated at fair value through profit or loss	5.3.	6,694	7,595	2,011	4,913
Available-for-sale financial assets	5.4.a)	2,072,153	1,737,191	1,594,094	1,248,359
Derivatives - hedge accounting	5.5.	217	1,083	217	1,083
Loans and advances					
- debt securities	5.6.a)	85,315	394,579	85,315	394,579
- loans and advances to banks	5.6.b)	435,537	431,775	408,056	345,207
- loans and advances to customers	5.6.c)	6,912,067	6,693,621	4,843,594	4,826,139
- other financial assets	5.6.d)	61,014	69,521	36,151	48,944
Held-to-maturity financial assets	5.7.	611,449	565,535	611,449	565,535
Fair value changes of the hedged items in portfolio hedge of interest rate risk		678	741	678	741
Non-current assets classified as held for sale	5.8.	4,263	4,629	1,788	1,776
Property and equipment	5.9.	196,849	207,730	90,496	94,570
Investment property	5.10.	83,663	93,513	8,151	8,613
Intangible assets	5.11.	33,970	39,327	23,345	29,627
Investments in subsidiaries	5.12.a)	-	-	339,693	346,001
Investments in associates and joint ventures	5.12.b)	43,248	39,696	7,031	7,094
Current income tax assets		2,888	929	2,124	-
Deferred income tax assets	5.18.	7,735	9,400	10,622	9,139
Other assets	5.13.	94,558	95,354	8,419	9,779
<b>Total assets</b>		<b>12,039,011</b>	<b>11,821,615</b>	<b>8,777,966</b>	<b>8,706,785</b>
Trading liabilities	5.15.	18,791	29,920	18,787	29,909
Financial liabilities designated at fair value through profit or loss	5.3.	2,011	4,912	2,011	4,912
Derivatives - hedge accounting	5.5.	29,024	33,842	29,024	33,842
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	5.16.a)	42,334	57,982	74,977	96,736
- borrowings from banks and central banks	5.16.b)	371,769	571,029	338,467	519,926
- due to customers	5.16.a)	9,437,147	9,020,666	6,615,390	6,293,339
- borrowings from other customers	5.16.b)	83,619	100,267	4,274	16,168
- debt securities in issue	5.16.c)	277,726	304,962	277,726	304,962
- subordinated liabilities	5.16.d)	27,145	27,340	-	-
- other financial liabilities	5.16.e)	110,295	75,307	68,784	47,346
Provisions	5.17.	100,914	122,639	79,546	105,137
Current income tax liabilities		3,146	7,514	-	6,681
Deferred income tax liabilities	5.18.	727	313	-	-
Other liabilities	5.20.	8,703	14,539	4,186	5,676
<b>Total liabilities</b>		<b>10,513,351</b>	<b>10,371,232</b>	<b>7,513,172</b>	<b>7,464,634</b>
<b>Equity and reserves attributable to owners of the parent</b>					
Share capital	5.21.	200,000	200,000	200,000	200,000
Share premium	5.22.	871,378	871,378	871,378	871,378
Accumulated other comprehensive income	5.22.	29,969	23,603	34,581	31,841
Profit reserves	5.22.	13,522	13,522	13,522	13,522
Retained earnings	5.22.	380,444	314,307	145,313	125,410
		1,495,313	1,422,810	1,264,794	1,242,151
Non-controlling interests		30,347	27,573	-	-
<b>Total equity</b>		<b>1,525,660</b>	<b>1,450,383</b>	<b>1,264,794</b>	<b>1,242,151</b>
<b>Total liabilities and equity</b>		<b>12,039,011</b>	<b>11,821,615</b>	<b>8,777,966</b>	<b>8,706,785</b>

The notes are an integral part of these financial statements.

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



**László Pelle**  
Member of the  
Management Board



**Archibald Kremser**  
Member of the  
Management Board



**Andreas Burkhardt**  
Member of the  
Management Board



**Blaž Brodnjak**  
Chief Executive Officer

Ljubljana, 28 March 2017

## Statement of changes in equity

in EUR thousand

NLB Group	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance as at 1 January 2015	200,000	871,378	36,485	13,522	221,676	1,343,061	26,234	1,369,295
- Net profit for the year	-	-	-	-	91,914	91,914	3,464	95,378
- Other comprehensive income	-	-	(12,882)	-	-	(12,882)	23	(12,859)
Total comprehensive income after tax	-	-	(12,882)	-	91,914	79,032	3,487	82,519
Dividends paid	-	-	-	-	-	-	(1,048)	(1,048)
Transactions with non-controlling interests	-	-	-	-	717	717	(1,100)	(383)
<b>Balance as at 31 December 2015</b>	<b>200,000</b>	<b>871,378</b>	<b>23,603</b>	<b>13,522</b>	<b>314,307</b>	<b>1,422,810</b>	<b>27,573</b>	<b>1,450,383</b>
- Net profit for the year	-	-	-	-	110,017	110,017	5,608	115,625
- Other comprehensive income	-	-	6,366	-	-	6,366	(35)	6,331
Total comprehensive income after tax	-	-	6,366	-	110,017	116,383	5,573	121,956
Dividends paid	-	-	-	-	(43,880)	(43,880)	(2,799)	(46,679)
<b>Balance as at 31 December 2016</b>	<b>200,000</b>	<b>871,378</b>	<b>29,969</b>	<b>13,522</b>	<b>380,444</b>	<b>1,495,313</b>	<b>30,347</b>	<b>1,525,660</b>

in EUR thousand

NLB	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings	Total equity
Balance as at 1 January 2015	200,000	871,378	38,491	13,522	81,529	1,204,920
- Net profit for the year	-	-	-	-	43,881	43,881
- Other comprehensive income	-	-	(6,650)	-	-	(6,650)
Total comprehensive income after tax	-	-	(6,650)	-	43,881	37,231
<b>Balance as at 31 December 2015</b>	<b>200,000</b>	<b>871,378</b>	<b>31,841</b>	<b>13,522</b>	<b>125,410</b>	<b>1,242,151</b>
- Net profit for the year	-	-	-	-	63,783	63,783
- Other comprehensive income	-	-	2,740	-	-	2,740
Total comprehensive income after tax	-	-	2,740	-	63,783	66,523
Dividends paid	-	-	-	-	(43,880)	(43,880)
<b>Balance as at 31 December 2016</b>	<b>200,000</b>	<b>871,378</b>	<b>34,581</b>	<b>13,522</b>	<b>145,313</b>	<b>1,264,794</b>

The notes are an integral part of these financial statements.

## Statement of cash flows

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
<b>Cash flows from operating activities</b>				
Interest received	413,337	467,091	240,789	294,113
Interest paid	(78,401)	(121,143)	(44,510)	(72,613)
Dividends received	1,233	1,346	1,139	1,264
Fee and commission receipts	192,295	194,133	119,296	126,371
Fee and commission payments	(51,996)	(48,713)	(27,056)	(30,993)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	13,296	10,964	13,147	10,886
Realised losses from financial assets and financial liabilities not at fair value through profit or loss	(40)	(234)	(40)	(234)
Net gains/(losses) from financial assets and liabilities held for trading	3,246	(23,110)	(2,785)	(28,335)
Payments to employees and suppliers	(262,202)	(271,456)	(165,579)	(174,051)
Other income	26,352	31,129	13,256	14,136
Other expenses	(26,132)	(28,935)	(14,857)	(16,487)
Income tax paid	(19,991)	(4,980)	(14,489)	(678)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>210,997</b>	<b>206,092</b>	<b>118,311</b>	<b>123,379</b>
<b>(Increases)/decreases in operating assets</b>	<b>(139,839)</b>	<b>(143,429)</b>	<b>30,540</b>	<b>(34,116)</b>
Net (increase)/decrease in trading assets	163,609	(135,235)	164,609	(135,235)
Net (increase)/decrease in financial assets designated at fair value through profit or loss	1,026	(880)	2,795	-
Net (increase)/decrease in available-for-sale financial assets	(344,588)	(45,544)	(353,677)	(88,304)
Net (increase)/decrease in loans and advances	37,715	33,155	214,615	189,680
Net (increase)/decrease in other assets	2,399	5,075	2,198	(257)
<b>Increases/(decreases) in operating liabilities</b>	<b>197,351</b>	<b>(200,359)</b>	<b>101,342</b>	<b>(208,931)</b>
Net increase/(decrease) in financial liabilities designated at fair value through profit or loss	(2,801)	-	(2,801)	-
Net increase/(decrease) in deposits and borrowings measured at amortised cost	227,842	(146,993)	130,815	(155,700)
Net increase/(decrease) in securities measured at amortised cost	(26,913)	(53,469)	(26,913)	(53,469)
Net increase/(decrease) in other liabilities	(777)	103	241	238
<b>Net cash used in operating activities</b>	<b>268,509</b>	<b>(137,696)</b>	<b>250,193</b>	<b>(119,668)</b>
<b>Cash flows from investing activities</b>				
<b>Receipts from investing activities</b>	<b>77,903</b>	<b>178,923</b>	<b>98,095</b>	<b>188,913</b>
Proceeds from sale of property and equipment and investment property	5,536	3,718	400	68
Proceeds from dividends from subsidiaries and associates	3,587	35	28,915	13,747
Proceeds from non-current assets held for sale	128	170	128	98
Proceeds from disposals of held-to-maturity financial assets	68,652	175,000	68,652	175,000
<b>Payments from investing activities</b>	<b>(153,178)</b>	<b>(51,377)</b>	<b>(161,064)</b>	<b>(70,863)</b>
Purchase of property and equipment and investment property	(17,896)	(11,404)	(10,990)	(5,672)
Purchase of intangible assets	(6,981)	(7,685)	(4,466)	(5,577)
Purchase of subsidiaries and increase in subsidiaries' equity	-	(404)	(17,307)	(27,730)
Increase in associates and joint ventures' equity	(12,250)	-	(12,250)	-
Purchase of held-to-maturity financial assets	(116,051)	(31,884)	(116,051)	(31,884)
<b>Net cash flows used in investing activities</b>	<b>(75,275)</b>	<b>127,546</b>	<b>(62,969)</b>	<b>118,050</b>
<b>Cash flows from financing activities</b>				
<b>Proceeds from financing activities</b>	<b>-</b>	<b>9,900</b>	<b>-</b>	<b>-</b>
Issue of subordinated debt	-	9,900	-	-
<b>Payments from financing activities</b>	<b>(46,655)</b>	<b>(977)</b>	<b>(43,880)</b>	<b>-</b>
Dividends paid	(46,655)	(977)	(43,880)	-
<b>Net cash from financing activities</b>	<b>(46,655)</b>	<b>8,923</b>	<b>(43,880)</b>	<b>-</b>
Effects of exchange rate changes on cash and cash equivalents	693	10,246	1,507	8,226
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>146,579</b>	<b>(1,227)</b>	<b>143,344</b>	<b>(1,618)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,302,003</b>	<b>1,292,984</b>	<b>525,831</b>	<b>519,223</b>
<b>Cash and cash equivalents at end of year</b>	<b>1,449,275</b>	<b>1,302,003</b>	<b>670,682</b>	<b>525,831</b>

The notes are an integral part of these financial statements.

## Statement of cash flows

in EUR thousand

	Notes	NLB Group		NLB	
		2016	2015	2016	2015
<b>Cash and cash equivalents comprise:</b>					
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	1,299,014	1,161,983	617,039	496,806
Loans and advances to banks with original maturity up to 3 months	5.6.	85,103	64,137	53,643	24,450
Trading assets with original maturity up to 3 months	5.2.	-	4,575	-	4,575
Available for sale financial assets with original maturity up to 3 months	5.4.	65,158	71,308	-	-
<b>Total</b>		<b>1,449,275</b>	<b>1,302,003</b>	<b>670,682</b>	<b>525,831</b>

# Notes to the Financial Statements

## 1. General information

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

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

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

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

## 2. Summary of significant accounting policies

The principal accounting policies adopted for the preparation of the separate and consolidated financial statements are set out below. The policies have been consistently applied to all the years presented.

### 2.1. Statement of compliance

The principal accounting policies applied in the preparation of the separate and consolidated financial statements were prepared in accordance with the International Financial Accounting Standards (hereinafter: the IFRS) as adopted by the European Union (hereinafter: EU). Additional requirements under the national legislation are included where appropriate.

The separate and consolidated financial statements are comprised of: the income statement and statement of comprehensive income, the statement of financial position,

the statement of changes in equity, the statement of cash flows, significant accounting policies, and the notes.

### 2.2. Basis for presenting the financial statements

The financial statements have been prepared on a going-concern basis, under the historical cost convention as modified by the revaluation of available-for-sale financial assets and financial assets, and the financial liabilities at fair value through profit or loss, including all derivative contracts and investment property.

The preparation of financial statements in accordance with the IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and activities, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised. Critical accounting estimates and judgements in applying accounting policies are disclosed in note 2.33.

### 2.3. Comparative amounts

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed in comparative amounts. Where IAS 8 applies, comparative figures have been adjusted to conform to changes in presentation in the current year. In 2016 the presentation of deposit guarantees changed, and the data for 2015 were

adjusted. Before the change, deposit guarantees were included in the item 'Fee and Commission Expenses', in the amount of EUR 8,259 thousand (note 4.3.) while after the change it is included in the item 'Other Operating Expenses' (note 4.8.). The change only affects the presentation of the financial statements.

### 2.4. Consolidation

In the consolidated financial statements subsidiaries which are directly or indirectly controlled by NLB have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to NLB Group.

NLB controls an entity when all three elements of control are met:

- it has power over the entity;
- it is exposed or has rights to variable returns from its involvement with the entity; and
- it has the ability to use its power over the entity to affect the amount of the entity's returns.

NLB reassesses whether it controls an entity if facts and circumstances indicate there are changes to one or more of the three elements of control. If the loss of control of a subsidiary occurs, the subsidiary is no longer consolidated from the date that control ceases.

Where necessary, the accounting policies of subsidiaries have been amended to ensure consistency with the policies adopted by NLB. The financial statements of consolidated subsidiaries are prepared as at the parent entity's reporting date. Non-controlling interests are disclosed in the consolidated statement of changes in equity. Non-controlling interest is that part of the net results, and of the equity of a subsidiary attributable to interests which

NLB does not own, directly or indirectly. NLB Group measures non-controlling interest on a transaction-by-transaction basis, either at fair value, or the non-controlling interest's proportionate share of net assets of the acquiree.

Inter-company transactions, balances, and unrealised gains on transactions between NLB Group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

NLB Group treats transactions with non-controlling interests as transactions with equity owners of NLB Group. For purchases of subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from the equity. Gains or losses on sales to non-controlling interests are recorded in the equity. For sales to non-controlling interests, the differences between any proceeds received and the relevant share of non-controlling interests are also recorded in the equity. All effects are presented in the item 'Equity Attributable to Non-controlling Interest'.

### **2.5. Investments in subsidiaries, associates, and joint ventures**

In the separate financial statements, investments in subsidiaries, associates, and joint ventures are accounted for with the cost method. Dividends from subsidiaries, joint ventures, or associates are recognised in the income statement when NLB's right to receive the dividend is established.

In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting. These are generally undertakings in which NLB Group holds between 20% and 50% of voting rights, and over which NLB Group exercises significant influence, but does not have control.

Joint ventures are those entities over whose activities NLB Group has joint control, as established by contractual agreement. In the consolidated financial statements, investments in joint ventures are accounted for using the equity method of accounting.

NLB Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When NLB Group's share of losses in an associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other unsecured receivables, NLB Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate and joint venture. NLB Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised (note 5.12.b).

NLB Group's subsidiaries, associates, and joint ventures are presented in note 5.12.

### **2.6. Goodwill and bargain purchases**

Goodwill is measured as the excess of the aggregate of the consideration measured at fair value and transferred to the acquiree, the amount of any non-controlling interest in the acquiree, and the fair value of an interest in the acquiree held immediately before the acquisition date over the net amounts of the identifiable assets acquired and the liabilities assumed. Any negative amount, a gain on a bargain purchase, is recognised in profit or loss after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews the appropriateness of their measurement.

The consideration transferred is measured at the fair value of the assets transferred,

equity interest issued, and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements. However, this excludes acquisition-related costs such as advisory, legal, valuation, and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from the equity and all other transaction costs associated with the acquisition are expensed.

The goodwill of associates and joint ventures is included in the carrying value of investments.

### **2.7. A combination of entities or businesses under common control**

A merger of entities within NLB Group is a business combination involving entities under common control. For such mergers, members of NLB Group apply merger accounting principles and use the carrying amounts of merged entities as reported in the consolidated financial statements. No goodwill is recognised on mergers of NLB Group entities.

Mergers of entities within NLB Group do not affect the consolidated financial statements.

### **2.8. Foreign currency translation Functional and presentation currency**

Items included in the financial statements of each of NLB Group's entities are measured using the currency of the primary economic environment in which the entity operates (i.e. the functional currency). The financial statements are presented in euros, which is NLB Group's presentation currency.

### **Transactions and balances**

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated

in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Translation differences resulting from changes in the amortised cost of monetary items denominated in foreign currency and classified as available-for-sale financial assets are recognised in the income statement.

Translation differences on non-monetary items, such as equities at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Translation differences on non-monetary items, such as equities classified as available for sale, are included together with valuation reserves in the valuation (losses)/gains taken to other comprehensive income and accumulated in the equity.

Gains and losses resulting from foreign currency purchases and sales for trading purposes are included in the income statement as gains less losses from financial assets and liabilities held for trading.

#### NLB Group entities

The financial statements of all NLB Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate on the reporting date;
- income and expenses for each income statement are translated at average exchange rates; and
- components of equity are translated at the historical rate.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

In the consolidated financial statements, exchange differences arising from the translation of the net investment in foreign operations are transferred to other comprehensive income. When control over a foreign operation is lost, the previously recognised exchange differences on translations to a different presentation currency are reclassified from other comprehensive income to profit and loss for the year as part of the gain or loss on disposal. On the partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified as a non-controlling interest within the equity.

#### 2.9. Interest income and expenses

Interest income and expenses are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest rate method. The effective interest rate method is used to calculate the amortised cost of a financial asset or financial liability, and to allocate the interest income or interest expense over the relevant period. The effective interest rate is the rate that precisely discounts estimated future cash payments or receipts over the expected life of the financial instrument, or a shorter period (when appropriate) on the net carrying amount of the financial asset or financial liability. Interest income includes coupons earned on fixed-yield investments and trading securities, and accrued discounts and premiums on securities. The calculation of the effective interest rate includes all fees and points paid or received by parties to the contract and all transaction costs, but excludes future credit risk losses. Once a financial asset or a group of similar financial assets has been impaired, interest income is recognised by the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

#### 2.10. Fee and commission income

Fees and commissions are generally recognised when the service has been

provided. Fees and commissions mainly consist of fees received from credit cards and ATMs, customer transaction accounts, payment services, investment funds, and commissions from guarantees. Fees and commissions that are integral to the effective interest rate of financial assets and liabilities are presented within interest income or expenses.

#### 2.11. Dividend income

Dividends are recognised in the income statement when NLB Group's right to receive payment is established and an inflow of economic benefits is probable. Dividend income from subsidiaries, associates, and joint ventures is included in the item 'Gains Less Losses from Capital Investments in Subsidiaries, Associates, and Joint Ventures', while other dividend income is included in the item 'Dividend Income'. In the consolidated financial statement, dividends received from associates and joint ventures reduce the carrying value of the investment.

#### 2.12. Financial instruments

##### a) Classification

The classification of financial instruments upon initial recognition depends on the instrument's characteristics and management's intention. In general, the following criteria are taken into account:

##### *Financial instruments at fair value through profit or loss*

This category has two sub-categories: financial instruments held for trading and financial instruments designated at fair value through profit or loss at inception. A financial instrument is classified in this group if acquired principally for the purpose of selling it in the short term, or if so designated by management.

NLB Group designates financial instruments at fair value through profit or loss if:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise

from measuring assets or liabilities on a different basis;

- a group of financial assets, financial liabilities, or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to NLB Group's key management; or
- a financial instrument contains one or more embedded derivatives that could significantly modify the cash flows otherwise required by the contract.

Derivatives are categorised as held for trading unless they are designated as hedging instruments.

#### *Loans and advances*

Loans and advances are non-derivative financial instruments with fixed or determinable payments that are not quoted on an active market, other than: (a) those that NLB Group intends to sell immediately or in the short term and which are classified as held for trading, and those that NLB Group, upon initial recognition, classifies at fair value through profit or loss; (b) those that NLB Group, upon initial recognition, classifies as available for sale; or (c) those for which NLB Group may not recover substantially all of its initial investment for reasons other than a deterioration in creditworthiness.

#### *Held-to-maturity financial assets*

Held-to-maturity financial assets are non-derivative financial instruments that are traded on an active market with fixed or determinable payments and a fixed maturity that NLB Group has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity financial asset if NLB Group has the right to require the issuer to repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in interest rates, exchange rates, or prices.

#### **b) Measurement and recognition**

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

Regular way purchases and sales of financial assets at fair value through profit or loss, and assets held-to-maturity and available-for-sale, are recognised on the trade date. Loans and advances are recognised when cash is advanced to the borrowers.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Gains and losses from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative amount previously included in other comprehensive income is recycled in the income statement. Interest calculated using the effective interest rate method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement.

Loans and held-to-maturity financial assets are carried at an amortised cost.

#### **c) Day one gains or losses**

The best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by a comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or based on a valuation technique whose variables only include data from observable markets.

If the transaction price on a non-active market is different than the fair value from other observable current market transactions in the same instrument, or is based on a valuation technique whose variables only include data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement ("day one gains or losses").

In cases where the data used for valuation are not fully observable in financial markets, day one gains or losses are not recognised immediately in the income statement. The timing of recognition of deferred day one gains or losses is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

#### **d) Reclassification**

Financial assets that are eligible for classification as loans and advances can be reclassified out of the held-for-trading category if they are no longer held for the purpose of selling or repurchasing them in the near term. Financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category only in rare circumstances. In addition, instruments designated at fair value through profit and loss cannot be reclassified.

**e) Derecognition**

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset is transferred and the transfer qualifies for derecognition. A financial liability is derecognised only when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled, or expires.

**f) Fair value measurement principles**

The fair value of financial instruments traded on active markets is based on the price that would be received to sell the assets or transfer liability (exit price) being measured at the reporting date, excluding transaction costs. If there is no active market, the fair value of the instruments is estimated using discounted cash flow techniques or pricing models.

If discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates; and the discount rate is a market-based rate at the reporting date for an instrument with similar terms and conditions. If pricing models are used, inputs are based on market-based measurements at the reporting date.

**g) Derivative financial instruments and hedge accounting**

Derivative financial instruments, including forward and futures contracts, swaps, and options, are initially recognised in the statement of financial position at fair value. Derivative financial instruments are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models or pricing models, as appropriate. All derivatives are carried at their fair value within assets when the derivative position is favourable to NLB Group, and as well within liabilities when the derivative position is unfavourable to NLB Group.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging

instrument and, if so, the nature of the item being hedged. NLB Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge);
- hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction (cash flow hedge); or
- hedges of a net investment in a foreign operation (net investment hedge).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the transaction NLB Group documents the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. NLB Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The actual results of a hedge must always fall within a range of 80-125%.

**Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in the fair value of hedging instruments and related hedged items are reflected in "fair value adjustments in hedge accounting" in the income statement. Any ineffectiveness from derivatives is recorded in "Gains Less Losses on Financial Assets and Liabilities held for Trading."

If a hedge no longer meets the hedge accounting criteria, the adjustment to the carrying amount of the hedged item for

which the effective interest rate method is used is amortised to profit or loss over the remaining period to maturity. The adjustment to the carrying amount of a hedged equity security is included in the income statement upon disposal of the equity security.

**Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement in "Gains less losses on financial assets and liabilities held for trading."

Amounts accumulated in equity are recycled as a reclassification from other comprehensive income to the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets hedge accounting criteria, any cumulative gain or loss existing in other comprehensive income and previously accumulated in equity at that time remains in other comprehensive income and in equity, and is recognised in profit or loss only when the forecasted transaction is ultimately recognised in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement in line with fair value adjustments in hedge accounting.

**Hedge of a net investment in a foreign operation**

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in equity. The gain or loss relating to the ineffective portion is recognised

immediately in the consolidated income statement in "Gains Less Losses on Financial Assets and Liabilities Held for Trading." Gains and losses accumulated in other comprehensive income are included in the consolidated income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

In the separate financial statements, the hedge of the net investment in a foreign operation is accounted for as a fair value hedge.

## 2.13. Impairment of financial assets

### a) Assets carried at amortised cost

NLB Group assesses impairments of financial assets separately for all individually significant assets where there is objective evidence of impairment. All other financial assets are impaired collectively. According to the Regulation on credit risk loss assessment of the Bank of Slovenia, a financial asset or off-balance sheet liability is individually significant if total exposure to a customer exceeds 0.5% of a bank's equity. In 2016, all exposures to banks, all exposures to other legal entities exceeding EUR 100 thousand and all exposures to individuals exceeding EUR 100 thousand were deemed individually significant assets requiring individual assessment. If NLB Group determines that no objective evidence exists for an individually assessed financial asset, the asset is included in a group of related financial assets with similar credit risk characteristics and collectively assessed for impairment.

At each reporting date NLB Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that event has an impact on the future cash flows of the financial asset or group

of financial assets that can be reliably estimated.

The criteria NLB Group uses to determine whether objective evidence of an impairment loss exists include:

- delays in the payment of contractual interest or principal;
- a breach of other contractual covenants or conditions;
- difficulties in the financial condition of the borrower;
- restructuring of a borrower's financial liabilities, whereby a material loss is recognised;
- initiation of bankruptcy or insolvency proceedings; and
- other arrangements having an adverse effect on the bank's or company's position.

If there is objective evidence that an impairment loss on loans and advances or held-to-maturity financial assets has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through an allowance account and the loss is recognised in the income statement. With regard to impairments for customers in default, where the payment of existing liabilities is only possible through the redemption of collateral, the expected payment from the collateral is taken into account. This value is calculated from the appraised market value of the collateral and the discount used as defined in the Collateral Manual. Off-balance sheet liabilities are also assessed individually and, where necessary, related provisions are recognised as liabilities.

For the purpose of the collective assessment of impairment, NLB Group uses transition matrices which illustrate the expected transition of customers between internal rating categories. The probability of transition is assessed on the basis of past years' experience, i.e. the annual transition

matrices for different types or segments of customers. This data may be adopted for projected future trends as historical experience does not necessarily reflect actual economic movements. Exposures to individuals are further analysed with regard to the type of product. Based on the expected transition of customers to D and E credit-rating categories, and an assessment of the average repayment rate for D- and E-rated customers (treated as customers in default), NLB Group recognises collective impairments.

If the amount of impairment decreases subsequently due to an event occurring after the impairment was recognised (e.g. repayment in the collection process exceeds the assessed expected payment from collateral), the reversal of the loss is recognised as a reduction in the allowance for loan impairment.

NLB Group writes off financial assets measured at amortised cost if during the collection process it assesses that the assets in question will not be repaid and that the conditions for derecognition have been met.

### b) Assets classified as available for sale

NLB Group assesses at each reporting date whether there is objective evidence that available-for-sale financial assets are impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of an investment below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is reclassified from other comprehensive income and recognised in the income statement as an impairment loss. Impairment losses recognised in the income statement on equity investments are not reversed through the income statement; subsequent increases in their fair value after impairment are recognised in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

The following factors are considered in determining impairment losses on debt instruments:

- default or delinquency in interest or principal payments;
- liquidity difficulties of the issuer;
- a breach of contract covenants or conditions;
- bankruptcy of the issuer;
- deterioration of economic and market conditions; and
- deterioration in the credit rating of the issuer below an acceptable level.

Impairment losses recognised in the income statement are measured as the difference between the carrying amount of the financial asset and its current fair value. The current fair value of the instrument is its market price or discounted future cash flows when the market price is not obtainable.

#### 2.14. Forborne loans

A forborne loan (or restructured financial asset) arises as a result of a debtor's inability to repay a debt under the originally agreed terms, either by modifying the terms of the original contract (via an annex) or by signing a new contract (refinancing) under which the contracting parties agree the partial or total repayment of the original debt. If receivables due from the client have the status of restructuring, the debtor must be classified in the rating group C, D, or E.

The definitions of forborne loans closely follow definitions that were developed by the European Banking Authority (EBA). These definitions aim to achieve comprehensive coverage of exposures to

which forbearance measures have been extended.

Accounting treatment of forborne loans depends on the type of restructuring. When NLB Group is embarking on a forborne loan via modified terms of repayment proceeding from extending the deadline for the repayment of the principal and/or interest and/or a forbearance of the repayment of the principal and/or interest or a reduction in the interest rate and/or other expenses, it adjusts the carrying amount of the forborne loan on the basis of the discounted value of the estimated future cash flows under the modified terms, and recognises the resulting effect in profit or loss as an impairment. In the event of the reduction of a claim against the debtor via the reduction in the amount of the claims as a result of a contractually agreed debt waiver and ownership restructuring or debt to equity swap, NLB Group derecognises the claim in the part relating to the write-down or the contractually agreed debt waiver. The new estimate of the future cash flows for the residual claim, not yet written down, is based on an updated estimate of the probability of loss. NLB Group takes into account the debtor's modified position, the economic expectations and the collateral of the forborne loan. When NLB Group is embarking on the forborne loan by taking possession of other assets (property, plant and equipment, securities, and other financial assets), including investments in the equity of debtors obtained via debt-to-equity swaps, it recognises the acquired assets in the statement of financial position at fair value, recognising the difference between the disclosed fair value of the asset and the carrying amount of the eliminated claim in profit or loss.

Forborne exposures may be identified in both the performing and non-performing parts of the portfolio. Where the forborne loan is classified in the non-performing part of the portfolio, it can be reclassified to the performing part if forbearance does

not lead to a recognition of impairment or non-performance, if one year has passed since the forbearance has been introduced and after the introduction of forbearance there have been no overdue amounts or doubts concerning the repayment of the entire exposure, under the terms and conditions after the forbearance. The absence of doubt is confirmed by analysis of the financial situation of the debtor.

The forborne status is withdrawn when:

- an analysis of the debtor's financial position shows that the conditions to deem the exposure a non-performing exposure are no longer met;
- at least a 2-year probation period has passed since the forborne exposure was deemed performing;
- regular payments of the principal or interest were made, in a substantial total amount, during at least half the probation period; and
- no exposure to the debtor is more than 30 days in default at the end of the probation period.

#### 2.15. Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are initially recognised in the financial statements at their fair value and classified in the appropriate category according to their purpose and are sold as soon as practical in order to reduce exposure (note 7.1.n). After initial recognition, repossessed assets are measured and accounted for in accordance with the policies applicable to the relevant asset categories. Repossessed assets mainly represent items of real estate that NLB Group classifies within investment properties measured in accordance with IAS 40 Investment property (note 2.20), and other assets, measured in accordance with IAS 2 Inventories.

Real estate obtained from the foreclosure of loans and receivables within other assets

are initially recognised at fair value less costs to sell (realisable value) wherein only the direct costs of sales can be taken into account. At subsequent measurement the realisable value is verified at least annually. Valuations of the fair value of real estate are performed by certified real-estate appraisers. The real estate is impaired when the carrying value exceeds the realisable value. The effect of impairment is presented as the impairment of other assets and the reversal of impairment as income from the reversal of the impairment of other assets.

#### 2.16. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### 2.17. Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements and the counterparty liability is included in financial liabilities associated with the transferred assets. Securities sold subject to sale and repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate.

The difference between the sale and repurchase price is in the financial statements treated as interest and accrued over the life of the repo agreements using the effective interest rate method.

#### 2.18. Property and equipment

All items of property and equipment are initially recognised at cost. They are subsequently measured at cost less

accumulated depreciation and any accumulated impairment loss.

Each year, NLB Group assesses whether there are indications that property and equipment may be impaired. If any such indication exists, the recoverable amounts are estimated. The recoverable amount is the higher of the fair value less costs to sell and value in use. If the recoverable amount exceeds the carrying value, the assets are not impaired. If the carrying amount exceeds the recoverable amount, the difference is recognised as a loss in the income statement.

Items of property and equipment which do not generate cash flows that are largely independent are included in the cash-generating unit and later tested for possible impairment.

Depreciation is calculated on a straight-line basis over the assets' estimated useful lives.

The following annual depreciation rates were applied:

NLB Group and NLB	in %
Buildings	2 - 5
Leasehold improvements	5 - 25
Computers	14.3 - 50
Furniture and equipment	10 - 33.3
Motor vehicles	12.5 - 25

Depreciation does not begin until the assets are available for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, on each reporting date. Gains and losses on the disposal of items of property and equipment are determined as the difference between the sale proceeds and their carrying amount, and are recognised in the income statement.

Maintenance and repairs are charged to the income statement during the financial period in which they are incurred. Subsequent costs that increase future

economic benefits are recognised in the carrying amount of an asset and the replaced part, if any, is derecognised.

#### 2.19. Intangible assets

Intangible assets include software licenses and goodwill (note 2.6.). Intangible assets are stated at cost, less accumulated amortisation and impairment losses.

Amortisation is calculated on a straight-line basis at rates designed to write down the cost of an intangible asset over its estimated useful life. The core banking system is amortised over a period of 10 years, and other software over a period of three to five years.

Amortisation does not begin until the assets are available for use.

#### 2.20. Investment properties

Investment properties include buildings held for leasing and not occupied by NLB Group or to increase the value of a long-term investment. Investment properties are stated at fair value determined by a certified appraiser. Fair value is based on current market prices. Any gain or loss arising from a change in fair value is recognised in the income statement.

#### 2.21. Non-current assets and disposal groups classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is deemed to be met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets and disposal groups classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

During subsequent measurement, certain assets and liabilities of a disposal group that are outside the scope of IFRS 5 measurement requirements are measured in accordance with the applicable standards (e.g. deferred tax assets, assets arising from employee benefits, financial instruments, investment property measured at fair value, and contractual rights under insurance contracts). Tangible and intangible assets are not depreciated. The effects of sale and valuation are included in the income statement as a gain or loss from non-current assets held for sale.

Liabilities directly associated with disposal groups are reclassified and presented separately in the statement of financial position.

## 2.22. Accounting for leases

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Lease agreements are accounted for in accordance with their classification as finance leases or operating leases at the inception of the lease. The key classification factor is the extent to which the risks and rewards incidental to ownership of a leased asset lie with the lessor or lessee.

### *NLB Group as a lessee*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

Finance leases are recognised as an asset and liability at amounts equal to the fair value of the leased asset or, if lower,

the present value of the minimum lease payments. Leased assets are depreciated in accordance with NLB Group's policy over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that NLB Group will obtain ownership by the end of the lease term. Lease payments are apportioned between interest expenses and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### *NLB Group as a lessor*

Payments under operating leases are recognised as income on a straight-line basis over the period of the lease. Assets leased under operating leases are presented in the statement of financial position as investment property or as property and equipment.

NLB Group classifies a lease as a finance lease when the risks and rewards incidental to ownership of a leased asset lie with the lessee. When assets are leased under a finance lease, the present value of the lease payments is recognised as a receivable. Income from finance lease transactions is amortised over the lifetime of the lease using the effective interest rate method. Finance lease receivables are recognised at an amount equal to the net investment in the lease, including the unguaranteed residual value.

### *Sale-and-leaseback transactions*

NLB Group also enters into sale-and-leaseback transactions (in which NLB Group is primarily a lessor) under which the leased assets are purchased from and then leased back to the lessee. These contracts are classified as finance leases or operating leases, depending on the contractual terms of the leaseback agreement.

## 2.23. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise

cash and balances with central banks and other demand deposits at banks, debt securities held for trading, loans to banks, and debt securities not held for trading with an original maturity of up to 90 days. Cash and cash equivalents are disclosed under the cash flow statement.

## 2.24. Borrowings with characteristics of debt

Loans and deposits received and issued debt securities are initially recognised at fair value, which is typically equal to historical cost less transaction costs. Borrowings are subsequently measured at the amortised cost. The difference between the value at initial recognition and the final value is recognised in the income statement as interest expense, applying the effective interest rate.

Repurchased own debt is disclosed as a reduction in liabilities in the statement of financial position. The difference between the book value and the price at which own debt was repurchased is disclosed in the income statement.

## 2.25. Other issued financial instruments with characteristics of equity

Upon initial recognition, other issued financial instruments are classified in part or in full as equity instruments if the contractual characteristics of the instruments are such that NLB Group must classify them as equity instruments in accordance with IAS 32 Financial Instruments: Disclosure and Presentation. An issued financial instrument is only considered an equity instrument if that instrument does not represent a contractual obligation for payment.

Issued financial instruments with characteristics of equity are recognised in equity in the statement of financial position. Transaction costs incurred for issuing such instruments are deducted from equity reserves. The corresponding interest is recognised directly in profit reserves.

The carrying value of an issued financial instrument with characteristics of equity is presented in the statement of changes in equity in the item 'Other Equity Instruments.'

### 2.26. Provisions

Provisions are recognised when NLB Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

### 2.27. Contingent liabilities and commitments

#### *Financial and non-financial guarantees*

Financial guarantees are contracts that require the issuer to make specific payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payments when due, in accordance with the terms of debt instruments. Such financial guarantees are given to banks, financial institutions, and other bodies on behalf of the customer to secure loans, overdrafts and other banking facilities.

The issued guarantees covering non-financial obligations of the clients represent the obligation of the Bank (guarantor) to pay if the client fails to perform certain works in accordance with the terms of the commercial contract. Financial and non-financial guarantees are initially recognised at fair value, which is normally evidenced by the fees received. The fees are amortised to the income statement over the contract term using the straight-line method. NLB Group's liabilities under guarantees are subsequently measured at the greater of:

- the initial measurement, less amortisation calculated to recognise fee income over the period of guarantee; or
- the best estimate of the expenditure required to settle the obligation.

#### *Documentary letters of credit*

Documentary (and standby) letters of credit constitute a written and irrevocable commitment of the issuing (opening) bank on behalf of the issuer (importer) to pay the beneficiary (exporter) the value set out in the documents by a defined deadline:

- if the letter of credit is payable on sight; and
- if the letter of credit is payable for deferred payment, the bank will pay according to the contractual agreement when and if the beneficiary (exporter) presents the bank with documents that are in line with the conditions and deadlines set out in the letter of credit.

A commitment may also take the form of a letter of credit confirmation, which is usually done at the request or authorisation of the issuing (opening) bank and constitutes a firm commitment by the confirming bank, in addition to that of the issuing bank, which independently assumes a commitment to the beneficiary under certain conditions.

#### *Other contingent liabilities and commitments*

Other contingent liabilities and commitments represent commitments to extend credit, uncovered letters of credit, and other commitments.

### 2.28. Taxes

Income tax expense comprises current and deferred income tax.

Current corporate income tax in NLB Group is calculated on taxable profits at the applicable tax rate in the respective jurisdiction. The corporate income tax rate for 2016 in Slovenia was 17% (2015: 17%). In accordance with the change of tax legislation, the corporate income tax rate from 2017 onwards will be 19%.

Deferred income tax is calculated using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their

carrying amounts for financial reporting purposes.

Deferred tax assets are recognised if it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

Deferred tax related to the fair value re-measurement of available-for-sale investments, cash flow hedges, and actuarial gains and losses on defined benefit pension plans is charged or credited directly to other comprehensive income.

Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period that are expected to apply to the period when the asset is realised or the liability is settled. At each reporting date, NLB Group reviews the carrying amount of deferred tax assets and assesses future taxable profits against which temporary taxable differences can be utilised.

Deferred tax assets for temporary differences arising from investments in subsidiaries, associates, and joint ventures are recognised only to the extent that it is probable that:

- the temporary differences will be reversed in the foreseeable future; and
- taxable profit will be available.

A tax on financial services, which imposes a tax on fees paid for prescribed financial services rendered, is paid in Slovenia. The tax rate is 8.5% (2015: 8.5%) and the tax is paid monthly. Given that the tax on financial services is classified as a sales tax, it reduces accrued revenues in the financial statements.

### 2.29. Fiduciary activities

NLB Group provides asset management services to its clients. Assets held in a fiduciary capacity are not reported in NLB Group's financial statements as they

do not represent assets of NLB Group. Fee and commission income charged for this type of service is broken down by items in note 4.3.b. Further details on transactions managed on behalf of third parties are disclosed in note 5.25.

Based on the requirements of Slovenian legislation, NLB Group has additionally disclosed in note 5.25. assets and liabilities on accounts used to manage financial assets from fiduciary activities, i.e. information related to the receipt, processing, and execution of orders and related custody activities.

### 2.30. Employee benefits

Employee benefits include jubilee long-service benefits and retirement indemnity bonuses. Provisions for employee benefits are calculated by an independent actuary. The main assumptions included in the actuarial calculation are as follows:

According to legislation, employees retire after 35-40 years of service when, if they fulfil certain conditions, they are entitled to a lump-sum severance payment. Employees are also entitled to a long-service bonus for every 10 years of service in NLB

These obligations are measured at the present value of future cash outflows considering future salary increases and other conditions, and then apportioned to past and future employee service based on benefit plan terms and conditions.

Service costs are included in the income statement in the item administrative expenses as defined benefit costs, while interest expenses on the defined benefit liability are recognised in the item interest and similar expenses. These interest expenses represent the change during the period in the defined benefit liability that arises from the passage of time. Actuarial

gains and losses from the effect of changes in actuarial assumptions and experience adjustments (differences between the realised and expected payments) are recognised in other comprehensive income under the item 'Actuarial Gains/(Losses) on Defined Benefit pensions plans' and will not be recycled to the income statement.

NLB Group pays contributions to the state pension schemes according to the local legislation. NLB contributes 8.85% of gross salaries. Once contributions have been paid, NLB Group has no further obligation. Contributions constitute costs in the period to which they relate and are disclosed in employee costs in the income statement.

	NLB Group		NLB	
	2016	2015	2016	2015
<b>Actuarial assumptions</b>				
Discount factor	0.8% - 6.0%	1.7% - 7.0%	0.8%	1.7%
Wage growth based on inflation, promotions and wage growth based on past years of service	1.6% - 4.0%	2.0% - 3.0%	2.5%	3.0%
<b>Other assumptions</b>				
Number of employees eligible for benefits	5,584	5,658	2,876	2,915

### Sensitivity analysis of significant actuarial assumptions

31.12.2016	NLB Group				NLB			
	Discount rate		Future salary increases		Discount rate		Future salary increases	
	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.
Impact on employee benefits provisions - post-employment benefits (in %)	(5.6)	6.1	6.1	(5.6)	(5.8)	6.3	6.2	(5.7)

### 2.31. Share capital

#### Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by NLB's shareholders.

#### Treasury shares

If NLB or another member of NLB Group purchases NLB's shares, the consideration paid is deducted from total shareholders' equity as treasury shares. If such shares are subsequently sold, any consideration received is included in equity. If NLB's shares are purchased by NLB itself or other NLB Group entities, NLB creates reserves for treasury shares in equity.

#### Share issue costs

Costs directly attributable to the issue of new shares are recognised in equity as a reduction in the share premium account.

### 2.32. Segment reporting

Operating segments report in a manner consistent with internal reporting to the Management Board which is the executive body that makes decisions regarding the allocation of resources and assesses the performance of a specific segment.

All transactions between business segments are conducted as part of the normal course of business. Interest income is reallocated between sub-segments of the Bank (NLB) on the basis of multiple transfer prices (fund transfer prices hereinafter: FTP). The amount of net interest income arising from transactions between segments is disclosed in the item intersegment net interest income. Net income from external customers corresponds to the consolidated net income of NLB Group. Income taxes are not allocated to segments (note 8.a).

In accordance with IFRS 8, NLB Group has the following reportable segments: Corporate Banking in Slovenia, Retail Banking in Slovenia, Financial Markets in Slovenia, Foreign Strategic markets, Non-strategic Markets and Activities, and Other Activities.

### 2.33. Critical accounting estimates and judgments in applying accounting policies

NLB Group's financial statements are influenced by accounting policies, assumptions, estimates and management's judgment. NLB Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with the IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuing basis, and are based on past experience and other factors, including expectations with regard to future events.

#### a) Impairment losses on loans and advances

NLB Group monitors and checks the quality of the loan portfolio at the individual and portfolio levels to continuously estimate the necessary impairments. NLB Group creates individual impairments for individually significant financial assets where objective evidence of impairment exists. Such evidence is based on information regarding the fulfilment of contractual obligations or other financial difficulties of the debtor and other important facts defined in note 2.13. Individual assessments are based on the expected discounted cash flows from operations and/or the assessed expected payment from collateral, as verified by the Credit Analyses and Control Division.

Impairments are assessed collectively for financial assets for which no objective evidence of impairment exists, or for financial assets with lower exposure amounts. The future cash flows in this group of assets are estimated on the basis of past experience and losses from assets with a similar credit risk as the assets in the group. The methodology and assumptions used to estimate future cash flows are reviewed regularly in order to make loss estimations as realistic as possible.

#### *Stress testing for credit risk predicting the impact of unfavourable macroeconomic conditions on default and loss rates*

Stress testing is structured to take into account a probable scenario and a stress scenario in the testing of each stress situation. It is assumed that the risk in the probable scenario is covered by regulatory capital, while the stress scenario assumes a deteriorating stress exceeding expectations. The stress scenario predicts a slowdown of economic conditions, which results in an increase of the default rate (DR), as well as the loss rate (LR). Based on the historic experience the connection between the macroeconomic factors and the risk factors is assessed and benchmarks are applied to the existing exposures to assess the additional impairments and provisions required to cover the risk. For the purpose of ICAAP the scenario predicts two levels of severity consequently, we have results for the Baseline and Adverse scenario.

The difference between the two scenarios is the amount of additionally required impairments that must be created by the Bank in the event of their realisation. The assumption in these scenarios is that exposure does not change over one year.

The results of the stress scenario for NLB Group shows an increase of impairments of EUR 84.2 million (2015: EUR 90.4 million) and an increase in the coverage of the credit portfolio by impairments by 1.01 percentage points (2015: 1.03 percentage points).

The methodology for this stress scenario is referring to the ICAAP methodological approach, which was renewed in 2016 accordingly NLB Group adjusted the comparative amounts for 2015.

#### b) Fair value of financial instruments

The fair values of financial investments traded on the active market are based on current bid prices (financial assets) or offer prices (financial liabilities).

The fair values of financial instruments that are not traded on the active market are determined by using valuation models. These include a comparison with recent transaction prices, the use of a discounted cash flow model, valuation based on comparable entities, and other frequently used valuation models. These valuation models pretty much reflect current market conditions at the measurement date, which may not be representative of market conditions either before or after the measurement date. Management reviewed all applied models as at the reporting date to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and applied credit spread. Changes in assumptions regarding these factors could affect the reported fair values of financial instruments held for trading and available-for-sale financial assets.

The fair values of derivative financial instruments are determined on the basis of market data (mark-to-market), in accordance with NLB Group's methodology for the valuation of derivative financial instruments. The market exchange rates, interest rates, yield, and volatility curves used in valuation are based on the market snapshot principle. Market data are saved daily at 4 p.m. and later used for the calculation of the fair values (market value, NPV) of financial instruments. NLB Group applies market yield curves for valuation, and fair values are additionally adjusted for credit risk of the counterparty.

The fair value hierarchy of financial instruments is disclosed in note 7.6.

#### c) Available-for-sale equity instruments

Available-for-sale equity instruments are impaired if there has been a significant or prolonged decline in their fair value below historical cost. The determination of what is significant or prolonged is based on assessments. In making these assessments, NLB Group takes several factors into account, including share price volatility.

Impairment may also be indicated by evidence regarding deterioration in the financial position of the instrument issuer, deterioration in sector performance, changes in technology, and a decline in cash flows from operating and financing activities.

If all the declines in fair value below cost had been considered significant or prolonged, NLB Group would have incurred additional impairment losses of EUR 257 thousand (2015: EUR 221 thousand) from the reclassification of the negative valuation from the statement of comprehensive income to the income statement for the current year, while NLB would not have additional impairment losses in 2016 (2015: EUR 15 thousand).

#### d) Held-to-maturity financial assets

NLB Group classifies non-derivative financial assets with fixed or determinable payments and a fixed maturity as held-to-maturity financial assets. Before making this classification, NLB Group assesses its intention and ability to hold such investments to maturity. If NLB Group is unable to hold these investments until maturity, it must reclassify the entire group as available-for-sale financial assets. The investments would therefore be measured at fair value, resulting in an increase in the value of investments of EUR 59,895 thousand (31 December 2015: an increase by EUR 59,442 thousand) and corresponding other comprehensive income.

#### e) Impairment of investments in subsidiaries, associates, and joint ventures

The process of identifying and assessing the impairment of goodwill and other intangible assets is inherently uncertain, as the forecasting of cash flows requires the significant use of estimates, which themselves are sensitive to the assumptions used. The review of impairment represents management's best estimate of the facts and assumptions such as:

- Future cash flows from individual investments present the estimated cash flow for periods for which adopted plans are available. For core members, estimated cash flows are based on a five-year business plan. For non-core members, estimated cash flows are based on a period in line with the strategy of divestment. The business plans of individual entities are based on an assessment of future economic conditions that will impact an individual member's business and the quality of the credit portfolio.
- The growth rate in cash flows for the period following the adopted business plan is between 1 and 1.5%.
- A target capital adequacy ratio of an individual bank is between 13 and 17%.
- The discount rate derived from the capital asset pricing model and that is used to discount future cash flows is based on the cost of equity allocated to an individual investment. The discount rate reflects the impact of a range of financial and economic variables, including the risk-free rate and risk premium. The value of variables used is subject to fluctuations outside management's control. A pre-tax discount rate is between 9.52 and 18.78% (31 December 2015: between 10.31 and 18.94%).

For strategic NLB Group members in 2016 and 2015 there were no indications of impairment for equity investments.

In 2016, NLB impaired equity investments in non-core members which are in the process of divestment in the amount of EUR 37.65 million – of which EUR 26.13 million refers to the immediate impairment of recapitalisation to cover the operating losses and EUR 11.52 million refers to impairments on the basis of the net present value of the future cash flows. If the discount rate in the discounted cash flows model differs by +/- 1 percentage point, the net present value in use of the equity investments would be lower in the

case of the increased discount rate by a maximum of EUR 0.6 million. In the case of a decreased discount rate the net present value in use of equity investments would be higher by a maximum of EUR 0.6 million. If the forecasted cash flows in the discounted cash flows model differ by +/- 10%, the estimated value in use of the equity investments would be higher in the case of increased forecasted cash flows by a maximum of EUR 2.4 million. In the case of decreased forecasted cash flows, the value in use of equity investments would be lower by a maximum of EUR 2.4 million.

#### f) Goodwill

In the consolidated financial statements goodwill is allocated to cash-generating units (hereinafter: CGUs), which represent the lowest level within NLB Group at which these assets are monitored by management. Each NLB Group entity presents a separate CGU. The recoverable amount of each CGU was determined based on value-in-use calculations.

NLB Group performed a test for the impairment of goodwill at the end of the year for all subsidiaries. The review of the impairment of goodwill is based on the same facts and assumptions as the review of impairment of investments in subsidiaries, associates, and joint ventures (note 2.33.e).

#### g) Taxes

NLB Group operates in countries governed by different laws. The deferred tax assets recognised as at 31 December 2016 are based on profit forecasts and take the expected manner of recovery of the assets into account, i.e. whether the value will be recovered through use, sale, or liquidation. Changes in assumptions regarding the likely manner of recovering assets could lead to the recognition of currently unrecognised deferred tax assets or derecognition of previously created deferred tax assets. NLB Group will adjust deferred tax assets accordingly in the event

of changes to assumptions regarding future operations (notes 4.14. and 5.18.).

#### h) Classification of issued financial instruments as debt or equity

NLB Group issues non-derivative financial instruments where a specific judgment is required to determine whether these instruments are classified as a liability or as equity. When the delivery of cash depends on the outcome of uncertain future events that are beyond the control of NLB Group, and management anticipates that these future events are extremely rare, highly abnormal, and unlikely to occur, these instruments are classified as equity.

#### 2.34. Implementation of the new and revised International Financial Reporting Standards

During the current year, NLB Group adopted all new and revised standards and interpretations issued by the International Accounting Standards Board (hereinafter: the IASB) and the International Financial Reporting Interpretations Committee (hereinafter: the IFRIC), and that are endorsed by the EU that are effective for annual accounting periods beginning on 1 January 2016.

#### Accounting standards and amendments to existing standards effective for annual periods beginning on 1 January 2016 that were endorsed by the EU and adopted by NLB Group

- IAS 19 (amendment) – Employee Benefits (effective for annual periods beginning on or after 1 February 2015). The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service. The amendment does not have an impact on NLB Group's consolidated financial statements.
- Annual Improvements to IFRSs 2010–2012 Cycle. The improvements

are comprised of a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 February 2015. The amendment to IFRS 2 – Share-based Payment includes the definitions of vesting conditions and market conditions, and adds definitions for performance conditions and service conditions. The amendment to IFRS 3 – Business Combinations clarifies that a contingent consideration classified as an asset or liability shall be measured at fair value through profit and loss, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 and IFRS 9 or not. The amendment to IFRS 8 – Operating Segments requires the disclosure of judgments made by management in applying aggregation criteria to operating segments, and also a reconciliation of the total of the reportable segments' assets if the segment assets are reported regularly to the chief operating decision-maker. The amendment to IAS 16 – Property, Plant, and Equipment, and IAS 38 – Intangible Assets clarifies that when an item of property, plant, and equipment or an intangible asset is revaluated, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount. The amendment to IAS 24 – Related Party Disclosures clarifies that an entity providing key management personnel services to the reporting entity is a related party of the reporting entity. The amendments do not have a significant impact on NLB Group's consolidated financial statements.

- Annual Improvements to IFRSs 2012–2014 Cycle. The improvements comprise a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 January 2016. The amendment to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

clarifies that when the asset or disposal group is reclassified from 'held for sale' to 'held for distribution,' or vice versa, the change of the original plan of disposal or distribution is not needed. The amendments to IFRS 7 Financial Instruments: Disclosures clarify whether a servicing contract for a transferred financial asset leads to continuing involvement, and remove the requirement of disclosing offsetting financial assets and liabilities in condensed interim financial statements. The amendment to IAS 19 Employee Benefits requires usage of market yields on government bonds for the discount rate for a post-employment benefit obligation in currency in which the post-employment benefit obligation is denominated, if for the currency there is no deep market of highly quality corporate bonds. The amendment to IAS 34 Interim financial reporting clarifies that interim disclosures must be included in interim financial statements or cross-referenced between interim financial statements and other parts of interim reports (management commentary or risk report). The amendments do not have a significant impact on NLB Group's consolidated financial statements.

- IAS 27 (amendment) - Equity Method in Separate Financial Statements is effective from annual periods beginning on or after 1 January 2016. The amendments include the option for an entity to account for its investments in subsidiaries, joint ventures, and associates using the equity method in its separate financial statements. The amendment does not have an impact on NLB Group's consolidated financial statements.
- IAS 16 and IAS 38 (amendment) – Clarification of Acceptable Methods of Depreciation and Amortisation is effective from annual periods beginning on or after 1 January

2016. The amendment clarifies that a revenue-based method should not generally be used as a basis for the depreciation of property, plant, and equipment, and may only be used in very limited circumstances to amortise intangible assets. The amendment does not have an impact on NLB Group's consolidated financial statements.

- IFRS 11 (amendment) – Accounting for Acquisition of Interests in Joint Operations is effective from annual periods beginning on or after 1 January 2016. The amendment requires that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured upon the acquisition of an additional interest in the same joint operation while joint control is retained. The amendment does not have an impact on NLB Group's consolidated financial statements.
- IAS 1 (amendment) - Disclosure Initiative is effective from annual periods beginning on or after 1 January 2016. The amendments further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The narrow-focus amendments to IAS clarify, rather than significantly change, the existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies, and presentation of items of other comprehensive income arising from equity accounted Investments. The amendments do not have significant impact on the presentation of NLB Group's consolidated financial statements.

- IFRS 10, IFRS 12, and IAS 28 (amendment) - Investment Entities: Applying the Consolidation Exception is effective from annual periods beginning on or after 1 January 2016. The amendments address issues arising in practice in the application of the investment entities consolidation exception. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments also clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments do not have an impact on NLB Group's consolidated financial statements.

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

- IFRS 9 Financial Instruments  
In July 2014, the IASB issued IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a new approach to financial instruments classification and measurement, a new more forward-looking expected loss model, and amends the requirements for hedge accounting. IFRS 9 is mandatorily effective for annual periods beginning on or after 1 January 2018 with early application permitted. NLB and NLB Group will apply the new standard on 1 January 2018.

### Classification and measurement of financial instruments

From a classification and measurement perspective, the new standard will require 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 will be replaced by:

- fair value through profit or loss (FVPL),
- fair value through other comprehensive income (FVOCI),
- amortised cost, and
- financial instruments designated as FVPL

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. The accounting for financial liabilities will be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL.

Having completed the initial assessment of business model and cash flow characteristics test, NLB and NLB Group assess the following:

- the majority of loans and advances to banks and customers that are classified as loans and receivables under IAS 39 are expected to be measured at the amortised cost under IFRS 9,
- financial assets held for trading and financial assets designated as FVPL are expected to continue to be measured at FVPL,
- debt securities classified as available for sale under IAS 39 are expected to be measured at the amortised cost or FVOCI and
- debt securities classified as held to maturity are expected to continue to be measured at the amortised cost.

### Hedge accounting

IFRS 9 allows entities to continue with the hedge accounting under IAS 39 even when other elements of IFRS 9 become

mandatory on 1 January 2018. Based on performed analysis, NLB Group has decided to continue to apply hedge accounting under IAS 39.

### Impairment of financial instruments

IFRS 9 requires the movement from an incurred loss in model to an expected loss model, requiring 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 FVPL, together with loan commitments and financial guarantee contracts.

The allowance is based on the expected credit losses associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset (LECL). When determining whether the risk of default increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical data, experience, and expert credit assessment and incorporation of forward-looking information.

### Classification into stages

NLB Group prepared a methodology for ECL defining the criteria for classification into stages, transition criteria between stages, risk indicators calculation, and validation of models. The Group will classify financial instruments into stage 1, stage 2, and stage 3, based on the applied impairment methodology as described below:

- stage 1 – performing portfolio: no significant increase of credit risk since

initial recognition, Group recognises an allowance based on 12-month ECL,

- stage 2 – underperforming portfolio: significant increase in credit risk since initial recognition, Group records an allowance for LECL, and
- stage 3 – impaired portfolio: Group recognises LECL for these financial instruments.

A significant increase in credit risk is assumed:

- when a credit rating decreases 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 credit rating assessment),
- if NLB and NLB Group expects to grant the borrower forbearance or
- if the facility is placed on the watch list.

ECL for stage 1 financial instruments is calculated on the basis of 12-month PDs or shorter period PDs, if the maturity of the financial asset is shorter than 1 year. The 12-month PD already includes macroeconomic impact effect. Impairment losses in stage 1 are designed to reflect impairment losses that had been incurred in the performing portfolio, but have not been identified.

LECL for stage 2 financial instruments is calculated on the basis of lifetime PDs (LPD) because their credit risk has increased significantly since their initial recognition. This calculation is also based on forward-looking assessment that takes into account number of economic scenarios in order to recognise the probability or losses associated with the predicted macro-economic forecasts.

For financial instruments in stage 3 the same treatment as those considered to be credit impaired in accordance with IAS 39 is expected. Financial instruments will be transferred out of stage 3 if they no longer meet the criteria of credit-impaired after a probation period. Special treatment applies

for purchased or originated credit-impaired financial instruments (POCI), where only the cumulative changes in the lifetime expected losses since initial recognition will be recognised a loss allowance.

#### *Interest income recognition*

Interest income on financial assets in stage 1 and stage 2 are recognised on a gross basis (amortised costs before allowance), whereas interest income for financial assets in stage 3 are recognised on amortised costs net of allowances.

#### *Forward looking information*

The Group will incorporate 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 financial planning and 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.

#### **Implementation strategy and progress update**

Taking into account the dimensions of the IFRS 9 requirements and its impact on the overall banking system, implementation of the standard is organised as a project on the level of NLB Group. The project is divided into sub-projects with clear work streams for classification and measurement of financial instruments, impairment of financial instruments, and disclosures. Sub-projects for classification and measurement are run by Financial

Accounting, while the impairment is run by Global Risk. Other relevant departments are involved in a supporting role. The Project is sponsored by the Chief Financial and Risk officers. A project Steering Committee has been nominated for internal monitoring of progress in the implementation and adoption of relevant decisions, meeting on at least a quarterly basis.

Gap analysis in current methodologies, processes, accounting and business policies, IT systems, and identified disclosure requirements are completed. Currently, NLB Group is in the implementation phase. In second half of the year 2017 NLB Group will finish the implementation phase, testing and parallel run. This includes accounting and business policies for classification and measurement of financial instruments, recognition of expected credit losses, disclosures, and reporting.

- IFRS 15 (new standard) – Revenue from Contracts with Customers is effective from annual periods beginning on or after 1 January 2018. IFRS 15 replaces all existing revenue requirements in the IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. The standard specifies the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. NLB Group does not expect a material impact on its consolidated financial statements.

#### **Accounting standards and amendments to existing standards, but not endorsed by the EU**

- IFRS 14 (new standard) - Regulatory Deferral Accounts is an optional standard, effective for annual periods beginning on or after 1 January 2016. The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard. The standard allows an entity whose activities are subject to rate-regulation to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Existing IFRS preparers are prohibited from adopting this standard. The amendment does not have an impact on NLB Group's consolidated financial statements.
- IFRS 16 (new standard) – Leases is effective from annual periods beginning on or after 1 January 2019. IFRS 16 replaces the old lease accounting Standard IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments, and an asset representing the right to use the underlying asset during the lease. The term 'Lessor Accounting' under IFRS 16 is substantially unchanged from today's accounting under IAS 17. NLB Group is evaluating the impact of the standard on NLB Group's consolidated financial statements.
- IFRS 10 and IAS 28 (amendment) – The IASB has deferred the effective dates of Sale or Contribution of Assets

- between an Investor and its Associate or Joint Venture amendments indefinitely. The amendments address a conflict between the requirements of IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. NLB Group does not expect an impact on its consolidated financial statements.
- IAS 12 (amendment) – Recognition of Deferred Tax Assets for Unrealised Losses is effective from annual periods beginning on or after 1 January 2017. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. NLB Group does not expect an impact on its consolidated financial statements.
  - IAS 7 (amendment) – Disclosure Initiative - the amendment to IAS 7 Statement of Cash Flows is effective from annual periods beginning on or after 1 January 2017. The amendments require companies to provide information about changes in their financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses). The amendments will impact the presentation of NLB Group's consolidated financial statements.
  - IFRS 15 (amendment) – Clarifications to Revenue from Contracts with Customers are effective from annual periods beginning on or after 1 January 2018. The amendments to the Revenue Standard do not change the underlying principles of the Standard, but clarify how those principles should be applied. They also clarify how to identify a performance obligation in a contract, determine whether a company is a principal, and determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. NLB Group does not expect a material impact on its consolidated financial statements.
  - IFRS 2 (amendment) – Classification and Measurement of Share-based Payment Transactions is effective from annual periods beginning on or after 1 January 2018. The amendments clarify how to account for certain types of share-based payment transactions. They provide requirements that address three main areas: the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, the classification of share-based payment transactions with a net settlement feature for withholding tax obligations, and accounting where a modification to the terms and conditions of a share-based payment transactions changes its classification from cash-settled to equity-settled. NLB Group does not have share-based payments transactions.
  - IFRS 4 (amendment) – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts is effective from annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new replacement Standard IFRS 4. The amendments introduce two approaches: an overlay approach and a temporary exemption from applying IFRS 9. NLB Group does not expect an impact on its consolidated financial statements.
  - Annual Improvements to IFRSs 2014–2016 Cycle. The improvements are minor amendments that clarify, correct, or remove redundant wording in a Standards. The amendments refer to three Standards: IFRS 12 Disclosure of Interests in Other Entities effective from annual periods beginning on or after 1 January 2017, and IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures effective from annual periods beginning on or after 1 January 2018.
  - IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration is effective from annual periods beginning on or after 1 January 2018. The interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. It covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense, or income. It does not apply when an entity measures the related asset, expense, or income on initial recognition at fair value. NLB Group is evaluating the impact of the amendments on NLB Group's consolidated financial statements.
  - IAS 40 (amendment) – Transfers of Investment Property is effective from annual periods beginning on or after 1 January 2018. The amendments clarify the requirements on transfers to, or from, investment property. An entity shall transfer a property to,

or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of 'investment property.' A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. NLB Group is evaluating the impact of the amendments on NLB Group's consolidated financial statements.

### 3. Changes in subsidiary holdings

#### Changes in 2016

##### Capital changes:

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

##### Other changes:

- FIN-DO d.o.o., Domžale and PRO-Avenija d.o.o., Ljubljana are merged with PRO-REM d.o.o., Ljubljana. The merger was formally registered on 1 July 2016, with the accounting date of merger as at 31 December 2015.
- BH-RE d.o.o., Sarajevo was established and will manage certain real estate in NLB Group. PRO-REM d.o.o., Ljubljana's ownership is 100%.
- Kreditni biro SISBON d.o.o., Ljubljana; Optima Leasing, Zagreb; NLB Leasing, Beograd; NLB Lizing, Skopje; PRO-REM, Ljubljana; OL Nekretnine, Zagreb; NLB Leasing Podgorica, Podgorica; and NLB Interfinanz Zürich are formally in liquidation; and also NLB Propria, Ljubljana from 1 January 2017.
- Prvi faktor, Skopje and NLB Leasing Sofia were liquidated. In accordance with a court order, the companies were removed from the court register.

#### Changes in 2015

##### Capital changes:

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

##### Other changes:

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

#### 4. Notes to the income statement

##### 4.1. Interest income and expenses

###### Analysis by type of assets and liabilities

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
<b>Interest and similar income</b>				
Loans and advances to customers	327,055	372,604	166,718	211,250
Available-for-sale financial assets	31,426	33,232	17,881	19,692
Held-to-maturity financial assets	17,997	21,656	17,997	21,656
Financial assets held for trading	9,180	11,663	9,273	11,792
Loans and advances to banks and central banks	1,249	1,302	2,407	2,437
Derivatives - hedge accounting	831	1,487	831	1,487
Deposits with banks and central banks	755	1,215	442	642
Other assets	1	44	1	44
<b>Total</b>	<b>388,494</b>	<b>443,203</b>	<b>215,550</b>	<b>269,000</b>
<b>Interest and similar expenses</b>				
Due to customers	40,797	65,425	15,281	29,426
Debt securities in issue	9,376	10,454	9,376	10,454
Financial liabilities held for trading	5,923	8,420	5,923	8,420
Derivatives - hedge accounting	5,688	5,952	5,688	5,952
Borrowings from banks and central banks	3,699	7,501	2,713	5,546
Borrowings from other customers	1,857	2,271	10	109
Subordinated liabilities	1,840	1,548	-	-
Negative interest from deposits with banks and central banks	1,429	381	1,307	361
Provisions for defined employee benefits (note 2.30. and 5.17.c)	357	751	205	550
Deposits from banks and central banks	75	105	70	39
Other financial liabilities	148	193	99	136
<b>Total</b>	<b>71,189</b>	<b>103,001</b>	<b>40,672</b>	<b>60,993</b>
<b>Net interest</b>	<b>317,305</b>	<b>340,202</b>	<b>174,878</b>	<b>208,007</b>

In 2016, interest income on individually impaired loans amounted to EUR 31,059 thousand (2015: EUR 47,853 thousand) for NLB Group, and to EUR 15,940 thousand for NLB (2015: EUR 28,783 thousand).

##### 4.2. Dividend income

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Available-for-sale financial assets	1,238	1,346	1,144	1,264
<b>Total</b>	<b>1,238</b>	<b>1,346</b>	<b>1,144</b>	<b>1,264</b>

### 4.3. Fee and commission income and expenses

#### a) Fee and commission income and expenses relating to activities of NLB Group and NLB

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
<b>Fee and commission income</b>				
Fee and commission income relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	55,798	59,427	37,568	44,139
Customer transaction accounts	39,878	39,668	31,015	31,638
<i>Other fee and commission income</i>				
Payments	54,987	54,274	28,149	28,278
Investment funds	13,831	13,534	3,615	4,235
Guarantees	12,225	13,322	8,250	8,687
Agency of insurance products	3,321	2,873	3,302	2,873
Other services	6,008	5,501	4,399	3,187
<b>Total</b>	<b>186,048</b>	<b>188,599</b>	<b>116,298</b>	<b>123,037</b>
<b>Fee and commission expenses</b>				
Fee and commission expenses relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	34,539	35,415	21,430	24,457
<i>Other fee and commission expenses</i>				
Payments	5,363	4,970	775	788
Insurance for holders of personal accounts and golden cards	2,108	1,757	1,427	1,449
Investment banking	1,018	941	279	263
Guarantees	354	592	290	541
Other services	3,038	2,545	1,361	1,020
<b>Total</b>	<b>46,420</b>	<b>46,220</b>	<b>25,562</b>	<b>28,518</b>
<b>Net activity fee and commission income</b>	<b>139,628</b>	<b>142,379</b>	<b>90,736</b>	<b>94,519</b>

Income from other services includes income from servicing of non-performing loans sold in Project Pine in the amount of EUR 1,543 thousand, income from deposit valuables, administrative services and safe custody, and other agency services.

## b) Fee and commission income and expenses relating to fiduciary activities

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
<b>Fee and commission income related to fiduciary activities</b>				
Receipt, processing, and execution of orders	1,250	781	1,231	859
Management of financial instruments portfolio	1,502	1,527	-	-
Initial or subsequent underwriting and/or placing of financial instruments without a firm commitment basis	184	444	184	444
Custody and similar services	4,190	3,791	4,104	4,003
Management of clients' account of non-materialised securities	549	553	549	553
Safe-keeping of clients' financial instruments	-	5	-	-
Advice to companies on capital structure, business strategy, and related matters, advice, and services relating to mergers and acquisitions of companies	648	10	648	-
<b>Total</b>	<b>8,323</b>	<b>7,111</b>	<b>6,716</b>	<b>5,859</b>
<b>Fee and commission expenses related to fiduciary activities</b>				
Fee and commission related to Central Securities Clearing Corporation and similar organisations	2,241	2,368	2,121	2,267
Fee and commission related to stock exchange and similar organisations	45	52	45	43
<b>Total</b>	<b>2,286</b>	<b>2,420</b>	<b>2,166</b>	<b>2,310</b>
<b>Net fee income related to fiduciary activities</b>	<b>6,037</b>	<b>4,691</b>	<b>4,550</b>	<b>3,549</b>
<b>Total fee and commission income</b>	<b>194,371</b>	<b>195,710</b>	<b>123,014</b>	<b>128,896</b>
<b>Total fee and commission expenses</b>	<b>48,706</b>	<b>48,640</b>	<b>27,728</b>	<b>30,828</b>
<b>Total a) and b)</b>	<b>145,665</b>	<b>147,070</b>	<b>95,286</b>	<b>98,068</b>

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

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
<b>Available-for-sale financial assets</b>				
- gains	14,861	10,964	14,712	10,886
- losses	(33)	(125)	(33)	(21)
<b>Financial liabilities measured at amortised cost</b>				
- gains	-	54	-	54
- losses	(40)	(234)	(40)	(234)
<b>Total</b>	<b>14,788</b>	<b>10,659</b>	<b>14,639</b>	<b>10,685</b>

In April 2016, NLB Group successfully disinvested a non-strategic equity investment and realised a gain in the amount of EUR 4,803 thousand.

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

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

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Equity instruments				
- gains	26	-	26	-
- losses	(26)	(12)	(26)	(12)
Foreign exchange trading				
- gains	23,023	34,009	15,767	25,935
- losses	(13,244)	(23,355)	(12,415)	(21,850)
Debt instruments				
- gains	4,474	2,008	4,474	2,005
- losses	(6,862)	(3,223)	(6,862)	(3,223)
Derivatives				
- currency	506	(7,083)	288	(6,844)
- interest rate	(1,238)	(4,334)	(1,178)	(4,428)
- cross currency interest rate	(29)	(16,794)	(29)	(16,794)
- securities	291	(93)	291	(93)
<b>Total</b>	<b>6,921</b>	<b>(18,877)</b>	<b>336</b>	<b>(25,304)</b>

## 4.6. Foreign exchange translation gains less losses

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Financial assets and liabilities not classified as at fair value through profit or loss	1,449	11,153	1,014	22,579
Financial assets designated at fair value through profit or loss	(246)	752	(246)	753
Other	(45)	(74)	(30)	(81)
<b>Total</b>	<b>1,158</b>	<b>11,831</b>	<b>738</b>	<b>23,251</b>

## 4.7. Other operating income

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Income from non-banking services	14,552	15,657	9,911	11,061
- IT services	5,208	6,013	5,208	6,013
- cash transportation	3,608	3,823	3,608	3,823
- operating leases of movable property	3,132	3,477	484	508
- other	2,604	2,344	611	717
Rental income from investment property	5,942	6,399	260	86
Revaluation of investment property to fair value (note 5.10.)	155	1,342	22	171
Other operating income	3,793	3,931	2,074	1,916
<b>Total</b>	<b>24,442</b>	<b>27,329</b>	<b>12,267</b>	<b>13,234</b>

## 4.8. Other operating expenses

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Deposit guarantee	13,134	8,259	4,567	-
Revaluation of investment property to fair value (note 5.10.)	8,067	8,262	484	52
Single Resolution Fund	3,894	4,340	3,894	4,340
Other taxes and compulsory public levies	3,055	2,327	1,026	1,001
Expenses related to issued service guarantees	1,728	6,376	1,728	6,376
Membership fees and similar fees	889	1,397	317	740
Other operating expenses	2,437	4,122	1,160	2,624
<b>Total</b>	<b>33,204</b>	<b>35,083</b>	<b>13,176</b>	<b>15,133</b>

In April 2016, the Law on the deposit guarantee scheme entered into force in Slovenia, according to which the Bank of Slovenia sets up and operates the deposit guarantee scheme in Slovenia. The target fund level is 0.8% of the sum of all guaranteed deposits in the Republic of Slovenia as at 31 December of the previous year, and until the Fund reaches this level, banks are obliged to pay regular annual contributions. In other banking members of the NLB Group, which operate outside the EU, similar schemes had already been in place in previous years. Item "Deposits Guarantee" also includes the amount of EUR 359 thousand which relates to NLB's payment of guaranteed investors' claims at a brokerage company against which bankruptcy proceedings started.

## 4.9. Administrative expenses

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Employee costs				
- gross salaries, compensations and other short-term benefits	140,961	138,283	88,277	86,800
- defined contribution scheme	11,460	11,124	6,639	6,570
- social security contributions	9,028	9,093	5,441	5,592
- defined benefit expenses (note 5.17.c)	3,930	4,683	2,843	2,813
- <i>post-employment benefits</i>	379	319	473	312
- <i>other employee benefits</i>	3,551	4,364	2,370	2,501
<b>Total</b>	<b>165,379</b>	<b>163,183</b>	<b>103,200</b>	<b>101,775</b>
<b>Other general and administrative expenses</b>				
- other services	36,978	38,961	25,127	27,144
- maintenance	15,557	16,124	11,547	12,271
- intellectual services	14,116	16,635	9,429	9,689
- materials	9,501	11,031	4,359	5,729
- rents	7,934	7,790	2,636	2,876
- <i>property</i>	5,347	5,398	940	1,193
- <i>software</i>	2,104	1,773	1,396	1,403
- <i>movable property</i>	483	619	300	280
- advertising	4,999	5,288	2,386	2,700
- insurance	3,112	3,321	1,510	1,578
- education, scholarships and tuition fees	1,384	1,420	999	1,124
- travel costs	1,384	1,449	619	637
- other costs	816	782	271	290
<b>Total</b>	<b>95,781</b>	<b>102,801</b>	<b>58,883</b>	<b>64,038</b>
<b>Total administrative expenses</b>	<b>261,160</b>	<b>265,984</b>	<b>162,083</b>	<b>165,813</b>
Number of employees	6,175	6,372	2,885	3,028

Costs of other services include asset protection costs, asset management costs, archiving services, postal services, and communication costs.

In 2016, NLB Group paid EUR 566 thousand (2015: EUR 716 thousand) and NLB EUR 200 thousand (2015: EUR 208 thousand) to a statutory auditor for auditing the annual report. In addition, NLB Group and NLB paid the following expenses to the statutory auditor:

	in EUR thousand			
	NLB Group		NLB	
	2016	2015	2016	2015
Other audit services	236	29	236	7
Tax and other consulting	-	88	-	-
Other non-audit services	-	24	-	-
<b>Total</b>	<b>236</b>	<b>141</b>	<b>236</b>	<b>7</b>

#### 4.10. Depreciation and amortisation

	in EUR thousand			
	NLB Group		NLB	
	2016	2015	2016	2015
Amortisation of intangible assets (note 5.11.)	11,694	14,334	9,657	12,400
Depreciation of property and equipment (note 5.9.)	16,651	17,522	9,223	9,010
<b>Total</b>	<b>28,345</b>	<b>31,856</b>	<b>18,880</b>	<b>21,410</b>

#### 4.11. Provisions for other liabilities and charges

	in EUR thousand			
	NLB Group		NLB	
	2016	2015	2016	2015
Guarantees and commitments (note 5.17.b)	(10,432)	(10,847)	(9,897)	(11,219)
Restructuring provisions (note 5.17.d)	10,644	4	9,377	(15)
Provisions for legal issues (note 5.17.e)	4,252	7,475	145	3,409
Other provisions (note 5.17.f)	(107)	2,672	(107)	2,672
<b>Total</b>	<b>4,357</b>	<b>(696)</b>	<b>(482)</b>	<b>(5,153)</b>

## 4.12. Impairment charge

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
<b>Impairment of financial assets</b>				
Available-for-sale financial assets (note 5.4.b)	198	4,659	198	2,617
Held-to-maturity financial assets (note 5.7.b)	83	-	83	-
Loans and advances to banks (note 5.14.b)	74	2,557	(196)	67
Loans to government (note 5.14.b)	(2,604)	1,285	(163)	1,359
Loans to financial organisations (note 5.14.b)	(14,842)	7,780	(5,005)	15,446
Loans to individuals (note 5.14.a)	12,800	14,766	10,245	10,583
<i>Granted overdrafts</i>	2,587	4,889	2,303	4,675
<i>Loans for houses and flats</i>	4,436	3,241	5,495	2,440
<i>Consumer loans</i>	3,261	3,016	1,930	2,305
<i>Other loans</i>	2,516	3,620	517	1,163
Loans to other customers (note 5.14.b)	40,526	29,120	19,909	10,114
<i>Loans to large corporate customers</i>	(16,052)	(6,598)	5,065	(29,283)
<i>Loans to small and medium size enterprises</i>	56,578	35,718	14,844	39,397
Other financial assets (note 5.14.c)	625	6,220	356	1,721
<b>Total</b>	<b>36,860</b>	<b>66,387</b>	<b>25,427</b>	<b>41,907</b>
<b>Impairment of investments in subsidiaries, associates and JV</b>				
Investments in subsidiaries	-	-	25,334	50,271
Investments in associates and joint ventures	12,250	-	12,313	33
<b>Total</b>	<b>12,250</b>	<b>-</b>	<b>37,647</b>	<b>50,304</b>
<b>Impairment of other assets</b>				
Property and equipment (note 5.9.)	3,307	1,122	1,127	344
Other assets	3,871	16,292	232	559
<b>Total</b>	<b>7,178</b>	<b>17,414</b>	<b>1,359</b>	<b>903</b>
<b>Total impairment</b>	<b>56,288</b>	<b>83,801</b>	<b>64,433</b>	<b>93,114</b>

In 2016, NLB impaired equity investments in non-core subsidiaries and joint ventures in a total amount of EUR 37,647 thousand. Of that, EUR 7,004 thousand relates to the recapitalisation of subsidiary participating in a sale of a package of non-performing loans ('Project Pine'). The funds from the capital increases were used to repay the loan obligations to NLB. Due to a release of the loan loss impairments, the net effect of impairments on profit or loss was EUR 14,127 thousand lower. Impairments of investments in subsidiaries and joint ventures are included in the segment Non-core markets and activities.

NLB Group and NLB recorded additional impairments of principal due to a sale of non-performing loans ('Project Pine') in the amount of EUR 25,817 thousand and EUR 4,102 thousand impairment of interest (note 4.1.). The total negative effect from a sale of non-performing loans amounted to EUR 29,919 thousand.

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

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Dividends from investments in subsidiaries, associates, and joint ventures	-	-	28,915	13,747
Gains less losses on derecognition of subsidiaries	(153)	(173)	-	-
Share of net gains less losses of associates and joint ventures accounted for using the equity method (note 5.12.c)	5,159	4,485	-	-
<b>Total</b>	<b>5,006</b>	<b>4,312</b>	<b>28,915</b>	<b>13,747</b>

## 4.14. Income tax

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Current income tax	14,758	12,767	7,008	8,260
Deferred tax (note 5.18.)	217	(1,387)	(3,083)	(292)
<b>Total</b>	<b>14,975</b>	<b>11,380</b>	<b>3,925</b>	<b>7,968</b>

Income tax differs from the amount of tax determined by applying the Slovenian statutory tax rate as follows:

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Profit before tax	130,600	106,758	67,708	51,849
Tax calculated at prescribed rate of 17%	22,202	18,149	11,510	8,814
Effect of change in tax rate in the reconciliation	(1,666)	-	(2,006)	-
Income not assessable for tax purposes	(2,900)	(2,781)	(5,796)	(2,929)
Expenses not deductible for tax purposes	2,930	3,885	816	734
Effect of unrecognised deferred tax assets on impairment of subsidiaries and associates	(2,083)	(25,276)	3,375	4,557
Tax allowances	(1,391)	(1,456)	(1,032)	(1,040)
Effect of unrecognised deferred tax assets on tax losses	3,906	6,477	-	-
Effects of different tax rates in other countries	(4,543)	(2,965)	-	-
Changes in recognition and measurement of deferred taxes	(6,870)	32,827	(7,077)	73
Withholding tax suffered in other countries for which no tax credit was available in Slovenia	974	771	974	771
Adjustment to tax in respect of prior periods	842	(210)	842	(210)
Other	2	201	2	201
Adjustment of deferred tax assets	3,572	(18,242)	2,317	(3,003)
<b>Total</b>	<b>14,975</b>	<b>11,380</b>	<b>3,925</b>	<b>7,968</b>

Income tax rates within NLB Group range from 9-30%. A tax rate of 17% was applied in Slovenia in 2015 and 2016. In accordance with the change of tax legislation, the corporate income tax rate from 2017 onwards will be 19%.

The majority of non-taxable income relates to dividends and income deemed to be dividends. NLB excluded EUR 29,592 thousand in dividend income and income deemed to be dividends from its tax base in 2016 (2015: EUR 16,968 thousand).

NLB recognised deferred tax assets accrued on the basis of temporary differences in an amount that, given future profit estimates, is expected to be reversed in the foreseeable future (i.e. within five years). Due to some uncertainties regarding external factors (regulatory environment, market situation, etc.), as well as not yet defined tax treatment of transition to IFRS 9, a lower range of expected outcomes was considered for purposes of deferred tax assets calculation. Other NLB Group members did not recognise deferred tax assets for tax losses where there is uncertainty about whether the tax losses can be utilised, because it is not probable that future taxable profits will be available against which the deferred tax assets can be utilised and where the utilisation of unused tax losses is limited to five years.

Deferred tax assets were not recognised on temporary differences arising from the impairment of investments in subsidiaries, where it is not probable that the temporary difference will reverse in the foreseeable future amounting in NLB to EUR 530,302 thousand as at 31 December 2016 (31 December 2015: EUR 542,989 thousand).

In November 2016 the tax inspection of corporate income tax for the period from 2009 till 2014 in NLB was finished. In this respect EUR 841 thousand in expenses for income tax were recorded, and EUR 39,434 thousand deferred tax assets for tax losses were reduced. A reduction of deferred tax assets has no impact on statement of financial position, as the bank recognised deferred tax assets based on future profit estimates only on temporary differences that were envisaged to be utilised in the foreseeable future.

#### 4.15. Earnings per share

Earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares in issue, less treasury shares.

Diluted earnings per share are the same as basic earnings per share for NLB Group and NLB, since subordinated loans and issued debt securities have no future conversion options, and consequently there are no dilutive potential ordinary shares.

	NLB Group		NLB	
	2016	2015	2016	2015
Net profit attributable to the owners of the parent (in EUR thousand)	110,017	91,914	63,783	43,881
Weighted average number of ordinary shares (in thousand)	20,000	20,000	20,000	20,000
Basic earnings per share (in EUR per share)	5.5	4.6	3.2	2.2
Diluted earnings per share (in EUR per share)	5.5	4.6	3.2	2.2

## 5. Notes to the statement of financial position

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

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Cash	260,612	228,156	128,519	128,682
Balances and obligatory reserves with central banks	776,648	527,156	375,561	155,160
Demand deposits at banks	261,754	406,671	112,959	212,964
<b>Total</b>	<b>1,299,014</b>	<b>1,161,983</b>	<b>617,039</b>	<b>496,806</b>

Slovenian banks are required to maintain a compulsory reserve with the Bank of Slovenia relative to the volume and structure of their customer deposits. Other banks in NLB Group maintain a compulsory reserve in accordance with local legislation. NLB and other banks in NLB Group fulfil their compulsory reserve deposit requirements.

## 5.2. Trading assets

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
<b>Derivatives, excluding hedging instruments</b>				
Swap contracts	15,185	26,855	15,179	27,322
- <i>currency swaps</i>	397	191	391	191
- <i>interest rate swaps</i>	14,551	26,421	14,551	26,888
- <i>currency interest rate swaps</i>	237	243	237	243
Options	405	151	405	151
- <i>currency options</i>	-	37	-	37
- <i>securities options</i>	405	114	405	114
Forward contracts	3,352	3,035	3,352	3,035
- <i>currency forward</i>	3,352	3,035	3,352	3,035
<b>Total derivatives</b>	<b>18,942</b>	<b>30,041</b>	<b>18,936</b>	<b>30,508</b>
<b>Securities</b>				
Bonds	19,735	43,555	19,735	43,555
- <i>Republic of Slovenia</i>	19,735	39,460	19,735	39,460
- <i>other issuers</i>	-	4,095	-	4,095
Shares	-	10	-	10
Treasury bills - Republic of Slovenia	30,012	42,636	30,012	42,636
Commercial papers - foreign banks	19,010	151,171	19,010	151,171
<b>Total securities</b>	<b>68,757</b>	<b>237,372</b>	<b>68,757</b>	<b>237,372</b>
<b>Total</b>	<b>87,699</b>	<b>267,413</b>	<b>87,693</b>	<b>267,880</b>
- <i>quoted securities</i>	49,747	85,208	49,747	85,208
<i>of these equity instruments</i>	-	10	-	10
<i>of these debt instruments</i>	49,747	85,198	49,747	85,198
- <i>unquoted securities</i>	19,010	152,164	19,010	152,164
<i>of these debt instruments</i>	19,010	152,164	19,010	152,164

The notional amounts of derivative financial instruments are disclosed in note 5.24.b.

During 2009, NLB Group and NLB reclassified certain bonds from the trading category to loans and receivables. NLB Group and NLB reclassified high quality corporate bonds that are not traded on the active market, and for which it has a positive intent and ability to hold for the foreseeable future - or until maturity rather than trade in the short term. Reclassified bonds meet the definition of loans and receivables.

The following table illustrates the carrying values and fair values of the assets reclassified:

NLB Group and NLB	in EUR thousand	
	Carrying amount	Fair value
the date of reclassification		69,766
as at 31 December 2009	72,030	65,278
as at 31 December 2010	75,928	67,000
as at 31 December 2011	84,429	55,922
as at 31 December 2012	86,501	53,958
as at 31 December 2013	80,218	55,260
as at 31 December 2014	87,667	72,986
as at 31 December 2015	85,009	76,258
as at 31 December 2016	85,315	78,953

The effective interest rates, determined on the day the bonds were reclassified, range from 4.15-4.23%.

NLB Group and NLB	Interest income in period							
	2016	2015	2014	2013	2012	2011	2010	2009
Financial assets held for trading reclassified to loans and receivables	2,079	2,053	2,103	2,153	2,449	3,446	4,471	2,836

NLB Group and NLB	Gains/(losses) that would have been recognised if the assets had not been reclassified							
	2016	2015	2014	2013	2012	2011	2010	2009
Financial assets held for trading reclassified to loans and receivables	2,695	3,272	17,726	1,302	(52)	(11,078)	1,722	(4,647)

### 5.3. Financial instruments designated at fair value through profit or loss

#### a) Financial assets designated at fair value through profit or loss

	in EUR thousand			
	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Private equity fund	2,011	4,913	2,011	4,913
Other investments	4,683	2,682	-	-
<b>Total</b>	<b>6,694</b>	<b>7,595</b>	<b>2,011</b>	<b>4,913</b>

## b) Financial liabilities designated at fair value through profit or loss

in EUR thousand

	NLB Group and NLB	
	31.12.2016	31.12.2015
Structured deposit	2,011	4,912
<b>Total</b>	<b>2,011</b>	<b>4,912</b>

In NLB, financial assets in the amount of EUR 2,011 thousand (31 December 2015: EUR 4,913 thousand) are designated at fair value through profit or loss to reduce the accounting mismatch that would otherwise arise. Financial liability, designated at fair value through profit or loss in the amount of EUR 2,011 thousand (31 December 2015: EUR 4,912 thousand) is the structured deposit from customers from which the returns depend on the returns from private equity funds, classified as financial assets, that are measured at fair value through profit or loss.

In NLB Group, in addition to the aforementioned, financial assets that are designated at fair value through profit or loss represent investments in other funds that are managed and evaluated on a fair value basis.

## 5.4. Available-for-sale financial assets

## a) Analysis by type of available-for-sale financial assets

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Bonds	1,619,228	1,350,942	1,262,363	999,781
- governments	1,146,150	1,050,770	789,285	699,609
- Republic of Slovenia	442,802	401,405	380,411	354,406
- other EU members	405,655	343,295	405,655	340,628
- non-EU members	297,693	306,070	3,219	4,575
- banks	453,179	284,141	453,179	284,141
- other issuers	19,899	16,031	19,899	16,031
Cash certificates	199	77,939	-	-
Shares	29,050	30,943	22,737	25,893
National Resolution Fund	44,570	44,519	44,570	44,519
Treasury bills	104,617	81,680	55,093	26,998
- Republic of Slovenia	57,096	24,997	55,093	24,997
- other EU members	-	2,001	-	2,001
- non-EU members	47,521	54,682	-	-
Commercial bills	274,489	151,168	209,331	151,168
<b>Total</b>	<b>2,072,153</b>	<b>1,737,191</b>	<b>1,594,094</b>	<b>1,248,359</b>
- quoted securities	1,533,697	1,263,070	1,334,925	1,045,797
of these equity instruments	24,312	21,334	20,927	19,018
of these debt instruments	1,509,385	1,241,736	1,313,998	1,026,779
- unquoted securities	538,456	474,121	259,169	202,562
of these equity instruments	49,308	54,128	46,380	51,394
of these debt instruments	489,148	419,993	212,789	151,168

## b) Movements of available-for-sale financial assets

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	1,737,191	1,672,952	1,248,359	1,182,748
Effects of translation of foreign operations to presentation currency	(2,048)	(54)	-	-
Additions	1,766,455	1,661,860	666,304	437,390
Disposals and maturity	(1,463,553)	(1,612,917)	(336,736)	(375,407)
Interest income (note 4.1.)	31,426	33,232	17,881	19,692
Exchange differences on monetary assets	1,260	1,867	594	1,554
Changes in fair values	1,620	(15,004)	(2,110)	(15,001)
Impairment (note 4.12.)	(198)	(4,659)	(198)	(2,617)
- impairment of equity securities	(198)	(4,788)	(198)	(2,746)
- impairment of debt securities	-	129	-	129
Disposal of subsidiary	-	(86)	-	-
<b>Balance as at 31 December</b>	<b>2,072,153</b>	<b>1,737,191</b>	<b>1,594,094</b>	<b>1,248,359</b>

As at 31 December 2016, the value of equity instruments obtained by NLB Group taking possession of collateral held as security and recognised in the statement of financial position is EUR 24,162 thousand (31 December 2015: EUR 21,277 thousand), and by NLB it amounted to EUR 20,832 thousand (31 December 2015: EUR 18,977 thousand) (note 7.1.n).

By selling equity securities available for sale, NLB Group realised a net gain in the amount of EUR 13,478 thousand (2015: EUR 731 thousand), and NLB a net gain in the amount of EUR 13,472 thousand (2015: EUR 748 thousand). This gain is included in 'Gains Less Losses from Financial Assets and Liabilities not Classified at Fair Value through Profit or Loss (note 4.4.)'

## c) Accumulated other comprehensive income related to available-for-sale financial assets

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	48,321	57,750	37,996	45,103
Effects of translation of foreign operations to presentation currency	(3)	(19)	-	-
Net gains/(losses) from changes in fair value	18,532	(2,297)	14,652	(314)
Gains/losses transferred to net profit on disposal or impairment	(14,630)	(6,180)	(14,481)	(8,248)
Deferred income tax (note 5.18.)	(1,207)	1,413	(949)	1,455
Share of other comprehensive income of associates and joint ventures	1,988	(2,346)	-	-
<b>Balance as at 31 December</b>	<b>53,001</b>	<b>48,321</b>	<b>37,218</b>	<b>37,996</b>
- debt securities	41,989	36,984	28,574	27,950
- equity securities	11,012	11,337	8,644	10,046

### 5.5. Derivatives for hedging purposes

NLB Group entities measure exposure to interest rate risk using a repricing gap analysis and by calculating the sensitivity of the statement of financial position and off-balance-sheet items in terms of the economic value of equity. Portfolio duration is used as a measure of risk in the management of securities in the banking book.

NLB Group entities use various derivatives such as interest rate swaps (IRS) and currency interest rate swaps (CIRS) to close open positions in an individual maturity bucket. Micro and macro fair value hedges are used for that purpose, i.e. the swapping of a fixed interest rate on a hedged item for a variable interest rate. Micro cash flow hedges are also used, i.e. the swapping of a variable interest rate on a hedged item for a fixed interest rate. All cash flow hedges were made on liability items, while fair value hedges were used on both liability and asset items.

Hedge accounting rules (fair value and cash flow hedging) were applied in the hedging of interest rate risk using interest rate swaps. These hedge relationships are created in such a way that the characteristics of the hedge instrument and those of the hedged item match (i.e. the principal terms match), while the dollar-offset method is used to regularly measure hedge effectiveness retrospectively. Prospective testing of hedge effectiveness is carried out regularly for macro hedges where the characteristics of both items in the hedge relationship do not fully match by comparing the change in the fair value of both items with the shift in the yield curve.

Hedge accounting rules were not applied in economic hedges using CIRS. Thus, the effects of valuation are disclosed in the income statement in the line 'Gains Less Losses from Financial Assets and Liabilities Held for Trading.'

#### a) Fair value adjustment in hedge accounting recognised in profit or loss

	NLB Group		NLB	
	2016	2015	2016	2015
	in EUR thousand			
<b>Fair value hedge</b>	<b>(770)</b>	<b>231</b>	<b>32</b>	<b>231</b>
Net effects from hedging instruments	715	7,698	715	7,698
Net effects from hedged items	(1,485)	(7,467)	(683)	(7,467)
<b>Cash flow hedge</b>	<b>(2,469)</b>	<b>-</b>	<b>(2,469)</b>	<b>-</b>
Transfer from other comprehensive income	(2,469)	-	(2,469)	-
<b>Total</b>	<b>(3,239)</b>	<b>231</b>	<b>(2,437)</b>	<b>231</b>

In 2016 NLB Group terminated a fair value hedge of fix interest rate loan due to expected early repayment. The net effects from hedged items include a reversal of the previously accumulated positive effect in the amount of EUR 802 thousand.

In 2016 NLB terminated a cash flow hedge of borrowing with a variable interest rate due to expected prepayment in the amount of EUR 37,234 thousand. Negative valuation effects, previously accumulated in other comprehensive income were transferred in the income statement. Prepayment of funding was realised in January 2017.

As of December 2016 NLB Group and NLB have no relationships designated for cash flow hedge accounting.

b) Notional amounts of interest rate swaps

in EUR thousand

NLB Group and NLB	Notional amount	Fair value	
		Asset	Liability
Fair value hedge			
31.12.2016	108,554	217	29,024
31.12.2015	159,259	1,083	31,065
Cash flow hedge			
31.12.2015	12,964	-	2,777
<b>Total</b>			
<b>31.12.2016</b>	<b>108,554</b>	<b>217</b>	<b>29,024</b>
<b>31.12.2015</b>	<b>172,223</b>	<b>1,083</b>	<b>33,842</b>

c) Future cash flows of interest rate swaps for cash flow hedge

in EUR thousand

NLB Group and NLB	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
31.12.2015					
- Outflow	-	(166)	(407)	(1,772)	(889)
- Inflow	-	-	1	81	263

d) Accumulated other comprehensive income related to cash flow hedging

in EUR thousand

NLB Group and NLB	NLB Group and NLB	
	2016	2015
Balance as at 1 January	(2,243)	(2,666)
Net losses on hedging instruments	(343)	(78)
Transfer to income statement	3,046	587
Deferred income tax (note 5.18.)	(460)	(86)
<b>Balance as at 31 December</b>	<b>-</b>	<b>(2,243)</b>

There was no hedge ineffectiveness that neither NLB nor NLB Group should have recognised in the income statement.

## 5.6. Loans and advances

### Analysis by type of loans and advances

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Debt securities	85,315	394,579	85,315	394,579
Loans to banks	435,537	431,775	408,056	345,207
Loans and advances to customers	6,912,067	6,693,621	4,843,594	4,826,139
Other financial assets	61,014	69,521	36,151	48,944
<b>Total</b>	<b>7,493,933</b>	<b>7,589,496</b>	<b>5,373,116</b>	<b>5,614,869</b>

### a) Debt securities

#### Analysis of debt securities by sector

in EUR thousand

	NLB Group and NLB	
	31.12.2016	31.12.2015
Government	-	309,570
Companies	85,315	85,009
<b>Total</b>	<b>85,315</b>	<b>394,579</b>

### b) Loans and advances to banks

#### Analysis by type of loans and advances

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loans	945	3,825	19,399	29,391
Time deposits	433,883	427,195	387,599	315,016
Purchased receivables	1,058	997	1,058	997
	435,886	432,017	408,056	345,404
Allowance for impairment (note 5.14.b)	(349)	(242)	-	(197)
<b>Total</b>	<b>435,537</b>	<b>431,775</b>	<b>408,056</b>	<b>345,207</b>

## c) Loans and advances to customers

*Analysis by type of loans and advances*

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loans	7,198,486	7,254,266	5,098,336	5,266,143
Finance lease receivables	192,923	253,205	-	-
Overdrafts	298,351	320,514	178,899	183,406
Credit card business	112,106	111,673	60,338	59,820
Called guarantees	13,577	16,773	10,744	11,463
Reverse sale and repurchase agreements	25	25	25	25
	7,815,468	7,956,456	5,348,342	5,520,857
Allowance for impairment (note 5.14.)	(903,401)	(1,262,835)	(504,748)	(694,718)
<b>Total</b>	<b>6,912,067</b>	<b>6,693,621</b>	<b>4,843,594</b>	<b>4,826,139</b>

*Analysis of loans and advances by sector*

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Government	775,986	688,474	668,300	578,184
Financial organisations	74,344	139,852	273,310	391,911
Companies	2,970,229	2,957,304	1,950,869	1,966,361
Individuals	3,091,508	2,907,991	1,951,115	1,889,683
<b>Total</b>	<b>6,912,067</b>	<b>6,693,621</b>	<b>4,843,594</b>	<b>4,826,139</b>

*Finance leases*

Loans and advances to customers in NLB Group include finance lease receivables:

NLB Group	in EUR thousand	
	31.12.2016	31.12.2015
The gross investment in finance leases by maturity		
- not later than 1 year	71,291	121,065
- later than 1 year and not later than 5 years	127,319	137,575
- later than 5 years	12,808	19,011
	<b>211,418</b>	<b>277,651</b>
Unearned future finance income on finance leases	(18,495)	(24,446)
<b>Net investment in finance leases</b>	<b>192,923</b>	<b>253,205</b>
- present value of minimum lease payments	192,923	253,205
The net investment in finance leases by maturity		
- not later than 1 year	64,337	111,965
- later than 1 year and not later than 5 years	116,944	124,104
- later than 5 years	11,642	17,136
<b>Total</b>	<b>192,923</b>	<b>253,205</b>

Finance and operating lease transactions are carried out by NLB Group through specialised subsidiaries that offer car leasing, leasing of commercial and production equipment, and others.

The majority of the lease agreements entered into by NLB Group as lessor contracts are finance lease agreements (operating leases account for less than 10% of all lease agreements). The majority of agreements are concluded for a non-cancellable period of between 48 and 60 months, with an unguaranteed residual value representing a purchase option typically between 1 and 2% of the gross investment.

Finance and operating leases of motor vehicles and operating leases of business premises represent the majority of agreements in which NLB Group acts as a lessee.

As at 31 December 2016 the allowance for unrecoverable finance lease receivables included in the allowance for loan impairment amounted to EUR 42,511 thousand (31 December 2015: EUR 75,386 thousand).

## d) Other financial assets

*Analysis by type of other financial assets*

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Credit card receivables	21,961	11,739	17,375	8,346
Receivables in the course of collection	13,235	15,416	11,481	13,033
Debtors	11,934	20,415	929	1,213
Fees and commissions	7,311	7,548	5,699	5,384
Prepayments	2,217	4,289	-	-
Receivables from purchase agreements for equity securities	164	16,920	164	16,920
Other financial assets	19,645	20,272	4,274	9,171
	76,467	96,599	39,922	54,067
Allowance for impairment (note 5.14.c)	(15,453)	(27,078)	(3,771)	(5,123)
<b>Total</b>	<b>61,014</b>	<b>69,521</b>	<b>36,151</b>	<b>48,944</b>

Receivables in the course of collection are temporary balances which will be transferred to the appropriate item in the days following their occurrence.

Other financial assets include receivables to pension funds for prior pension payments, receivables from insurance companies, deposit facilities, claims and enforcement procedures, paid duties, and legal costs.

*Analysis of other financial assets by sector*

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Banks	14,058	9,170	8,377	3,565
Government	13,708	12,181	1,753	1,748
Financial organisations	10,969	1,923	8,364	5,470
Companies	6,632	30,242	3,168	23,424
Individuals	15,647	16,005	14,489	14,737
<b>Total</b>	<b>61,014</b>	<b>69,521</b>	<b>36,151</b>	<b>48,944</b>

## e) Movement of called non-financial guarantees

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	5,678	8,494	4,838	5,648
Effects of translation of foreign operations to presentation currency	(13)	1	-	-
Called guarantees	2,520	8,663	1,595	7,881
Paid guarantees	(1,525)	(9,999)	(493)	(7,210)
Write-offs	(2,431)	(1,481)	(2,431)	(1,481)
<b>Balance as at 31 December</b>	<b>4,229</b>	<b>5,678</b>	<b>3,509</b>	<b>4,838</b>

## 5.7. Held-to-maturity financial assets

## a) Analysis by type of held-to-maturity financial assets

in EUR thousand

	NLB Group and NLB	
	31.12.2016	31.12.2015
Bonds	611,532	545,561
- governments	591,468	532,235
- Republic of Slovenia	411,914	363,566
- other EU members	179,554	168,669
- banks	16,729	13,326
- other issuers	3,335	-
Treasury bills of Republic of Slovenia	-	19,974
	611,532	565,535
Allowance for impairment	(83)	-
<b>Total</b>	<b>611,449</b>	<b>565,535</b>
- quoted	611,449	565,535

## b) Movements of held-to-maturity financial assets

in EUR thousand

	NLB Group and NLB	
	2016	2015
Balance as at 1 January	565,535	711,648
Additions	116,897	32,224
Decreases	(88,897)	(199,926)
Interest income (note 4.1.)	17,997	21,656
Change of interest income due to reclassification of available-for-sale to held-to-maturity financial assets	-	(67)
Impairment (note 4.12.)	(83)	-
<b>Balance as at 31 December</b>	<b>611,449</b>	<b>565,535</b>

## 5.8. Non-current assets classified as held for sale

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	4,629	5,643	1,776	2,580
Effects of translation of foreign operations to presentation currency	(53)	(14)	-	-
Transfer from property and equipment (note 5.9.)	481	-	418	-
Transfers into other assets	-	(140)	-	(140)
Disposals	(217)	(167)	(128)	(98)
Valuation	(577)	(693)	(278)	(566)
<b>Balance as at 31 December</b>	<b>4,263</b>	<b>4,629</b>	<b>1,788</b>	<b>1,776</b>

In 2016 and 2015, NLB Group did not recognise any repossessed assets as non-current assets classified as held for sale.

## 5.9. Property and equipment

in EUR thousand

2016	NLB Group				NLB			
	Land & Buildings	Computers	Other equipment	Total	Land & Buildings	Computers	Other equipment	Total
Cost								
Balance as at 1 January 2016	329,096	73,285	123,775	526,156	202,303	51,279	65,307	318,889
Effects of translation of foreign operations to presentation currency	(674)	(91)	(207)	(972)	-	-	-	-
Additions	1,845	7,260	3,528	12,633	1,548	4,168	1,245	6,961
Disposals	(949)	(6,929)	(19,028)	(26,906)	(823)	(4,788)	(7,276)	(12,887)
Impairment (note 4.12.)	(754)	-	-	(754)	(150)	-	-	(150)
Transfer to/from non-current assets held for sale (note 5.8.)	(1,324)	-	-	(1,324)	(1,260)	-	-	(1,260)
<b>Balance as at 31 December 2016</b>	<b>327,240</b>	<b>73,525</b>	<b>108,068</b>	<b>508,833</b>	<b>201,618</b>	<b>50,659</b>	<b>59,276</b>	<b>311,553</b>
Depreciation and impairment								
Balance as at 1 January 2016	153,877	63,148	101,401	318,426	122,884	45,059	56,376	224,319
Effects of translation of foreign operations to presentation currency	(205)	(71)	(172)	(448)	-	-	-	-
Disposals	(606)	(10,733)	(13,016)	(24,355)	(572)	(8,601)	(3,447)	(12,620)
Depreciation (note 4.10.)	7,679	4,662	4,310	16,651	5,263	3,122	838	9,223
Impairment (note 4.12.)	2,553	-	-	2,553	977	-	-	977
Transfer to/from non-current assets held for sale (note 5.8.)	(843)	-	-	(843)	(842)	-	-	(842)
<b>Balance as at 31 December 2016</b>	<b>162,455</b>	<b>57,006</b>	<b>92,523</b>	<b>311,984</b>	<b>127,710</b>	<b>39,580</b>	<b>53,767</b>	<b>221,057</b>
Net carrying value								
<b>Balance as at 31 December 2016</b>	<b>164,785</b>	<b>16,519</b>	<b>15,545</b>	<b>196,849</b>	<b>73,908</b>	<b>11,079</b>	<b>5,509</b>	<b>90,496</b>
<b>Balance as at 1 January 2016</b>	<b>175,219</b>	<b>10,137</b>	<b>22,374</b>	<b>207,730</b>	<b>79,419</b>	<b>6,220</b>	<b>8,931</b>	<b>94,570</b>

in EUR thousand

2015	NLB Group				NLB			
	Land & Buildings	Computers	Other equipment	Total	Land & Buildings	Computers	Other equipment	Total
Cost								
Balance as at 1 January 2015	334,570	74,658	125,725	534,953	205,866	53,270	65,269	324,405
Effects of translation of foreign operations to presentation currency	(88)	13	82	7	-	-	-	-
Additions	2,810	4,618	14,098	21,526	2,272	2,882	4,789	9,943
Disposals	(1,186)	(5,983)	(16,130)	(23,299)	(65)	(4,873)	(4,751)	(9,689)
Transfer to/from investment property (note 5.10.)	(6,788)	-	-	(6,788)	(5,770)	-	-	(5,770)
Disposal of subsidiary (note 3.)	(222)	(21)	-	(243)	-	-	-	-
<b>Balance as at 31 December 2015</b>	<b>329,096</b>	<b>73,285</b>	<b>123,775</b>	<b>526,156</b>	<b>202,303</b>	<b>51,279</b>	<b>65,307</b>	<b>318,889</b>
Depreciation and impairment								
Balance as at 1 January 2015	148,823	64,679	106,276	319,778	119,872	47,217	59,986	227,075
Effects of translation of foreign operations to presentation currency	(42)	12	70	40	-	-	-	-
Disposals	(977)	(5,923)	(10,332)	(17,232)	(49)	(4,849)	(4,635)	(9,533)
Depreciation (note 4.10.)	7,739	4,396	5,387	17,522	5,294	2,691	1,025	9,010
Impairment (note 4.12.)	1,122	-	-	1,122	344	-	-	344
Transfer to/from investment property (note 5.10.)	(2,758)	-	-	(2,758)	(2,577)	-	-	(2,577)
Disposal of subsidiary (note 3.)	(30)	(16)	-	(46)	-	-	-	-
<b>Balance as at 31 December 2015</b>	<b>153,877</b>	<b>63,148</b>	<b>101,401</b>	<b>318,426</b>	<b>122,884</b>	<b>45,059</b>	<b>56,376</b>	<b>224,319</b>
Net carrying amount								
<b>Balance as at 31 December 2015</b>	<b>175,219</b>	<b>10,137</b>	<b>22,374</b>	<b>207,730</b>	<b>79,419</b>	<b>6,220</b>	<b>8,931</b>	<b>94,570</b>
<b>Balance as at 1 January 2015</b>	<b>185,747</b>	<b>9,979</b>	<b>19,449</b>	<b>215,175</b>	<b>85,994</b>	<b>6,053</b>	<b>5,283</b>	<b>97,330</b>

Assets leased under finance leases in NLB Group as at 31 December 2016 amounted to EUR 6 thousand for motor vehicles (31 December 2015: EUR 21 thousand). NLB had no assets held under finance leases as at 31 December 2016 and 31 December 2015.

The value of assets received by taking possession of collateral and included in property and equipment by NLB Group amounted to EUR 1,523 thousand (31 December 2015: EUR 1,839 thousand) and in NLB amounted to EUR 7 thousand (31 December 2015: EUR 7 thousand) (note 7.1.n).

The net carrying value of assets leased out by NLB Group under operating leases was EUR 2,842 thousand as at 31 December 2016 (31 December 2015: EUR 5,250 thousand). A total of 61.9% of assets leased out relates to motor vehicles (31 December 2015: 62.8%).

## 5.10. Investment property

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	93,513	41,472	8,613	1,458
Effects of translation of foreign operations to presentation currency	-	8	-	-
Acquisition of subsidiaries	-	22,290	-	-
Additions	2,632	6,295	-	3,843
Disposals	(4,661)	(478)	-	-
Transfer (to)/from property and equipment (note 5.9.)	-	4,030	-	3,193
Transfer from/(to) other assets	91	26,816	-	-
Net valuation to fair value (note 4.7. and 4.8.)	(7,912)	(6,920)	(462)	119
<b>Balance as at 31 December</b>	<b>83,663</b>	<b>93,513</b>	<b>8,151</b>	<b>8,613</b>

The value of assets received by taking possession of collateral and included in investment property by NLB Group amounted to EUR 48,658 thousand (31 December 2015: EUR 57,599 thousand). The value of assets received by taking possession of collateral and included in investment property by NLB amounted to EUR 3,750 thousand (31 December 2015: EUR 3,750 thousand) (notes 5.13. and 7.1.n).

NLB Group has no interests in properties held under operating leases that were classified and accounted for as investment property. NLB Group incurred operating expenses arising from investment properties leased to others in the amount of EUR 15 thousand (2015: EUR 58 thousand), and operating expenses arising from investment properties not leased to others in the amount of EUR 0 (2015: EUR 23 thousand).

NLB Group earned rental income arising from investment properties in the amount of EUR 5,942 thousand (2015: EUR 6,399 thousand) and NLB in the amount of EUR 260 thousand (2015: EUR 86 thousand).

## 5.11. Intangible assets

2016	NLB Group			in EUR thousand
				NLB
	Software licenses	Goodwill	Total	Software licenses
Cost				
Balance as at 1 January 2016	216,723	32,336	249,059	193,080
Effects of translation of foreign operations to presentation currency	(124)	-	(124)	-
Additions	6,418	-	6,418	3,375
Write-offs	(412)	-	(412)	-
<b>Balance as at 31 December 2016</b>	<b>222,605</b>	<b>32,336</b>	<b>254,941</b>	<b>196,455</b>
Amortisation and impairment				
Balance as at 1 January 2016	180,925	28,807	209,732	163,453
Effects of translation of foreign operations to presentation currency	(90)	-	(90)	-
Amortisation (note 4.10.)	11,694	-	11,694	9,657
Write-offs	(365)	-	(365)	-
<b>Balance as at 31 December 2016</b>	<b>192,164</b>	<b>28,807</b>	<b>220,971</b>	<b>173,110</b>
Net carrying value				
<b>Balance as at 31 December 2016</b>	<b>30,441</b>	<b>3,529</b>	<b>33,970</b>	<b>23,345</b>
<b>Balance as at 1 January 2016</b>	<b>35,798</b>	<b>3,529</b>	<b>39,327</b>	<b>29,627</b>

2015	NLB Group			in EUR thousand
				NLB
	Software licenses	Goodwill	Total	Software licenses
Cost				
Balance as at 1 January 2015	210,137	32,336	242,473	188,851
Effects of translation of foreign operations to presentation currency	(9)	-	(9)	-
Additions	12,809	-	12,809	10,149
Disposals	(1,293)	-	(1,293)	(1,293)
Write-offs	(4,921)	-	(4,921)	(4,627)
<b>Balance as at 31 December 2015</b>	<b>216,723</b>	<b>32,336</b>	<b>249,059</b>	<b>193,080</b>
Amortisation and impairment				
Balance as at 1 January 2015	170,915	28,807	199,722	155,108
Effects of translation of foreign operations to presentation currency	(7)	-	(7)	-
Amortisation (note 4.10.)	14,334	-	14,334	12,400
Write-offs	(4,317)	-	(4,317)	(4,055)
<b>Balance as at 31 December 2015</b>	<b>180,925</b>	<b>28,807</b>	<b>209,732</b>	<b>163,453</b>
Net carrying value				
<b>Balance as at 31 December 2015</b>	<b>35,798</b>	<b>3,529</b>	<b>39,327</b>	<b>29,627</b>
<b>Balance as at 1 January 2015</b>	<b>39,222</b>	<b>3,529</b>	<b>42,751</b>	<b>33,743</b>

In 2016 and 2015 NLB Group did not record an impairment of goodwill.

Information regarding the impairment testing of goodwill is disclosed in note 2.33.f.

## 5.12. Investments in subsidiaries, associates and joint ventures

### a) Analysis by type of investment in subsidiaries

NLB	in EUR thousand	
	31.12.2016	31.12.2015
Banks	267,071	267,071
Other financial organisations	19,900	26,595
Enterprises	52,722	52,335
<b>Total</b>	<b>339,693</b>	<b>346,001</b>

In 2016 the subsidiary NLB Leasing Sofia, Sofia was liquidated. A loss in the amount of EUR 153 thousand was recognised, and is included in the item 'Gains Less Losses from Capital Investments in Subsidiaries, Associates, and Joint Ventures' (2015: a loss in the amount of EUR 183 thousand due to lost control in the subsidiary LHB Trade, Zagreb and sell of the subsidiary Convest, Novi Sad).

Data on subsidiaries as included in the consolidated financial statements of NLB Group as at 31 December 2016:

in EUR thousand

	Nature of Business	Country of Incorporation	Equity as at 31 December 2016	Profit/(loss) for 2016	NLB's shareholding %	NLB's voting rights%	NLB Group's shareholding %	NLB Group's voting rights%
<b>Core members</b>								
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	129,083	24,997	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	75,787	5,318	99.36	98.00	99.36	98.00
NLB Banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	74,607	14,117	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Republic of Kosovo	62,845	11,263	81.21	81.21	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	60,780	5,357	97.34	97.35	97.34	97.35
NLB Banka a.d., Beograd	Banking	Republic of Serbia	45,526	2,152	99.997	99.997	99.997	99.997
NLB Srbija d.o.o., Beograd	Real estate	Republic of Serbia	27,906	555	100	100	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	7,948	2,951	100	100	100	100
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	6,155	979	51	51	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	1,238	305	100	100	100	100
<b>Non-core members</b>								
NLB Leasing d.o.o., Ljubljana	Finance	Republic of Slovenia	10,112	(18,316)	100	100	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Republic of Croatia	4,716	(3,115)	-	-	100	100
NLB Leasing Podgorica d.o.o., Podgorica - "u likvidaciji"	Finance	Republic of Montenegro	853	(754)	100	100	100	100
NLB Leasing d.o.o., Beograd - u likvidaciji	Finance	Republic of Serbia	4,495	(215)	100	100	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	(724)	(150)	100	100	100	100
NLB Lizing d.o.o.e.l., Skopje - vo likvidacija	Finance	Republic of Macedonia	873	8	100	100	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	16,899	(5,946)	12.71	12.71	100	100
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	19,812	(216)	100	100	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Republic of Croatia	653	(173)	-	-	100	100
BH-RE d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	3	(9)	-	-	100	100
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	37	(90)	100	100	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	443	(83)	100	100	100	100
REAM d.o.o., Beograd	Real estate	Republic of Serbia	105	(104)	100	100	100	100
SR-RE d.o.o., Beograd	Real estate	Republic of Serbia	1,837	(163)	100	100	100	100
NLB Propria d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	880	67	100	100	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	12	(40)	100	100	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	8,976	(4,716)	100	100	100	100
NLB InterFinanz Praha s.r.o., Prague	Finance	Czech Republic	(94)	23	-	-	100	100
NLB InterFinanz d.o.o., Beograd	Finance	Republic of Serbia	1	(40)	-	-	100	100
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	373	6	100	100	100	100
LHB AG, Frankfurt	Finance	Republic of Germany	2,316	(428)	100	100	100	100
NLB Factoring a.s. - "v likvidaci," Brno	Finance	Czech Republic	93	(280)	100	100	100	100

Data on subsidiaries as included in the consolidated financial statements of NLB Group as at 31 December 2015:

in EUR thousand								
	Nature of Business	Country of Incorporation	Equity as at 31 December 2015	Profit/(loss) for 2015	NLB's shareholding %	NLB's voting rights%	NLB Group's shareholding %	NLB Group's voting rights%
<b>Core members</b>								
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	113,977	13,129	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	68,624	6,240	99.36	98.00	99.36	98.00
NLB Banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	68,058	9,863	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Republic of Kosovo	59,725	8,242	81.21	81.21	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	55,313	4,182	97.34	97.35	97.34	97.35
NLB Banka a.d., Beograd	Banking	Republic of Serbia	44,121	1,181	99.997	99.997	99.997	99.997
NLB Srbija d.o.o., Beograd	Real estate	Republic of Serbia	27,891	822	100	100	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	7,112	2,455	100	100	100	100
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	6,015	789	51	51	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	933	416	100	100	100	100
<b>Non-core members</b>								
NLB Leasing d.o.o., Ljubljana	Finance	Republic of Slovenia	14,402	(3,672)	100	100	100	100
NLB Leasing Sofija E.o.o.d., Sofia	Finance	Republic of Bulgaria	(85)	(77)	-	-	100	100
Optima Leasing d.o.o., Zagreb	Finance	Republic of Croatia	856	(3,806)	-	-	100	100
NLB Leasing Podgorica d.o.o., Podgorica	Finance	Republic of Montenegro	1,106	(825)	100	100	100	100
NLB Leasing d.o.o., Beograd	Finance	Republic of Serbia	3,063	(2,599)	100	100	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	(575)	(3,271)	100	100	100	100
NLB Lizing d.o.o.e.l., Skopje	Finance	Republic of Macedonia	567	(1,470)	100	100	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	22,845	555	12.71	12.71	100	100
PRO-REM d.o.o., Ljubljana	Real estate	Republic of Slovenia	11,273	(14,583)	100	100	100	100
OL Nekretnine d.o.o., Zagreb	Real estate	Republic of Croatia	817	(126)	-	-	100	100
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	126	(66)	100	100	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	126	(71)	100	100	100	100
REAM d.o.o., Beograd	Real estate	Republic of Serbia	112	(130)	100	100	100	100
SR-RE d.o.o., Beograd	Real estate	Republic of Serbia	3	(4)	100	100	100	100
PRO-Avenija d.o.o., Ljubljana	Real estate	Republic of Slovenia	8,609	(1,385)	100	100	100	100
NLB Propria d.o.o., Ljubljana	Real estate	Republic of Slovenia	741	(120)	100	100	100	100
FIN-DO d.o.o., Domžale	Real estate	Republic of Slovenia	126	(814)	100	100	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	49	(2,062)	100	100	100	100
NLB InterFinanz AG, Zürich	Finance	Switzerland	12,734	(5,030)	100	100	100	100
NLB InterFinanz Praha s.r.o., Prague	Finance	Czech Republic	(119)	(65)	-	-	100	100
NLB InterFinanz d.o.o., Beograd	Finance	Republic of Serbia	41	4	-	-	100	100
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	506	24	100	100	100	100
LHB AG, Frankfurt	Finance	Republic of Germany	2,841	243	100	100	100	100
NLB Factoring a.s. - "v likvidaci", Brno	Finance	Czech Republic	374	(1,649)	100	100	100	100

Changes in ownership interest in subsidiaries of NLB Group in 2016 and 2015 are presented in note 3. Significant effects of changes in ownership interests are presented in the statement of changes in equity in the item Equity attributable to non-controlling interest.

## Data on subsidiaries with significant non-controlling interests, before intercompany eliminations

in EUR thousand

	NLB Banka, Skopje		NLB Banka, Prishtina	
	2016	2015	2016	2015
Non-controlling interest in equity in %	13.03	13.03	18.79	18.79
Non-controlling interest's voting rights in %	13.03	13.03	18.79	18.79
<b>Income statement and statement of comprehensive income</b>				
Revenues	80,036	76,394	32,815	32,117
<b>Profit/(loss) for the year</b>	<b>24,997</b>	<b>13,129</b>	<b>11,263</b>	<b>8,242</b>
Atributable to non-controlling interest	3,257	1,711	2,116	1,549
Other comprehensive income	(427)	118	88	28
<b>Total comprehensive income</b>	<b>24,570</b>	<b>13,247</b>	<b>11,351</b>	<b>8,270</b>
Atributable to non-controlling interest	3,201	1,726	2,133	1,554
<b>Statement of financial position</b>				
Current assets	574,520	574,807	297,485	276,495
Non-current assets	578,569	544,871	218,630	188,197
Current liabilities	810,619	787,045	363,590	333,350
Non-current liabilities	213,387	218,656	89,680	71,617
<b>Equity</b>	<b>129,083</b>	<b>113,977</b>	<b>62,845</b>	<b>59,725</b>
Atributable to non-controlling interest	16,820	14,851	11,809	11,222

## b) Analysis by type of investment in associates and joint ventures

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Other financial organisations	43,008	39,402	6,600	6,600
Enterprises	240	294	431	494
<b>Total</b>	<b>43,248</b>	<b>39,696</b>	<b>7,031</b>	<b>7,094</b>

## NLB Group's associates

in EUR thousand

	Nature of Business	Country of Incorporation	2016		2015	
			Shareholding %	Voting rights %	Shareholding %	Voting rights %
Bankart d.o.o., Ljubljana	Card processing	Republic of Slovenia	39.44	39.44	39.44	39.44
Skupna pokojninska družba d.d., Ljubljana	Insurance	Republic of Slovenia	28.13	28.13	28.13	28.13
Kreditni biro SISBON, d.o.o., Ljubljana - v likvidaciji	Credit bureau	Republic of Slovenia	29.68	29.68	29.68	29.68
ARG - Nekretnine d.o.o., Horjul	Real estate	Republic of Slovenia	75.00	75.00	75.00	75.00

By contractual agreement between the shareholders, NLB does not control ARG-Nekretnine, Horjul, but does have a significant influence. Therefore, the entity is accounted as an associate.

Carrying amount of interests in associates included in the consolidated financial statements of NLB Group:

NLB Group	in EUR thousand	
	2016	2015
<b>Carrying amount of the NLB Group's interest</b>	<b>13,009</b>	<b>11,825</b>
NLB Group's share of:		
- Profit for the year	1,462	935
- Other comprehensive income	(234)	(54)
<b>- Total comprehensive income</b>	<b>1,228</b>	<b>881</b>

In 2016 NLB Group did not recognise a share of profit of an associate in the amount of EUR 48 thousand (31 December 2015: unrecognised profit EUR 56 thousand), as it still has the cumulative unrecognised share of losses of an associate that as at 31 December 2016 amounted to EUR 2,402 thousand (31 December 2015: EUR 2,450 thousand).

### NLB Group's joint ventures

	Nature of Business	Country of Incorporation	2016	2015
			Voting rights%	Voting rights%
NLB Vita d.d., Ljubljana	Insurance	Republic of Slovenia	50	50
Prvi Faktor Group, Ljubljana	Finance	Republic of Slovenia	50	50

Data on material joint venture NLB Vita, Ljubljana as included in the consolidated financial statements of NLB Group:

NLB Vita d.d., Ljubljana	in EUR thousand	
	2016	2015
Revenues	74,342	72,903
Interest income	7,038	6,800
Interest expense	(1)	(2)
Depreciation and amortisation	(241)	(253)
Income tax	(1,422)	(1,365)
<b>Profit for the year</b>	<b>7,394</b>	<b>7,089</b>
Other comprehensive income	4,434	(4,450)
<b>Total comprehensive income</b>	<b>11,828</b>	<b>2,639</b>
NLB Group's share of:		
- Profit for the year	3,697	3,545
- Other comprehensive income	2,216	(2,225)
	<b>31.12.2016</b>	<b>31.12.2015</b>
Total assets	409,513	370,586
Cash and cash equivalents	2,541	915
Total liabilities	349,035	314,847
Financial liabilities	1,606	2,921
<b>Equity</b>	<b>60,478</b>	<b>55,739</b>
NLB Group's ownership interest in joint venture	30,239	27,870
<b>Carrying amount of the NLB Group's interest in joint venture</b>	<b>30,239</b>	<b>27,870</b>

## c) Movements of investments in associates and joint ventures

NLB Group	in EUR thousand	
	2016	2015
Balance as at 1 January	39,696	37,525
Share of results before tax	6,097	5,299
Share of tax	(938)	(814)
Net gains/(losses) not recognised in the income statement	1,982	(2,279)
Dividends received	(3,587)	(35)
Other	(2)	-
<b>Balance as at 31 December</b>	<b>43,248</b>	<b>39,696</b>

## 5.13. Other assets

	in EUR thousand			
	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Assets, received as collateral (note 7.1.n)	79,059	75,652	4,263	3,371
Inventories	8,913	10,497	460	390
Deferred expenses	4,597	5,133	3,096	3,392
Claim for taxes and other dues	1,305	2,453	389	1,385
Prepayments	684	1,619	211	1,241
<b>Total</b>	<b>94,558</b>	<b>95,354</b>	<b>8,419</b>	<b>9,779</b>

Assets received as collateral and inventories on NLB Group in the amount of EUR 76,416 thousand (31 December 2015: EUR 72,433 thousand) and on NLB in the amount of EUR 4,263 thousand (31 December 2015: EUR 3,371 thousand) consists of real estate, and the rest are other assets received as collateral.

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

**a) Impairment of loans and advances to individuals**

in EUR thousand

NLB Group	Granted overdrafts	Loans for houses and flats	Consumer loans	Other loans	Total
Balance as at 1 January 2015	19,468	47,191	59,151	28,849	154,659
Effects of translation of foreign operations to presentation currency	(2)	3	(2)	915	914
Impairment (note 4.12.)	4,889	3,241	3,016	3,620	14,766
Write-offs	(5,799)	(1,421)	(8,896)	(12,112)	(28,228)
Repayments of written-off receivables	-	-	139	487	626
Exchange differences	-	337	3	(216)	124
Other	-	-	(10)	(32)	(42)
<b>Balance as at 31 December 2015</b>	<b>18,556</b>	<b>49,351</b>	<b>53,401</b>	<b>21,511</b>	<b>142,819</b>
Effects of translation of foreign operations to presentation currency	(32)	(49)	(123)	3	(201)
Impairment (note 4.12.)	2,587	4,436	3,261	2,516	12,800
Write-offs	(4,973)	(21,900)	(20,369)	(10,241)	(57,483)
Repayments of written-off receivables	-	-	199	1,143	1,342
Exchange differences	-	29	2	(87)	(56)
Other	-	-	(5)	-	(5)
<b>Balance as at 31 December 2016</b>	<b>16,138</b>	<b>31,867</b>	<b>36,366</b>	<b>14,845</b>	<b>99,216</b>

in EUR thousand

NLB	Granted overdrafts	Loans for houses and flats	Consumer loans	Other loans	Total
Balance as at 1 January 2015	16,063	31,541	22,589	4,613	74,806
Impairment (note 4.12.)	4,675	2,440	2,305	1,163	10,583
Write-offs	(5,778)	(790)	(7,087)	(4,126)	(17,781)
Exchange differences	-	241	1	326	568
<b>Balance as at 31 December 2015</b>	<b>14,960</b>	<b>33,432</b>	<b>17,808</b>	<b>1,976</b>	<b>68,176</b>
Impairment (note 4.12.)	2,303	5,495	1,930	517	10,245
Write-offs	(4,509)	(20,513)	(13,527)	(811)	(39,360)
Exchange differences	-	8	-	-	8
<b>Balance as at 31 December 2016</b>	<b>12,754</b>	<b>18,422</b>	<b>6,211</b>	<b>1,682</b>	<b>39,069</b>

## b) Impairment of loans and advances to legal entities

in EUR thousand

NLB Group	Loans and advances to government	Loans and advances to banks	Loans and advances to financial organisations	Loans and advances to large corporate customers	Loans and advances to small- and medium-sized enterprises	Total
Balance as at 1 January 2015	18,916	24,722	38,481	484,374	941,874	1,508,367
Effects of translation of foreign operations to presentation currency	14	2,932	1	8,712	10,943	22,602
Impairment (note 4.12.)	1,285	2,557	7,780	(6,598)	35,718	40,742
Write-offs	(371)	(28,957)	(754)	(151,230)	(264,221)	(445,533)
Repayments of written-off receivables	32	130	-	774	4,795	5,731
Exchange differences	1	(1,142)	1	(6,808)	(3,546)	(11,494)
Other	(5)	-	(126)	-	(26)	(157)
<b>Balance as at 31 December 2015</b>	<b>19,872</b>	<b>242</b>	<b>45,383</b>	<b>329,224</b>	<b>725,537</b>	<b>1,120,258</b>
Effects of translation of foreign operations to presentation currency	(7)	(1)	-	(318)	(703)	(1,029)
Impairment (note 4.12.)	(2,604)	74	(14,842)	(16,052)	56,578	23,154
Write-offs	(690)	(1)	(710)	(72,990)	(273,891)	(348,282)
Repayments of written-off receivables	110	35	-	3,354	7,581	11,080
Exchange differences	-	-	4	(719)	241	(474)
Other	(5)	-	(2)	-	(166)	(173)
<b>Balance as at 31 December 2016</b>	<b>16,676</b>	<b>349</b>	<b>29,833</b>	<b>242,499</b>	<b>515,177</b>	<b>804,534</b>

in EUR thousand

NLB	Loans and advances to government	Loans and advances to banks	Loans and advances to financial organisations	Loans and advances to large corporate customers	Loans and advances to small- and medium-sized enterprises	Total
Balance as at 1 January 2015	5,779	682	164,213	308,658	444,926	924,258
Impairment (note 4.12.)	1,359	67	15,446	(29,283)	39,397	26,986
Write-offs	(371)	(737)	(126,379)	(80,757)	(123,313)	(331,557)
Repayments of written-off receivables	32	130	-	774	1,402	2,338
Exchange differences	-	55	2,951	608	1,100	4,714
<b>Balance as at 31 December 2015</b>	<b>6,799</b>	<b>197</b>	<b>56,231</b>	<b>200,000</b>	<b>363,512</b>	<b>626,739</b>
Impairment (note 4.12.)	(163)	(196)	(5,005)	5,065	14,844	14,545
Write-offs	(689)	(1)	(446)	(39,415)	(138,831)	(179,382)
Repayments of written-off receivables	110	-	-	1,486	2,149	3,745
Exchange differences	-	-	17	6	9	32
<b>Balance as at 31 December 2016</b>	<b>6,057</b>	<b>-</b>	<b>50,797</b>	<b>167,142</b>	<b>241,683</b>	<b>465,679</b>

## c) Impairment of other financial assets

	in EUR thousand	
	NLB Group	NLB
Balance as at 1 January 2015	42,680	17,521
Effects of translation of foreign operations to presentation currency	31	-
Impairment (note 4.12.)	6,220	1,721
Write-offs	(22,158)	(14,271)
Exchange differences	137	-
Repayments of written-off receivables	168	152
<b>Balance as at 31 December 2015</b>	<b>27,078</b>	<b>5,123</b>
Effects of translation of foreign operations to presentation currency	43	-
Impairment (note 4.12.)	625	356
Write-offs	(12,417)	(1,726)
Exchange differences	(39)	(1)
Repayments of written-off receivables	165	19
Other	(2)	-
<b>Balance as at 31 December 2016</b>	<b>15,453</b>	<b>3,771</b>

## 5.15. Trading liabilities

	in EUR thousand			
	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
<b>Derivatives, excluding hedges</b>				
Swap contracts	15,555	26,929	15,552	26,929
- currency swaps	328	169	325	169
- interest rate swaps	15,227	24,460	15,227	24,460
- currency interest rate swaps	-	2,300	-	2,300
Options	-	47	-	47
- currency options	-	37	-	37
- interest rate options	-	10	-	10
Forward contracts	3,236	2,944	3,235	2,933
- currency forward	3,236	2,944	3,235	2,933
<b>Total</b>	<b>18,791</b>	<b>29,920</b>	<b>18,787</b>	<b>29,909</b>

The notional amounts of derivative financial instruments are disclosed in note 5.24.b.

**5.16. Financial liabilities, measured at amortised cost***Analysis by type of financial liabilities, measured at amortised cost*

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Deposits from banks and central banks	42,334	57,982	74,977	96,736
Borrowings from banks and central banks	371,769	571,029	338,467	519,926
Due to customers	9,437,147	9,020,666	6,615,390	6,293,339
Borrowings from other customers	83,619	100,267	4,274	16,168
Debt securities in issue	277,726	304,962	277,726	304,962
Subordinated liabilities	27,145	27,340	-	-
Other financial liabilities	110,295	75,307	68,784	47,346
<b>Total</b>	<b>10,350,035</b>	<b>10,157,553</b>	<b>7,379,618</b>	<b>7,278,477</b>

**a) Deposits from banks and amounts due to customers**

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
<b>Deposits on demand</b>				
- banks and central banks	34,828	55,599	74,434	95,962
- other customers	6,415,927	5,544,323	4,781,616	4,092,767
- governments	200,629	180,746	83,745	79,848
- financial organisations	124,918	72,282	101,536	45,127
- companies	1,584,892	1,542,725	1,015,371	993,058
- individuals	4,505,488	3,748,570	3,580,964	2,974,734
<b>Other deposits</b>				
- banks and central banks	7,506	2,383	543	774
- other customers	3,021,220	3,476,343	1,833,774	2,200,572
- governments	150,835	182,804	147,914	172,290
- financial organisations	122,401	109,122	78,767	74,616
- companies	350,431	444,365	246,584	303,226
- individuals	2,397,553	2,740,052	1,360,509	1,650,440
<b>Total</b>	<b>9,479,481</b>	<b>9,078,648</b>	<b>6,690,367</b>	<b>6,390,075</b>

b) Borrowings from banks and other customers

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
<b>Loans</b>				
- banks and central banks	371,769	571,029	338,467	519,926
- other customers	83,619	100,267	4,274	16,168
- governments	20,063	29,982	-	10,009
- financial organisations	56,728	61,335	-	-
- companies	6,828	8,950	4,274	6,159
<b>Total</b>	<b>455,388</b>	<b>671,296</b>	<b>342,741</b>	<b>536,094</b>

As at 31 December 2016, NLB Group and NLB had EUR 347,434 thousand in undrawn borrowings (31 December 2015: EUR 345,762 thousand).

c) Debt securities in issue

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Carrying amount of issued securities				
- traded on active markets	277,726	304,962	277,726	304,962
Bonds (in %)				
- fixed rated	100.00	100.00	100.00	100.00
	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

d) Subordinated liabilities

in EUR thousand

NLB Group				31.12.2016		31.12.2015	
Currency	Due date	Interest rate	Carrying amount	Nominal value	Carrying amount	Nominal value	
<b>Subordinated loans</b>							
EUR	30/6/2018	6 months EURIBOR + 6.3% p.a. to 22.09.2016, thereafter 6 months EURIBOR +5% p.a.	12,103	12,000	12,219	12,000	
EUR	30/6/2020	6 months EURIBOR + 7.7% p.a.	5,151	5,000	5,176	5,000	
EUR	26/6/2025	6 months EURIBOR + 7.5% p.a. to 15.12.2016, thereafter 6 months EURIBOR + 6.25% p.a.	9,891	10,000	9,945	10,000	
<b>Total</b>			<b>27,145</b>	<b>27,000</b>	<b>27,340</b>	<b>27,000</b>	

## e) Other financial liabilities

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Debit or credit card payables	32,704	15,502	29,350	14,231
Items in the course of payment	28,671	13,835	8,499	4,580
Accrued expenses	13,382	12,695	5,593	4,615
Suppliers	11,781	14,515	8,393	11,371
Accrued salaries	8,537	8,274	6,583	6,913
Fees and commissions due	1,440	1,341	1,398	1,305
Other financial liabilities	13,780	9,145	8,968	4,331
<b>Total</b>	<b>110,295</b>	<b>75,307</b>	<b>68,784</b>	<b>47,346</b>

Other financial liabilities mainly include liabilities to insurance companies, liabilities to employees, received warranties and temporary accounts.

## 5.17. Provisions

## a) Analysis by type of provisions

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Provisions for financial guarantees (note 5.24.a)	25,327	47,737	23,131	44,583
Provisions for non-financial guarantees (note 5.24.a)	22,745	31,034	21,777	29,863
Provisions for other credit commitments (note 5.24.a)	5,609	3,228	4,957	3,197
Employee benefit provisions	19,758	21,265	15,384	16,559
Restructuring provisions	10,014	3,477	8,750	3,429
Provisions for legal issues	15,194	13,465	3,282	5,075
Other provisions	2,267	2,433	2,265	2,431
<b>Total</b>	<b>100,914</b>	<b>122,639</b>	<b>79,546</b>	<b>105,137</b>

Provisions for legal issues are recognised based on expectations regarding the probable outcome of legal disputes.

As at 31 December 2016, NLB Group was involved in 43 (31 December 2015: 45) legal disputes with material claims against group members in the total amount of EUR 646,639 thousand, excluding accrued interest (31 December 2015: EUR 627,917 thousand). As at 31 December 2016, NLB was involved in 19 (31 December 2015: 21) legal disputes with material monetary claims against NLB. The total amount of these claims, excluding accrued interest, was EUR 417,041 thousand (31 December 2015: EUR 419,277 thousand).

The biggest amount within material monetary claims relates to civil claims filed by Privredna banka Zagreb (the PBZ) and Zagrebačka banka (the ZaBa) against NLB, referring to the old savings of LB Branch Zagreb savers, which were transferred to these two banks in the principal amount of EUR 172,212 thousand. Due to the fact the proceedings have been pending for such a long time, the penalty interest already exceeds the principal amount. As NLB is not liable for the old foreign currency savings, based on numerous process and content-related reasons, NLB has all along objected to these claims. Two key reasons NLB is no longer liable for the old foreign currency savings are that it was only founded on the basis of the Constitutional Act on 27 July 1994 (at the time the savings were deposited with LB Branch Zagreb, NLB did not exist yet), and NLB did not assume any of its obligations. Moreover, this is a former Yugoslavia succession matter as the governments of the Republic of Slovenia and the Republic of Croatia agreed in a Memorandum of Understanding signed in 2013 to find a solution to the transferred foreign currency savings of Ljubljanska banka in Croatia (LB) on the basis of the Agreement on Succession Issues and that the Republic of Croatia

would stay all the proceedings commenced by the PBZ and the ZaBa in relation to the transferred foreign currency savings until the issue is finally resolved.

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

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

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

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

#### b) Movements in provisions for guarantees and commitments

##### *Financial guarantees*

	in EUR thousand			
	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	47,737	48,733	44,583	46,023
Effects of translation of foreign operations to presentation currency	(16)	(3)	-	-
Additional provisions/provisions released (note 4.11.)	(4,521)	(1,000)	(3,565)	(1,445)
Utilised during year	(17,894)	-	(17,894)	-
Exchange differences	21	7	7	5
<b>Balance as at 31 December</b>	<b>25,327</b>	<b>47,737</b>	<b>23,131</b>	<b>44,583</b>

##### *Non-financial guarantees*

	in EUR thousand			
	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	31,034	32,876	29,863	31,568
Effects of translation of foreign operations to presentation currency	(2)	(1)	-	-
Additional provisions/provisions released (note 4.11.)	(8,295)	(1,865)	(8,093)	(1,727)
Exchange differences	8	24	7	22
<b>Balance as at 31 December</b>	<b>22,745</b>	<b>31,034</b>	<b>21,777</b>	<b>29,863</b>

*Other credit commitments*

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	3,228	11,190	3,197	11,212
Effects of translation of foreign operations to presentation currency	(1)	(1)	-	-
Additional provisions/provisions released (note 4.11.)	2,384	(7,982)	1,761	(8,047)
Exchange differences	(2)	21	(1)	32
<b>Balance as at 31 December</b>	<b>5,609</b>	<b>3,228</b>	<b>4,957</b>	<b>3,197</b>

**c) Movements in employee benefit provisions***Post-employment benefits*

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	14,205	12,275	11,786	10,925
Effects of translation of foreign operations to presentation currency	(2)	(2)	-	-
Additional provisions (note 4.9.)	594	543	473	334
Provisions released (note 4.9.)	(215)	(224)	-	(22)
Interest expenses (note 4.1.)	274	576	171	431
Utilised during year (payments)	(210)	(938)	(78)	(588)
Actuarial gains and losses	(1,516)	1,975	(1,466)	706
<b>Balance as at 31 December</b>	<b>13,130</b>	<b>14,205</b>	<b>10,886</b>	<b>11,786</b>

*Other employee benefits*

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	7,060	6,720	4,773	4,816
Effects of translation of foreign operations to presentation currency	(2)	(1)	-	-
Additional provisions (note 4.9.)	4,065	4,379	2,628	2,509
Provisions released (note 4.9.)	(514)	(15)	(258)	(8)
Interest expenses (note 4.1.)	83	175	34	119
Utilised during year	(4,064)	(4,198)	(2,679)	(2,663)
<b>Balance as at 31 December</b>	<b>6,628</b>	<b>7,060</b>	<b>4,498</b>	<b>4,773</b>

Other employee benefits include NLB Group's obligations for jubilee long-service benefits and unused annual leave.

## d) Movements in restructuring provisions

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	3,477	5,871	3,429	5,824
Effects of translation of foreign operations to presentation currency	(3)	-	-	-
Additional provisions (note 4.11.)	10,644	19	9,377	-
Provisions released (note 4.11.)	-	(15)	-	(15)
Utilised during year	(4,104)	(2,398)	(4,056)	(2,380)
<b>Balance as at 31 December</b>	<b>10,014</b>	<b>3,477</b>	<b>8,750</b>	<b>3,429</b>

NLB Group has adopted a new business strategy and initiated key strategic initiatives, aiming among others towards a leaner organisation, optimisation of processes, implementation of a new IT strategy with focus on digitalisation and simplification, and adjustment of the organisational structure. These initiatives will result in a decreased number of employees in the coming years, therefore the Group formed restructuring provisions in the amount of EUR 10,644 thousand (NLB EUR 9,377 thousand), which are expected to be used for redundancy payments in the next two years.

## e) Movements in provisions for legal issues

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	13,465	6,774	5,075	1,666
Effects of translation of foreign operations to presentation currency	(74)	(21)	-	-
Additional provisions (note 4.11.)	5,291	8,176	401	3,409
Provisions released (note 4.11.)	(1,039)	(701)	(256)	-
Utilised during year	(2,462)	(765)	(1,949)	(2)
Exchange differences	13	2	11	2
<b>Balance as at 31 December</b>	<b>15,194</b>	<b>13,465</b>	<b>3,282</b>	<b>5,075</b>

## f) Movements in other provisions

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Balance as at 1 January	2,433	2,535	2,431	2,531
Additional provisions (note 4.11.)	-	2,928	-	2,928
Provisions released (note 4.11.)	(107)	(256)	(107)	(256)
Utilised during year	(59)	(2,774)	(59)	(2,772)
<b>Balance as at 31 December</b>	<b>2,267</b>	<b>2,433</b>	<b>2,265</b>	<b>2,431</b>

## 5.18. Deferred income tax

### a) Analysis by type of deferred income taxes

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
<b>Deferred income tax assets</b>				
Valuation of financial instruments and capital investments	75,917	59,683	75,895	59,534
Impairment provisions	3,956	4,219	3,571	3,673
Employee benefit provisions	3,208	2,385	2,736	2,246
Depreciation and valuation of non-financial assets	1,113	1,130	175	182
Tax losses	206,866	229,229	208,678	232,371
Reduction of deferred tax assets	(267,051)	(275,098)	(268,718)	(278,020)
<b>Total deferred income tax assets</b>	<b>24,009</b>	<b>21,548</b>	<b>22,337</b>	<b>19,986</b>
<b>Deferred income tax liabilities</b>				
Valuation of financial instruments	12,233	11,249	11,463	10,608
Depreciation and valuation of non-financial assets	1,278	1,056	252	239
Impairment provisions	3,471	129	-	-
Other	19	27	-	-
<b>Total deferred income tax liabilities</b>	<b>17,001</b>	<b>12,461</b>	<b>11,715</b>	<b>10,847</b>
<b>Net deferred income tax assets</b>	<b>7,735</b>	<b>9,400</b>	<b>10,622</b>	<b>9,139</b>
<b>Net deferred income tax liabilities</b>	<b>(727)</b>	<b>(313)</b>	<b>-</b>	<b>-</b>
	NLB Group		NLB	
	2016	2015	2016	2015
<b>Included in the income statement for the current year</b>	<b>(217)</b>	<b>1,387</b>	<b>3,083</b>	<b>292</b>
- valuation of financial instruments and capital investments	16,915	6,742	16,915	6,741
- impairment provisions	(3,601)	(28,299)	(102)	(201)
- employee benefit provisions	1,016	(261)	681	(212)
- depreciation and valuation of non-financial assets	(239)	(181)	(20)	(107)
- tax losses	17,071	5,167	15,741	(8,925)
- adjustment of deferred tax assets	(31,387)	18,242	(30,132)	3,003
- other	8	(23)	-	(7)
<b>Included in other comprehensive income for the current year</b>	<b>(1,858)</b>	<b>2,067</b>	<b>(1,600)</b>	<b>2,109</b>
- valuation of available-for-sale financial assets	(1,207)	1,413	(949)	1,455
- cash flow hedges	(460)	(86)	(460)	(86)
- actuarial assumptions and experience	(191)	740	(191)	740

Slovenian law does not set limits or deadlines by which uncovered tax losses must be utilised.

As at 31 December 2016, NLB recognised EUR 22,337 thousand deferred tax assets (31 December 2015: EUR 19,986 thousand). Unrecognised deferred tax assets amounts to EUR 268,718 thousand (31 December 2015: EUR 278,020 thousand) of which the majority relates to unrecognised deferred tax assets from tax losses in the amount of EUR 208,678 thousand (31 December 2015: EUR 232,371 thousand) and to unrecognised deferred tax assets from impairments of capital investments.

## b) Movements in deferred income taxes

## Deferred income tax assets

in EUR thousand

NLB Group	Employee benefit provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment provisions	Tax losses	Reduction of deferred tax assets	Other	Total
Balance as at 1 January 2015	1,906	53,865	1,364	32,452	224,062	(293,340)	35	20,344
Effects of translation of foreign operations to presentation currency	-	-	-	1	-	-	-	1
(Charged)/credited to profit and loss	(261)	6,660	(234)	(28,234)	5,167	18,242	(35)	1,305
(Charged)/credited to other comprehensive income	740	(842)	-	-	-	-	-	(102)
<b>Balance as at 31 December 2015</b>	<b>2,385</b>	<b>59,683</b>	<b>1,130</b>	<b>4,219</b>	<b>229,229</b>	<b>(275,098)</b>	-	<b>21,548</b>
Effects of translation of foreign operations to presentation currency	(2)	(1)	(1)	(4)	-	-	-	(8)
Write-offs	-	-	-	-	(39,434)	39,434	-	-
(Charged)/credited to profit and loss	1,016	16,900	(16)	(259)	17,071	(31,387)	-	3,325
(Charged)/credited to other comprehensive income	(191)	(665)	-	-	-	-	-	(856)
<b>Balance as at 31 December 2016</b>	<b>3,208</b>	<b>75,917</b>	<b>1,113</b>	<b>3,956</b>	<b>206,866</b>	<b>(267,051)</b>	-	<b>24,009</b>

in EUR thousand

NLB	Employee benefit provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment provisions	Tax losses	Reduction of deferred tax assets	Other	Total
Balance as at 1 January 2015	1,718	53,819	295	3,874	241,296	(281,023)	7	19,986
(Charged)/credited to profit and loss	(212)	6,657	(113)	(201)	(8,925)	3,003	(7)	202
(Charged)/credited to other comprehensive income	740	(942)	-	-	-	-	-	(202)
<b>Balance as at 31 December 2015</b>	<b>2,246</b>	<b>59,534</b>	<b>182</b>	<b>3,673</b>	<b>232,371</b>	<b>(278,020)</b>	-	<b>19,986</b>
Write-offs	-	-	-	-	(39,434)	39,434	-	-
(Charged)/credited to profit or loss	681	16,900	(7)	(102)	15,741	(30,132)	-	3,081
(Charged)/credited to other comprehensive income	(191)	(539)	-	-	-	-	-	(730)
<b>Balance as at 31 December 2016</b>	<b>2,736</b>	<b>75,895</b>	<b>175</b>	<b>3,571</b>	<b>208,678</b>	<b>(268,718)</b>	-	<b>22,337</b>

## Deferred income tax liabilities

in EUR thousand

NLB Group	Impairment provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Other	Total
Balance as at 1 January 2015	64	13,500	1,109	39	14,712
Charged/(credited) to profit and loss	65	(82)	(53)	(12)	(82)
Charged/(credited) to other comprehensive income	-	(2,169)	-	-	(2,169)
<b>Balance as at 31 December 2015</b>	<b>129</b>	<b>11,249</b>	<b>1,056</b>	<b>27</b>	<b>12,461</b>
Effects of translation of foreign operations to presentation currency	-	(3)	(1)	-	(4)
Charged/(credited) to profit and loss	3,342	(15)	223	(8)	3,542
Charged/(credited) to other comprehensive income	-	1,002	-	-	1,002
<b>Balance as at 31 December 2016</b>	<b>3,471</b>	<b>12,233</b>	<b>1,278</b>	<b>19</b>	<b>17,001</b>

in EUR thousand

NLB	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Total
Balance as at 1 January 2015	13,003	245	13,248
Charged/(credited) to profit and loss	(84)	(6)	(90)
Charged/(credited) to other comprehensive income	(2,311)	-	(2,311)
<b>Balance as at 31 December 2015</b>	<b>10,608</b>	<b>239</b>	<b>10,847</b>
Charged/(credited) to profit and loss	(15)	13	(2)
Charged/(credited) to other comprehensive income	870	-	870
<b>Balance as at 31 December 2016</b>	<b>11,463</b>	<b>252</b>	<b>11,715</b>

## 5.19. Income tax relating to components of other comprehensive income

in EUR thousand

2016	NLB Group			NLB		
	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Actuarial gains and losses	1,515	(191)	1,324	1,466	(191)	1,275
Available-for-sale financial assets	3,899	(1,207)	2,692	171	(949)	(778)
Cash flow hedge	2,703	(460)	2,243	2,703	(460)	2,243
Share of associates and joint ventures	2,725	(743)	1,982	-	-	-
<b>Total</b>	<b>10,842</b>	<b>(2,601)</b>	<b>8,241</b>	<b>4,340</b>	<b>(1,600)</b>	<b>2,740</b>

in EUR thousand

2015	NLB Group			NLB		
	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
Actuarial gains and lossess	(1,975)	740	(1,235)	(706)	740	34
Available-for-sale financial assets	(8,496)	1,413	(7,083)	(8,562)	1,455	(7,107)
Cash flow hedge	509	(86)	423	509	(86)	423
Share of associates and joint ventures	(2,735)	456	(2,279)	-	-	-
<b>Total</b>	<b>(12,697)</b>	<b>2,523</b>	<b>(10,174)</b>	<b>(8,759)</b>	<b>2,109</b>	<b>(6,650)</b>

## 5.20. Other liabilities

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Taxes payable	3,699	4,982	3,049	3,817
Deferred income	2,964	7,579	661	1,693
Payments received in advance	2,040	1,978	476	166
<b>Total</b>	<b>8,703</b>	<b>14,539</b>	<b>4,186</b>	<b>5,676</b>

## 5.21. Share capital

The share capital of NLB amounts to EUR 200,000 thousand and did not change during 2016. It comprises of 20,000,000 no-par-value ordinary registered shares, with the corresponding value of EUR 10.0 for one share. All issued shares are fully paid and there are no un-issued authorised shares. As at 31 December 2016 and 31 December 2015, the Republic of Slovenia was the only shareholder of NLB. NLB Group does not own treasury shares.

The book value of a NLB share on a consolidated level as at 31 December 2016 was EUR 74.8 (31 December 2015: EUR 71.1) and on solo level was EUR 63.2 (31 December 2015: EUR 62.1). It is calculated as the ratio of net assets' book value without other equity instruments issued and the number of shares.

Distributable profit as at 31 December 2016 amounts to EUR 145,313 thousand (31 December 2015: EUR 125,410 thousand) and consists of a net profit for 2016 in the amount of EUR 63,783 thousand and retained earnings from previous years in the amount of EUR 81,530 thousand. Its allocation will be subject to a decision by the Bank's Annual General Meeting.

In 2016 NLB paid dividends for previous year in the amount of EUR 2,194 per share (2015: 0 EUR) which decreased retained earnings for EUR 43,880 thousand.

## 5.22. Accumulated other comprehensive income and reserves

### a) Reserves

The share premium account as at 31 December 2016 and 31 December 2015 comprises paid-up premiums in the amount of EUR 822,173 thousand and the revaluation of share capital from previous years in the amount of EUR 49,205 thousand.

As at 31 December 2016 and 31 December 2015 profit reserves in the amount of EUR 13,522 thousand relate entirely to legal reserves in accordance with the Companies Act.

## b) Accumulated other comprehensive income

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Available-for-sale financial assets - debt securities	41,954	36,982	28,574	27,950
Available-for-sale financial assets - equity securities	11,017	11,342	8,644	10,046
Actuarial defined benefit pension plans	(3,617)	(4,935)	(2,637)	(3,912)
Foreign currency translation	(20,139)	(18,297)	-	-
Hedge of a net investment in a foreign operation	754	754	-	-
Cash flow hedging	-	(2,243)	-	(2,243)
<b>Total</b>	<b>29,969</b>	<b>23,603</b>	<b>34,581</b>	<b>31,841</b>

## 5.23. Capital adequacy ratios

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Paid up capital instruments	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Retained earnings - from previous years	246,656	207,004	81,530	81,529
Profit or loss eligible - from current year	49,890	39,599	-	-
Accumulated other comprehensive income	(6,053)	(4,090)	5,205	2,815
Other reserves	13,522	13,522	13,522	13,522
Minority interest	-	-	-	-
Prudential filters: Cash flow hedge reserve	-	897	-	897
Prudential filters: Value adjustments due to the requirements for prudent valuation	(2,213)	(3,134)	(1,734)	(2,649)
(-) Goodwill	(3,529)	(3,529)	-	-
(-) Other intangible assets	(30,397)	(35,745)	(23,345)	(29,627)
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	(3,013)	(2,755)	(4,626)	(2,886)
(-) Investments in CET1 instruments of financial sector - significant share	-	-	-	-
<b>Common Equity Tier 1 Capital (CET1)</b>	<b>1,336,241</b>	<b>1,283,147</b>	<b>1,141,930</b>	<b>1,134,979</b>
Additional Tier 1 capital	-	-	-	-
<b>Tier 1 capital</b>	<b>1,336,241</b>	<b>1,283,147</b>	<b>1,141,930</b>	<b>1,134,979</b>
Tier 2 capital	-	-	-	-
<b>Total capital (own funds)</b>	<b>1,336,241</b>	<b>1,283,147</b>	<b>1,141,930</b>	<b>1,134,979</b>
RWA for credit risk	6,864,737	6,849,633	4,292,262	4,353,619
RWA for market risks	104,175	137,351	27,975	68,988
RWA for credit valuation adjustment risk	463	9,313	463	9,313
RWA for operational risk	892,753	930,688	561,091	596,127
<b>Total risk exposure amount (RWA)</b>	<b>7,862,128</b>	<b>7,926,985</b>	<b>4,881,791</b>	<b>5,028,047</b>
Common Equity Tier 1 Ratio	17.0%	16.2%	23.4%	22.6%
Tier 1 Ratio	17.0%	16.2%	23.4%	22.6%
Total Capital Ratio	17.0%	16.2%	23.4%	22.6%

European capital legislation, comprising the CRR regulation and CRD IV directive is based on the Basel III guidelines. Legislation defines three capital ratios reflecting a different quality of capital:

- Common Equity Tier 1 ratio (ratio between common or CET1 capital and weighted risk exposure amount or RWA), which must be at least 4.5%;
- Tier 1 capital ratio (Tier 1 capital to RWA), which must be at least 6%; and
- Total capital ratio (total capital to RWA), which must be at least 8%.

In addition to the aforementioned ratios, the Bank must meet other requirements and recommendations that are being imposed by the supervisory institutions or by the legislation:

- Pillar 2 Requirement (SREP requirement): bank specific, obligatory requirement;
- Capital buffers: system of buffers to be added on top of capital adequacy requirement – not obligatory, however breaching of the buffers triggers limitations in payment of dividends and other distributions from capital. Some of the buffers are prescribed by law for all banks and some of them are bank specific
- Pillar 2 Guidance: bank specific, not obligatory, and not affecting dividends or other distributions from capital.

The capital adequacy of the NLB Group and NLB remains at a level which covers all current and announced regulatory capital requirements, including capital buffers and other currently known requirements.

In 2016, the capital of the Bank and the Group consists merely of the components of top quality CET1 capital (no subordinated instruments that would rank in lower capital categories) which is why all three capital ratios are the same.

In the scope of regulatory risks, which include credit risk, operational risk, and market risk, NLB Group uses the standardised approach for credit and market risks, while the calculation of capital requirement for operational risks is made according to the basic indicator approach. The same approaches are used for calculating the capital requirements for NLB on a standalone basis, except for the calculation of the capital requirement for operational risks where the standardised approach is used.

In preparation of the internal capital adequacy assessment, bank members of NLB Group and NLB identify risks not included in the calculation under the regulatory approach (Pillar 1) which have a significant impact on their operation. The scope of additional credit risks also includes the concentration risk – to individual clients and groups of related parties, at the level of activity – and collateral concentration risk. NLB Group calculates the capital requirement for non-financial risks (which include capital risk, profitability risk, strategic risk, divestment risk and reputation risk) if it assesses that an individual risk is crucial for NLB Group. In addition, the non-regulatory risks include the effects of stress scenarios for credit (deterioration of the credit-rating structure, decrease in real-estate market prices), currency, liquidity, interest rate risk in the banking book, credit spread risks, and market risks arising from securities.

## 5.24. Off-balance sheet liabilities

### a) Contractual amounts of off-balance sheet financial instruments

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Short-term guarantees	162,535	190,705	87,957	97,543
- financial	109,412	124,080	49,611	50,844
- non-financial	53,123	66,625	38,346	46,699
Long-term guarantees	586,895	599,865	447,125	489,163
- financial	222,869	233,706	140,031	162,973
- non-financial	364,026	366,159	307,094	326,190
Commitments to extend credit	1,075,940	1,101,241	881,198	923,755
Letters of credit	17,485	19,402	3,761	3,567
Other	8,329	7,289	118	117
	1,851,184	1,918,502	1,420,159	1,514,145
Provisions (note 5.17.b)	(53,681)	(81,999)	(49,865)	(77,643)
<b>Total</b>	<b>1,797,503</b>	<b>1,836,503</b>	<b>1,370,294</b>	<b>1,436,502</b>

Fee income from all issued non-financial guarantees amounted to EUR 5,643 thousand (2015: EUR 5,665 thousand) in NLB Group, and to EUR 5,224 thousand (2015: EUR 5,192 thousand) at NLB.

### b) Analysis of derivative financial instruments by notional amounts

in EUR thousand

	NLB Group				NLB			
	31.12.2016		31.12.2015		31.12.2016		31.12.2015	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Swaps	57,188	810,972	90,258	1,023,123	57,188	810,972	90,258	1,026,002
- currency swaps	57,188	-	90,258	3,312	57,188	-	90,258	3,312
- interest rate swaps	-	808,898	-	997,810	-	808,898	-	1,000,689
- currency interest rate swaps	-	2,074	-	22,001	-	2,074	-	22,001
Options	10,703	1,495	15,085	4,763	10,703	1,495	15,085	4,763
- currency options	-	-	7,093	-	-	-	7,093	-
- interest rate options	-	1,495	-	4,763	-	1,495	-	4,763
- securities options	10,703	-	7,992	-	10,703	-	7,992	-
Forward contracts	192,950	7,468	114,030	12,188	191,280	7,468	114,393	12,188
- currency forward	192,950	7,468	114,030	12,188	191,280	7,468	114,393	12,188
Futures	2,400	-	2,500	-	2,400	-	2,500	-
- currency futures	2,400	-	2,500	-	2,400	-	2,500	-
<b>Total</b>	<b>263,241</b>	<b>819,935</b>	<b>221,873</b>	<b>1,040,074</b>	<b>261,571</b>	<b>819,935</b>	<b>222,236</b>	<b>1,042,953</b>
	<b>1,083,176</b>		<b>1,261,947</b>		<b>1,081,506</b>		<b>1,265,189</b>	

The notional amounts of derivative financial instruments that qualify for hedge accounting at NLB Group and NLB amount to EUR 108,554 thousand (31 December 2015: EUR 172,223 thousand). Derivatives that qualify for hedge accounting are used to hedge interest rate risk.

The fair values of derivative financial instruments are disclosed in notes 5.2., 5.5., and 5.15.

## c) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	in EUR thousand			
	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Real estate				
Not later than one year	1,775	1,833	957	980
Later than one year and not later than five years	6,283	5,977	3,668	3,802
Later than five years	1,666	1,921	1,709	1,842
Other				
Not later than one year	383	399	259	251
Later than one year and not later than five years	772	1,085	373	454
<b>Total</b>	<b>10,879</b>	<b>11,215</b>	<b>6,966</b>	<b>7,329</b>

## d) Operating lease income

Future minimum operating lease income:

NLB Group	in EUR thousand	
	2016	2015
Not later than one year	3,775	6,619
Later than one year and not later than five years	6,004	14,069
Later than five years	197	35,957
<b>Total</b>	<b>9,976</b>	<b>56,645</b>

In 2016 the expected future operating lease income is lower due to the expected sale of investment properties.

## e) Capital commitments

	in EUR thousand			
	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Capital commitments for purchase of:				
- property and equipment	179	1,193	92	1,099
- intangible assets	1,363	2,408	1,260	2,285
<b>Total</b>	<b>1,542</b>	<b>3,601</b>	<b>1,352</b>	<b>3,384</b>

## 5.25. Funds managed on behalf of third parties

Funds managed on behalf of third parties are accounted separately from NLB Group's funds. Income and expenses arising with respect to these funds are charged to the respective fund, and no liability falls on NLB Group in connection with these transactions. NLB Group charges fees for its services.

## Funds managed on behalf of third parties

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Fiduciary activities	21,511,615	11,056,208	20,518,240	10,167,040
Settlement and other services	1,509,864	1,110,667	1,482,693	1,079,281
<b>Total</b>	<b>23,021,479</b>	<b>12,166,875</b>	<b>22,000,933</b>	<b>11,246,321</b>

## Fiduciary activities

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
<b>Assets</b>				
<b>Clearing or transaction account claims for client assets</b>	<b>21,452,329</b>	<b>11,006,524</b>	<b>20,463,466</b>	<b>10,124,884</b>
- from financial instruments	21,444,586	10,999,108	20,456,016	10,117,536
- receipt, processing, and execution of orders	9,292,661	1,261,293	8,786,845	808,071
- management of financial instruments portfolio	380,344	339,607	-	-
- custody services	11,771,581	9,398,208	11,669,171	9,309,465
- to Central Securities Clearing Corporation or bank settlement account for sold financial instrument	820	191	527	123
- to other settlement systems and institutions for bought financial instrument (debtors)	6,923	7,225	6,923	7,225
<b>Clients' money</b>	<b>59,286</b>	<b>49,684</b>	<b>54,774</b>	<b>42,156</b>
- at settlement account for client assets	33,940	20,715	29,428	13,187
- at bank transaction accounts	25,346	28,969	25,346	28,969
<b>Liabilities</b>				
<b>Clearing or transaction liabilities for client assets</b>	<b>21,511,615</b>	<b>11,056,208</b>	<b>20,518,240</b>	<b>10,167,040</b>
- to client from cash and financial instruments	21,500,968	11,041,371	20,508,917	10,152,750
- receipt, processing, and execution of orders	9,297,620	1,263,851	8,791,804	810,629
- management of financial instruments portfolio	383,825	346,656	-	-
- custody services	11,819,523	9,430,864	11,717,113	9,342,121
- to Central Securities Clearing Corporation or bank settlement account for bought financial instrument	75	126	75	126
- to other settlement systems and institutions for bought financial instrument (creditors)	10,030	14,363	8,706	13,816
- to bank or settlement bank account for fees and costs, etc.	542	348	542	348

## Fee income for funds managed on behalf of third parties

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Fiduciary activities (note 4.3.b)	8,323	7,111	6,716	5,859
Settlement and other services	796	966	633	848
<b>Total</b>	<b>9,119</b>	<b>8,077</b>	<b>7,349</b>	<b>6,707</b>

## 6. Events after the reporting date

There were no events after 31 December 2016 that could materially significant influence the presented financial statements.

## 7. Risk management

### a) Risk management strategies and processes

The key goal of NLB Group's Risk Management Department is to assess, monitor, and manage risks within the group. NLB Group proactively develops methodologies and models to evaluate, monitor, and define mitigation criteria for all relevant risk types. Sound and holistic understanding of risk management is embedded into the entire organisation, to proactively monitor and mitigate risks, and to ensure the prudent and economic use of its capital. Key risk guidelines of NLB Group are defined by its Risk Appetite and Risk Strategy, which are regularly revised and enhanced. The Strategy of NLB Group, the Risk Appetite and Risk Strategy guidelines and the key internal policies of NLB Group - which are approved by the Management Board and by the Supervisory Board - specify the strategic goals, risk appetite guidelines, approaches, and methodologies for monitoring, measuring, and managing all types of risk.

The management of credit risk, which is the most important risk category in NLB Group, concentrates on taking moderate risks and ensuring an optimal return given the risks assumed, beside the continuity of a strong commitment to reduce the legacy of non-performing exposures towards average EU levels. As regards liquidity risk, the activities are geared towards constantly ensuring an appropriate level of liquidity, both short- and long-term. Concerning market and operational risks, NLB Group follows the orientation that such risks must not significantly impact its operations.

The tolerance for other risk types is low, and focuses on minimising their possible impacts on NLB Group's entire operations.

NLB regularly monitors its target Risk Appetite profile, both for NLB Group and NLB, representing the key component of the risk mitigation process. Risk profile enables detailed monitoring and proactive management of exposure to credit, market, interest, liquidity, operational risk, while non-financial and other risks are managed within ICAAP process. The usage of risk profile limits and potential deviations from limits and target values are reported regularly to the respective committees and/or the Management Board of the Bank, a comprehensive Risk Report is reviewed quarterly both by the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank. The banking subsidiaries within NLB Group have adapted a corresponding approach to monitor their target risk profiles. Additionally, the Group has set up early warning systems in different risk areas with the intention of strengthening existing internal controls and timely responses when necessary.

For the purpose of an efficient risk mitigation process, NLB Group applies a single set of standards to retail and corporate loan collateral, representing a secondary source of repayment with the aim of efficient credit risk management and consuming capital economically. The Group has a system for monitoring and reporting collateral at fair (market) value in accordance with the International Valuation Standards (IVS). When hedging market risks NLB Group follows the principle of natural hedge or using derivatives in line with hedge accounting principles.

NLB Group pays great attention and importance to the risk culture and awareness of all relevant risks within the entire organisation. Pursuant to the new EBA guidelines, the Group is

constantly upgrading the existing ICAAP process by enhancing its inclusion into the decision-making process at strategic and operating levels, and the formally established ILAAP process that refers to the comprehensive assessment of liquidity risk.

The internal risk management policies of NLB Group members include aligned key risk management guidelines at the level of the Group, along with the requirements arising from the local regulations.

The policies are approved by the members' management and also discussed by their supervisory boards. They define in detail the approaches and methodologies for monitoring, measuring and managing all types of risks, with an emphasis on:

- monitoring the credit portfolio and minimising losses arising from credit risk, which considering its business model is the principal risk of NLB Group;
- ensuring a sufficient level of liquidity;
- minimising negative income effects arising from market risks; and
- minimising potential losses arising from operational risks.

### b) Risk management structure and organisation

Risk management in NLB Group is in charge of assessing, monitoring and managing risks within NLB as the main entity in Slovenia, and the competence centre for six banking subsidiary banks. Furthermore, NLB Group is also responsible to several companies for ancillary services, and a number of non-core subsidiaries which are in a controlled wind-down.

Risk monitoring in NLB Group is centralised within the specialised Business-line Risk, encompassing several organisational units of NLB. This business line is in charge of formulating and controlling the risk management policies, coordinating activities related to the harmonisation of risk management in NLB Group, monitoring NLB Group's exposure to all types of business risk,

and preparation of external and internal reports. Credit ratings of materially important clients and the issuing of credit risk opinions (credit advice as part of the co-decision principle) are centralised via the Credit Committee of NLB. All members of NLB Group which are included in the consolidated financial statements of NLB Group report their exposure to risks to the competent organisational units in NLB. These report all the relevant information to the Assets and Liabilities Committee (ALCO) of NLB Group, the Management Board, and the Risk Committee of the Supervisory Board, which adopt the required measures or decisions.

The primary responsibility for managing the risks assumed by NLB Group members within the framework of their business strategy lies with their management teams, which are obliged to pursue the strategic goals and implement the planned business results as well as monitor and manage risks in accordance with the guidelines at the NLB Group level. For this purpose, the members must adopt appropriate risk management policies. The supervisory board of a member gives approval to objectives and policies, and within its competence monitors their implementation as well as assesses their effectiveness. The member's management or the management board and its committees may in accordance with their authorisations delegate certain tasks, particularly operating responsibilities in risk management, to lower management levels.

Risk monitoring in NLB Group members is centralised within an independent and/or separate organisational unit. The centralised monitoring of risks ensures the establishment of standardised and systemic approaches to risk management, and thus a comprehensive overview of events in the Group's and each member's statement of financial position. In compliance with the Risk Management Standards of NLB Group, this is organised

in all members in such a manner that risk measurement and monitoring is separated from its management and/or business function, which is important due to the objectivity required when assessing business decisions. The organisational unit for managing risks is directly responsible to the Management Board or its committees (Credit Committee, ALCO and Operational Risk Committee), which report to the Supervisory Board (Risk Committee of the Supervisory Board or Board of Directors).

The organisation and delimitation of competencies in the risk management area are designed to prevent conflicts of interest and ensure a transparent and documented decision-making process, subject to an appropriate upward and downward flow of information.

#### **c) Risk measurement and reporting systems**

NLB is as a systemic bank involved in the Single Supervisory Mechanism, whereby the supervision is under the jurisdiction of the Joint Supervisory Team of the European Central Bank and the Bank of Slovenia. ECB regulations are followed by all NLB Group members, while NLB Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators.

The measurement systems and the risk management principles are crucial elements of the risk management policies which, for the purpose of consolidated control, are aligned with all regulatory requirements of the Bank of Slovenia and the European Central Bank, taking into account the provisions of the Directive (CRD), Decision (CRR), and EBA guidelines. Referring to capital adequacy, NLB Group applies the standardised approach to credit and market risk, and the basic approach to operational risks - with the exception of NLB which applies the standardised approach.

NLB Group performs a uniform assessment and management of risks across the entire Group, taking into account the specifics of the markets in which individual Group members are operating in line with the Group's Risk management standards. For the internal needs of measuring of exposure to credit, market, interest, operational, and non-financial risks in NLB Group, besides the prescribed regulations internal methodologies and approaches are used that enable more detailed monitoring and management of risks. Moreover common group guidelines for ICAAP and ILAAP process are established. All of them are aligned with the Basel and EBA guidelines as well as the best methodological approaches in banking practice. A more detailed description of the methodologies for monitoring individual types of risks is provided in the following sections related to each individual risk separately.

In NLB Group, reporting complies with the internal guidelines which, in terms of the substance and frequency of reporting and, besides internal requirements, take into account the requirements of the Bank of Slovenia and the European Central Bank. At the individual level, members of NLB Group also comply with the requirements of the local regulations. Reporting is carried out in the form of standardised reports. This is enabled by risk management policies reasonably aligned with the methodologies for measuring and harmonising exposure to risks, appropriately established databases and the automation of report preparation at the NLB Group level, which also ensures their quality and reduces the possibility of errors.

#### **d) Main emphasis of risk management in 2016**

NLB Group was further strengthening the robustness of its risk management system in all respective risk categories in order to manage them comprehensively and prudently. In 2016 NLB Group upgraded Risk Appetite Statement and Risk Strategy,

representing NLB Group's fundamental risk management documents. NLB Group further enhanced its risk management system by additional upgrading of comprehensive steering processes within the revised risk management framework. Furthermore, the ICAAP process was upgraded with the aim of supporting the business decision-making process, ILAAP was introduced and internal stress testing capabilities were enhanced. To support these activities internally, developed models were additionally upgraded, also in connection with relevant expected macroeconomic factors.

The most important risk in NLB Group, in line with strategic orientations, remains the credit risk category. NLB Group gives great emphasis to constantly improving the credit portfolio quality, where the quality of new financing of corporate and retail clients, and a well-diversified portfolio structure represent the key goals. Such efforts have so far resulted in a sustainable cost of risk, and the modest formation of new non-performing exposures in the year 2016, partially also due to the positive macroeconomic conditions. The Group managed to further reduce the volume of non-performing exposures towards average EU banking levels with a wide range of tools, while at the same time actively participated in the restructuring of clients in the past has brought additional positive results. The emphasis is on the development of internal scoring models for different client segments in order to consistently detect risks and achieve better responsiveness in relations with clients.

In a very low interest rate environment, with severe competition on the market, NLB Group is faced with excess liquidity. Consequently, a lot of attention is being put on the structure and concentration of liquidity reserves, while keeping in mind potential adverse negative market movements. The Group has sufficient liquidity reserves even in the event of possible realisation of liquidity stress

scenarios. NLB Group maintains a conservative policy for market risks. The Group's exposure towards interest rate risk has recently slightly increased as a result of an excess liquidity position and a low interest rate environment, but remains within the targeted low risk appetite profile.

There is also a large emphasis on the management of operational risks, where NLB Group follows the guideline that such risk may not considerably influence its operations. Special attention has been paid to the development of a stress testing system, based on modelling data on loss events and a scenario analysis referring to high severity/low frequency events. Furthermore, key risk indicators were established as an early warning system for the broader field of operational risks, with the aim of improving existing internal controls and timely responding when necessary.

Nevertheless, NLB Group places great importance on regularly monitoring novelties in the regulations, effective approaches in banking practice, and their implementation so as to further improve supervision over the assumption of risks and their management in practice.

## 7.1. Credit risk management

### a) Introduction

In its operations, NLB Group is exposed to credit risk or the risk of losses due to the failure of a debtor to settle its liabilities to NLB Group. For that reason, it proactively and comprehensively monitors and assesses the aforementioned risk. In that process, NLB Group follows the International Financial Reporting Standards, regulations issued by the Bank of Slovenia, and the EBA guidelines. This area is governed in greater detail by the internal methodologies and procedures set out in internal acts.

Through regular reviews of the business practices and the credit portfolios of NLB entities, NLB ensures that the credit risk management of those entities functions

in accordance with NLB Group's risk management standards in order to ensure meaningfully uniform procedures at the consolidated level.

NLB Group manages credit risk at two levels:

- At the level of the individual customer/group of customers, where appropriate procedures are followed in various phases of the relationship with a customer prior to, during, and after the conclusion of an agreement. Prior to concluding an agreement, a customer's performance, financial position, and past cooperation with NLB are assessed. It is also important to secure high-quality collateral that does not affect a customer's credit rating. This is followed by various forms of monitoring a customer, in particular an assessment of its ability to generate sufficient cash flows for the regular settlement of its liabilities and contractual obligations. As regards this detection of risks, regular monitoring of clients within the Early Warning System (EWS) is important. For the purpose of objectively assessing a client's operation comprehensively, internal scoring models for particular client segments have been developed.
- The quality of the credit portfolio, including on-balance and off-balance sheet exposures, is actively monitored and analysed at the level of the overall portfolio of NLB Group and NLB. Comprehensive analyses are regularly performed in terms of client segmentation (depending on the client type and size), credit rating structure, arrears and/or volume of non-performing/past due and restructured receivables, coverage with impairments and provisions, collateral received, concentrations arising from a group of related clients and concentrations within an industry, currency exposure, and other indicators of risks in the credit portfolio. A lot of attention is put on regular monitoring

of new deals and other changes or trends, with the emphasis on the early detection of increased risks and their optimisation in relation of profitability. NLB Group appropriately diversifies its portfolio to mitigate specific components of credit risk (i.e. the risk deriving from operations with a specific customer, sector, positions in financial instruments, or other specific events). Increasing emphasis is also placed on stress tests that forecast the effects of negative movements in the portfolio on the level of impairments and provisions, and on capital adequacy within the second pillar. Capital requirements for credit risk at NLB Group level within the first pillar are calculated according to the standardised approach, while within the second pillar stress testing and concentration risk assessment are carried out.

NLB and other NLB Group members assess the level of credit risk losses on an individual basis for material claims, which are reviewed individually, and at the group level for the rest of the portfolio.

The primary aim of an individual review is to determine whether objective evidence of impairment exists. Such evidence includes information regarding significant financial problems encountered by a customer, regarding actual breaches of contractual obligations such as arrears in the settlement of liabilities, whether financial assets will be restructured for economic or legal reasons, and the likelihood that a customer will enter into bankruptcy or a financial reorganisation. Expected future cash flows (from ordinary operations and the possible redemption of collateral) are assessed following an individual review. If their discounted value differs from the book value of the financial asset in question, impairment must be recognised. If objective evidence of impairment does not exist, losses are assessed at the group level.

Collective impairments are made for the remainder of the portfolio, which is not assessed on an individual basis. To that end, the portfolio is broken down into groups of similar claims, and then further into sub-groups with respect to their credit rating. Here, impairments are created regarding the probability of default (PD) and regarding the average rate of default or loss given default (LGD) associated with non-performing claims. The probability of default is determined by transition matrices which illustrate the migration of customers between rating categories, using an unweighted moving average. The average rate of default or loss given default, which indicates how much we will lose on average when a claim becomes non-performing, is determined based on the amount of impairments created for non-performing loans as the non-weighted average of loss given a default. When creating collective provisions for commitments, on the basis of empirical data regarding the redemption of guarantees in the past, the probability of the redemption of guarantees is taken into account when creating collective provisions.

Activities related to meeting the IFRS 9 requirements, which will enter into force at the beginning of 2018, including quantitative impact study and foreseen methodological adaptations, are underway (note 2.34.).

#### **b) Main emphasis in 2016**

In the process of constantly enhancing credit risk management NLB Group focuses on taking moderate risks and simultaneously ensuring an optimal return considering the risks assumed. To ensure long-term profitable operations, NLB Group endeavours for a gradual improvement in the quality of the credit portfolio with a new, sound portfolio, and simultaneously focuses on a proactive resolving of non-performing exposures, including established structured approaches in restructuring and work-out areas.

Constant improvement of credit portfolio quality represents the most important key aim, with a focus on the quality of new placements leading to a diversified portfolio of customers. NLB Group puts considerable emphasis on new corporate and retail financing. The lower indebtedness of companies and their successful restructuring had a positive influence on the approval of new loans. In the retail segment, positive trends were shown in the larger trust of clients in economic developments and the related consumption, the reduced unemployment rate and partial recovery of the real-estate market. In comparison with the previous period, a larger volume of new loans was approved to this segment of clients. Beside the structure of the credit portfolio (the share of the portfolio with an A or B rating) is constantly improving. Efforts resulted in sustainable cost of risk and modest formation of new non-performing exposures in the current year, also partially due to the positive macroeconomic conditions.

The restructuring and work-out capacities and approaches built in the past are partly still occupied with the legacy of non-performing loans, although increasingly focused on actively resolving new cases with a faster and more active approach to restructuring and work-out. In addition to the organic reduction of non-performing exposures, NLB Group was able to sell off part of the receivables due to investors in two tranches (corporate and retail) resulted in a non-performing exposure reduction of EUR 233.3 million. As at 31 December 2016 the share of non-performing exposure by EBA methodology was 10.0%. Moreover the coverage ratio remains high at 64.6%, which is well above the EU average published by EBA (44.3%).

## c) Internal rating system and authorisations

in EUR thousand

NLB Group	31.12.2016				31.12.2015			
	Gross loans and advances	Loans and advances (%)	Impairment provision	Impairment provision (%)	Gross loans and advances	Loans and advances (%)	Impairment provision	Impairment provision (%)
A	4,872,072	58.4	23,763	0.5	4,816,101	54.8	22,773	0.5
B	1,852,289	22.2	60,619	3.3	1,564,895	17.8	54,140	3.5
C	410,975	4.9	64,451	15.7	650,739	7.4	106,585	16.4
D and E	1,201,333	14.4	754,917	62.8	1,751,317	19.9	1,079,579	61.6
<b>Total</b>	<b>8,336,669</b>	<b>100.0</b>	<b>903,750</b>	<b>10.8</b>	<b>8,783,052</b>	<b>100.0</b>	<b>1,263,077</b>	<b>14.4</b>

\*Other financial assets are not included.

in EUR thousand

NLB	31.12.2016				31.12.2015			
	Gross loans and advances	Loans and advances (%)	Impairment provision	Impairment provision (%)	Gross loans and advances	Loans and advances (%)	Impairment provision	Impairment provision (%)
A	3,581,311	61.3	11,653	0.3	3,540,605	56.5	11,727	0.3
B	1,087,449	18.6	24,464	2.2	934,586	14.9	20,643	2.2
C	454,477	7.8	45,873	10.1	737,199	11.8	64,653	8.8
D and E	718,476	12.3	422,758	58.8	1,048,450	16.8	597,892	57.0
<b>Total</b>	<b>5,841,713</b>	<b>100.0</b>	<b>504,748</b>	<b>8.6</b>	<b>6,260,840</b>	<b>100.0</b>	<b>694,915</b>	<b>11.1</b>

\*Other financial assets are not included.

The basis for the client credit rating classification in NLB Group is an internally developed methodology. It is based on internal statistical analyses, good banking practices, as well as regulations of the Bank of Slovenia (Decision of the Bank of Slovenia on the Assessment of Credit Risk Losses of Banks and Savings Banks) and requirements of the European Banking Authority (EBA). The rating methodology is used across the entire NLB Group. A uniform credit grade scale of 12 rating classes was implemented in 2015, while before other members of NLB Group were using a narrower credit grade scale. The rating methodology consists of 12 credit rating classes for classifying legal persons, whereby nine of the credit rating classes represent a going concern, i.e. performing clients, and three of them non-performing clients, i.e. 'defaulters.'

Grade A (AAA-A) includes the best clients with a low degree of default probability, and which is characterised by high capital adequacy and a high coverage of financial liabilities with free cash flow. Grade B (BBB-B) includes clients with a low credit risk, one class lower than A-grade clients. The clients operate successfully, have a sufficient cash flow to settle their obligations, but some are more sensitive to changes in the industry or the economy. C (CCC-C) grade clients are exposed to a higher and above-average level of credit risk. The Bank reasonably restricts cooperation with such clients and decreases its exposure. For some of these clients, the specialised restructuring unit must participate in the process.

The D-, DF- and E-grades represent defaulters or clients with a high probability of default. Besides clients in insolvency proceedings and with arrears of over 90 days, this category includes clients where the Bank, based on past operations and future projections, assesses a high probability of default ("unlikely to pay"). D- and E-grade clients are ordinarily handled by the specialised units for restructuring or workout and legal support or by the specialised working groups.

Authorisations, procedures, and the detailed rating methodology, as well as the setting of a maximum borrowing limit and the impairment of claims, are formalised in NLB Group's internal acts. A standard customer rating methodology, with the prescribed set and quality of input data and elements of a rating analysis, applies to all NLB Group entities. Here it should be noted that decisions regarding the limits and internal ratings of materially-significant customers of NLB Group are harmonised and performed in line with the responsibility of centralised credit analysis function and NLB Credit Committee.

NLB regularly reviews the business practices and credit portfolios of NLB Group entities to make sure they are operating in accordance with the minimum risk management standards of NLB Group. This ensures appropriate standard processes for managing and reporting credit risks at the consolidated level.

## d) Maximum exposure to credit risk

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Cash, cash balances at central banks, and other demand deposits at banks	1,299,014	1,161,983	617,039	496,806
Debt securities classified as loans and receivables	85,315	394,579	85,315	394,579
Loans to government	775,986	688,474	668,300	578,184
Loans to banks	435,537	431,775	408,056	345,207
Loans to financial organisations	74,344	139,852	273,310	391,911
Loans to individuals	3,091,508	2,907,991	1,951,115	1,889,683
<i>Granted overdrafts</i>	182,322	185,912	147,779	152,042
<i>Loans for houses and flats</i>	1,589,762	1,503,814	1,208,996	1,165,800
<i>Consumer loans</i>	1,090,120	962,884	480,626	471,889
<i>Other loans</i>	229,304	255,381	113,714	99,952
Loans to other customers	2,970,229	2,957,304	1,950,869	1,966,361
<i>Loans to large corporate customers</i>	1,534,628	1,645,169	1,296,126	1,263,055
<i>Loans to small- and medium-sized enterprises</i>	1,435,601	1,312,135	654,743	703,306
Other financial assets	61,014	69,521	36,151	48,944
Trading assets	87,699	267,403	87,693	267,870
Financial assets designated at fair value through profit or loss	734	753	-	-
Available-for-sale financial assets	1,998,533	1,661,729	1,526,787	1,177,947
Held-to-maturity financial assets	611,449	565,535	611,449	565,535
Derivatives - hedge accounting	217	1,083	217	1,083
<b>Total net financial assets</b>	<b>11,491,579</b>	<b>11,247,229</b>	<b>8,216,301</b>	<b>8,124,110</b>
Guarantees	749,430	790,570	535,082	586,706
<i>Financial guarantees</i>	332,281	357,786	189,642	213,817
<i>Non-financial guarantees</i>	417,149	432,784	345,440	372,889
Loan commitments	1,075,940	1,101,241	881,198	923,755
Other potential liabilities	25,814	26,691	3,879	3,684
<b>Total contingent liabilities</b>	<b>1,851,184</b>	<b>1,918,502</b>	<b>1,420,159</b>	<b>1,514,145</b>
<b>Total maximum exposure to credit risk</b>	<b>13,342,763</b>	<b>13,165,731</b>	<b>9,636,460</b>	<b>9,638,255</b>

Maximum exposure to credit risk is a presentation of NLB Group's exposure to credit risk separately by individual types of financial assets and conditional obligations. Exposures stated in the above table are shown for the balance sheet items in their net book value as reported in the statement of financial position, and for off-balance sheet items in the amount of their nominal value.

NLB Group has 92.9% (31 December 2015: 85.8%) of loans and advances that are neither past due nor impaired, 1.7% (31 December 2015: 5.4%) of loans and advances past due but not impaired, 5.4% (31 December 2015: 8.8%) of impaired loans. NLB has 94.5% (31 December 2015: 86.6%) of loans and advances that are neither past due nor impaired, 0.5% (31 December 2015: 0.6%) of loans and advances past due but not impaired, 5.0% (31 December 2015: 12.8%) of individually impaired loans.

## e) Collateral from loans and advances

in EUR thousand

31.12.2016	NLB Group			
	Fully/over collateralised loans and advances		Loans and advances not or not fully covered with collateral	
	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Debt securities	85,315	85,315	-	-
Loans to government	251,551	317,715	524,435	33
Loans to banks	6	14	435,531	532
Loans to financial organisations	19,431	71,350	54,913	296
Loans to individuals	1,908,266	3,568,947	1,183,242	82,845
<i>Granted overdrafts</i>	-	-	182,322	958
<i>Loans for houses and flats</i>	1,372,758	2,759,543	217,004	60,596
<i>Consumer loans</i>	479,756	710,314	610,364	9,643
<i>Other loans</i>	55,752	99,090	173,552	11,648
Loans to other customers	1,782,319	4,175,647	1,187,910	403,571
<i>Loans to large corporate customers</i>	898,439	1,659,912	636,189	155,478
<i>Loans to small- and medium-sized enterprises</i>	883,880	2,515,735	551,721	248,093
Other financial assets	659	7,634	60,355	355
<b>Total</b>	<b>4,047,547</b>	<b>8,226,622</b>	<b>3,446,386</b>	<b>487,632</b>

in EUR thousand

31.12.2015	NLB Group			
	Fully/over collateralised loans and advances		Loans and advances not or not fully covered with collateral	
	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Debt securities	394,579	394,579	-	-
Loans to government	106,460	175,914	582,014	7
Loans to banks	29	106	431,746	610
Loans to financial organisations	31,724	79,141	108,128	7,145
Loans to individuals	1,964,725	3,919,693	943,266	150,360
<i>Granted overdrafts</i>	-	-	185,912	-
<i>Loans for houses and flats</i>	1,283,725	2,827,096	220,089	95,683
<i>Consumer loans</i>	623,828	970,322	339,056	16,820
<i>Other loans</i>	57,172	122,275	198,209	37,857
Loans to other customers	1,874,743	5,130,963	1,082,561	683,433
<i>Loans to large corporate customers</i>	1,081,843	2,455,629	563,326	304,934
<i>Loans to small- and medium-sized enterprises</i>	792,900	2,675,334	519,235	378,499
Other financial assets	2,965	38,713	66,556	417
<b>Total</b>	<b>4,375,225</b>	<b>9,739,109</b>	<b>3,214,271</b>	<b>841,972</b>

in EUR thousand

31.12.2016	NLB			
	Fully/over collateralised loans and advances		Loans and advances not or not fully covered with collateral	
	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Debt securities	85,315	85,315	-	-
Loans to government	223,474	230,986	444,826	-
Loans to banks	-	-	408,056	77
Loans to financial organisations	18,826	68,974	254,484	-
Loans to individuals	1,491,043	2,463,534	460,072	41,862
<i>Granted overdrafts</i>	-	-	147,779	-
<i>Loans for houses and flats</i>	1,089,934	2,018,702	119,062	41,214
<i>Consumer loans</i>	401,096	444,816	79,530	648
<i>Other loans</i>	13	16	113,701	-
Loans to other customers	1,128,371	2,196,939	822,498	320,580
<i>Loans to large corporate customers</i>	745,588	1,188,052	550,538	139,999
<i>Loans to small- and medium-sized enterprises</i>	382,783	1,008,887	271,960	180,581
Other financial assets	82	2,429	36,069	285
<b>Total</b>	<b>2,947,111</b>	<b>5,048,177</b>	<b>2,426,005</b>	<b>362,804</b>

in EUR thousand

31.12.2015	NLB			
	Fully/over collateralised loans and advances		Loans and advances not or not fully covered with collateral	
	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Debt securities	394,579	394,579	-	-
Loans to government	70,046	76,041	508,138	-
Loans to banks	-	-	345,207	153
Loans to financial organisations	28,274	74,746	363,637	6,791
Loans to individuals	1,411,275	2,342,930	478,408	67,162
<i>Granted overdrafts</i>	-	-	152,042	-
<i>Loans for houses and flats</i>	1,013,194	1,895,187	152,606	63,388
<i>Consumer loans</i>	398,047	447,701	73,842	3,774
<i>Other loans</i>	34	42	99,918	-
Loans to other customers	1,164,744	2,473,144	801,617	498,112
<i>Loans to large corporate customers</i>	796,995	1,360,792	466,060	225,583
<i>Loans to small- and medium-sized enterprises</i>	367,749	1,112,352	335,557	272,529
Other financial assets	294	3,403	48,650	412
<b>Total</b>	<b>3,069,212</b>	<b>5,364,843</b>	<b>2,545,657</b>	<b>572,630</b>

**f) Credit protection policy**

NLB Group applies a single set of standards to retail and corporate loan collateral, as developed by the members through the collateral harmonisation project. The master document regulating loan collateral in NLB Group is the Loan Collateral Policy in NLB Group and NLB. The Policy has been adopted by the Management Board of NLB and by the supervisory bodies of respective members for other members of NLB Group. The Policy represents the basic orientations bank employees must take into account when signing, evaluating, monitoring, and reporting collateral, with the aim of reducing credit risk.

NLB Group primarily accepts collateral complying with the Basel II requirements with the aim of improving credit risk management and consuming capital economically. In accordance with Basel II, collateral may consist of pledged deposits, government guarantees, bank guarantees, debt securities issued by central governments and central banks, bank debt securities, and real-estate mortgages (the real estate must be located in the European Economic Area for the effect on capital to be recognised).

Loans made to companies and sole proprietors may be secured by other forms of collateral as well (for example, a lien on movable property, a pledge of an equity stake, collateral by pledged/assigned receivables, etc.) if it is assessed that the collateral could generate a cash flow if it were needed as a secondary source of payment. In the case of a lower probability that such an item of collateral would generate a cash flow, a conservative approach is followed, namely, such collateral can be taken, but for reporting purposes the value is zero.

**g) The processes for valuing collateral**

Pursuant to the law, NLB Group has set up a system for monitoring and reporting collateral at fair (market) value.

The market value of real estate or movable property used as collateral is obtained from valuation reports of licensed appraisers or, for low contract amounts, from sales agreements not older than one year. The market value of financial instruments held by NLB Group is obtained from the organised market – the stock exchange – for listed financial instruments or determined in accordance with the internal methodology for unlisted financial instruments (such collateral is used exceptionally and on a small scale in loans granted to companies and sole proprietors).

NLB has compiled a reference list of licensed appraisers. All appraisals must be made for the purpose of secured lending and in accordance with the International Valuation Standards (IVS). Appraisals related to retail loans are generally ordered only from appraisers with whom the Bank has a contract for real-estate valuations. For corporate loans, appraisals are usually submitted by clients. If a client submits an appraisal not made by an appraiser included on the Bank's reference list, the expert department employing licensed appraisers (certified appraisers in construction with licences granted by the Ministry of Justice, and certified real-estate value appraisers with licences granted by the Slovenian Institute of Auditors) will verify the appraisal. The expert department is also responsible for reviewing valuations of real estate serving as collateral for large loans.

Other NLB Group members obtain valuations from in-house appraisers and outsourced appraisers, all having the necessary licences. NLB Group has compiled a reference list of appraisers for valuations of real estate located outside Slovenia. Appraisals must be made in accordance with the IVS. For larger loans, real-estate evaluations must be reviewed by an internal licensed appraiser with knowledge of the local real-estate market.

When assuring collateral, NLB Group follows the internal regulations which define the minimum security or pledge ratios. NLB Group strives to obtain collateral with a higher value than the underlying exposure (depending on the borrower's rating, loan maturity etc.) with the aim of reducing negative consequences resulting from any major swings in market prices of the assets used as collateral. In the case of a reduced value of collateral and/or deteriorated debtor credit rating, additional collateral is sought as necessary and in accordance with the contractual provisions.

If real estate, movable property, and financial instruments serve as collateral, the Bank's lien should be entered as top ranking. Exceptionally, where the value of the mortgaged real estate is large enough, the lien can be entered with a different priority order.

NLB Group monitors the value of collateral during the loan repayment period in accordance with the mandatory periods and internal instructions. For example, the value of collateral using mortgaged real estate is monitored annually by either preparing individual assessments or using the internal methodology for preparing an own value appraisal of real estate (which applies to Slovenia, Serbia, and Montenegro) based on public records and indexes of real-estate value published by the relevant government authorities (the Surveying and Mapping Authority in Slovenia).

#### h) The main types of collateral taken by the Bank

NLB Group accepts different forms of material and personal security as loan collateral.

Material loan collateral gives the right in case of the debtor (borrower) defaulting on their contractual obligations to sell specific property to recover claims, keep specific non-cash property or cash, or reduces or offsets the amount of exposure against the counterparty's debt to the Bank.

NLB Group accepts the following material types of loan collateral:

- asset-backed collateral:
  - collateral backed by business and residential real estate;
  - collateral backed by movable property;
  - cash receivable collateral;
- collateral by a pledge of financial assets (bank deposits or cash-like instruments, debt securities of different issuers, investment fund units, equity securities, or convertible bonds);
- pledge of an equity stake;
- pledge or assignment of receivables as collateral; and
- other material forms of loan collateral (life insurance policies pledged to the Bank, etc.).

Personal loan collateral is a method for reducing credit risk whereby a third party undertakes to pay the debt in case of the primary debtor (borrower) defaulting.

NLB Group accepts the following types of personal loan collateral:

- joint and several guarantees by retail and corporate clients;
- bank guarantees;
- government guarantees (e.g. of the Republic of Slovenia);
- guarantees by national and regional development agencies; and
- insurance with an insurance company, etc.

Loans are very often secured by a combination of collateral types.

The general recommendations on loan collateral are specified in the internal instructions and include the elements specified below. The decision on the type of collateral and the coverage of loan by collateral depends on the analysis of data on the debtor (the debtor's credit rating and creditworthiness) and loan maturity; the difference arises from whether the loan is granted to retail or a corporate client. Corporate clients (companies and sole proprietors) must submit bills of exchange with written authorities for the creditor to fill them in for every loan.

NLB has also created, in the area of real-estate loan collateral, an 'on-line' connection with the Surveying and Mapping Authority in Slovenia which allows direct and immediate verification of the existence of property.

NLB Group strives to ensure the best possible collateral for long-term loans, namely mortgages in most cases. Thus, the mortgaging of real estate is the most frequent form of loan collateral of corporate and retail clients. In corporate loans, it is followed by government and corporate guarantees. In retail loans, it is followed by insurance companies and guarantors.

#### i) Evaluation risk of collateral

Client/counterparty credit risk is the key decision parameter when approving exposures. Collateral is a secondary source of repayment, and therefore decisions on approvals of exposures should not primarily be based on the provided collateral. However, collateral is an important comfort element in the approval process and, depending on the credit rating of the client, a prerequisite. NLB Group has prescribed the minimum ratios between the value of collateral and the loan amount, depending on the type of collateral and the client rating. The ratios are based on experience, regulatory guidelines, and are prescribed in the Collateral Manual.

NLB Group pays particular attention to closely monitoring the fair value of collateral, and to receiving regular and independent revaluations by applying the International Valuation Standards. Through a detailed examination of all collateral received, NLB has ensured that only collateral is taken into account from which payment can be realistically expected if it is liquidated.

NLB Group has the largest concentration on collaterals arising from mortgages on real-estate, which is a comparatively reliable and quality type

of collateral; however, among others due to the falling real-estate market prices in recent history, the Bank is closely monitoring the real-estate collateral values and, where required, is establishing higher amounts of impairments and provisions for non-performing loans secured by real estate, based on estimated discounts of the real-estate value (specified in the Collateral Manual) which are expected to be achieved in a sale (expected payment from collateral).

Collateral consisting of securities entails market risk, specifically the risk of changes in the prices of securities on capital markets. To limit such risks and restrict the possibility of the value of instruments received as collateral falling below approved limits, the Rules determine minimum pledge ratios for securing loans on the basis of pledged securities and equity shares in NLB. Any deviation from the Rules is subject to the prior approval of the respective decision bodies of the Bank. The ratio between the loan amount and the securities' value is determined with regard to the securities' liquidity, maturity, correlation with changes in market indexes, i.e. by considering the key features reflecting the level of volatility of market prices, and the ability to sell the securities at the market price. For certain types of securities, the ratio is also determined by considering the issuer's credit rating, which reflects the credit risk entailed in collateral-using securities. In the case of adverse changes in the capital markets, the loan-to-collateral ratio may fall below the prescribed limit; in such a case, the debtor will be asked to provide additional securities or another type of collateral.

Collateral consisting of sureties of corporate clients, sureties of private individuals, and bank guarantees entail the credit risk of the provider of the collateral. NLB Group includes the amount of the guarantees received in the exposure limit of the guarantor, and guarantees are only taken into account as collateral if the guarantor has sufficient overall creditworthiness.

The Collateral Manual regulates which forms of collateral are acceptable, and which preconditions a type of collateral needs to fulfil to be able to be considered.

## j) Net loans and advances neither past due nor impaired

in EUR thousand

31.12.2016	NLB Group					NLB				
	A	B	C	D and E	Total	A	B	C	D and E	Total
Debt securities	85,315	-	-	-	85,315	85,315	-	-	-	85,315
Loans to government	566,017	186,441	15,020	20	767,498	541,763	117,206	3,208	-	662,177
Loans to banks	337,639	97,798	81	-	435,518	320,201	87,774	81	-	408,056
Loans to financial organisations	38,473	4,562	30,300	-	73,335	33,873	2,096	236,541	-	272,510
Loans to individuals	2,922,528	31,441	24,684	90	2,978,744	1,878,392	2,710	15,531	-	1,896,633
<i>Granted overdrafts</i>	168,673	1,576	3,844	-	174,093	137,655	221	3,658	-	141,534
<i>Loans for houses and flats</i>	1,529,074	7,563	12,389	3	1,549,029	1,169,230	2,003	10,392	-	1,181,625
<i>Consumer loans</i>	1,028,158	18,250	5,539	11	1,051,958	468,478	128	926	-	469,532
<i>Other loans</i>	196,624	4,052	2,912	76	203,664	103,029	358	555	-	103,942
Loans to other customers	853,188	1,433,753	241,794	33,353	2,562,089	689,070	850,513	148,625	30,146	1,718,354
<i>Loans to large corporate customers</i>	622,397	689,474	77,223	15,493	1,404,587	603,429	546,134	27,984	13,920	1,191,467
<i>Loans to small- and medium-sized enterprises</i>	230,792	744,279	164,571	17,860	1,157,502	85,641	304,379	120,641	16,226	526,887
Other financial assets	44,634	9,996	1,847	56	56,533	25,229	7,629	1,602	-	34,460
<b>Total</b>	<b>4,847,794</b>	<b>1,763,991</b>	<b>313,726</b>	<b>33,519</b>	<b>6,959,030</b>	<b>3,573,843</b>	<b>1,067,928</b>	<b>405,588</b>	<b>30,146</b>	<b>5,077,505</b>

in EUR thousand

31.12.2015	NLB Group					NLB				
	A	B	C	D and E	Total	A	B	C	D and E	Total
Debt securities	394,579	-	-	-	394,579	394,579	-	-	-	394,579
Loans to government	445,382	190,291	33,936	29	669,638	439,997	125,097	3,662	-	568,756
Loans to banks	300,464	126,084	-	-	426,548	202,097	141,694	-	-	343,791
Loans to financial organisations	27,101	1,889	75,339	48	104,377	23,629	189	99,422	48	123,288
Loans to individuals	2,575,773	14,822	25,400	61	2,616,056	1,781,889	5,230	19,333	-	1,806,452
<i>Granted overdrafts</i>	157,312	466	2,599	-	160,377	141,486	309	2,538	-	144,333
<i>Loans for houses and flats</i>	1,364,783	6,508	16,569	3	1,387,863	1,100,006	4,402	14,893	-	1,119,301
<i>Consumer loans</i>	864,481	7,163	5,246	58	876,948	450,740	192	1,552	-	452,484
<i>Other loans</i>	189,197	685	986	-	190,868	89,657	327	350	-	90,334
Loans to other customers	854,318	1,066,181	294,123	26,904	2,241,526	663,035	638,834	258,197	21,041	1,581,107
<i>Loans to large corporate customers</i>	681,411	574,717	158,243	19,348	1,433,719	595,135	415,879	121,089	15,927	1,148,030
<i>Loans to small- and medium-sized enterprises</i>	172,907	491,464	135,880	7,556	807,807	67,900	222,955	137,108	5,114	433,077
Other financial assets	55,480	3,142	1,287	21	59,930	38,455	2,371	1,162	1	41,989
<b>Total</b>	<b>4,653,097</b>	<b>1,402,409</b>	<b>430,085</b>	<b>27,063</b>	<b>6,512,654</b>	<b>3,543,681</b>	<b>913,415</b>	<b>381,776</b>	<b>21,090</b>	<b>4,859,962</b>

\* The loans and advances disclosed in the above tables are not individually impaired since they are fully or over collateralised.

## k) Net loans and advances past due but not individually impaired

in EUR thousand

31.12.2016	NLB Group				NLB			
	Up to 30 days	Up to 90 days	Over 90 days	Total	Up to 30 days	Up to 90 days	Over 90 days	Total
Loans to government	401	1,345	-	1,746	-	-	-	-
Loans to banks	19	-	-	19	-	-	-	-
Loans to financial organisations	207	-	2	209	-	-	-	-
Loans to individuals	56,097	10,782	1,216	68,095	21,758	4,229	-	25,987
<i>Granted overdrafts</i>	3,856	1,141	26	5,023	2,204	1,057	-	3,261
<i>Loans for houses and flats</i>	10,040	2,212	174	12,426	4,889	1,115	-	6,004
<i>Consumer loans</i>	22,567	4,850	549	27,966	6,028	1,484	-	7,512
<i>Other loans</i>	19,634	2,579	467	22,680	8,637	573	-	9,210
Loans to other customers	40,889	8,203	5,600	54,692	2,378	106	24	2,508
<i>Loans to large corporate customers</i>	5,361	474	323	6,158	124	-	24	148
<i>Loans to small- and medium-sized enterprises</i>	35,528	7,729	5,277	48,534	2,254	106	-	2,360
Other financial assets	2,136	46	170	2,352	54	2	1	57
<b>Total</b>	<b>99,749</b>	<b>20,376</b>	<b>6,988</b>	<b>127,113</b>	<b>24,190</b>	<b>4,337</b>	<b>25</b>	<b>28,552</b>

in EUR thousand

31.12.2015	NLB Group				NLB			
	Up to 30 days	Up to 90 days	Over 90 days	Total	Up to 30 days	Up to 90 days	Over 90 days	Total
Loans to government	8,468	56	-	8,524	1	-	-	1
Loans to banks	29	-	-	29	-	-	275	275
Loans to financial organisations	79	28	34	141	-	-	33	33
Loans to individuals	203,459	14,770	1,957	220,186	28,005	1,867	-	29,872
<i>Granted overdrafts</i>	20,055	840	69	20,964	2,591	743	-	3,334
<i>Loans for houses and flats</i>	66,899	2,905	591	70,395	7,689	389	-	8,078
<i>Consumer loans</i>	64,930	1,725	413	67,068	9,452	133	-	9,585
<i>Other loans</i>	51,575	9,300	884	61,759	8,273	602	-	8,875
Loans to other customers	149,789	13,698	13,464	176,951	1,508	177	1,888	3,573
<i>Loans to large corporate customers</i>	40,384	1,842	2,179	44,405	-	-	24	24
<i>Loans to small- and medium-sized enterprises</i>	109,405	11,856	11,285	132,546	1,508	177	1,864	3,549
Other financial assets	3,412	229	383	4,024	88	1	18	107
<b>Total</b>	<b>365,236</b>	<b>28,781</b>	<b>15,838</b>	<b>409,855</b>	<b>29,602</b>	<b>2,045</b>	<b>2,214</b>	<b>33,861</b>

\* The loans and advances disclosed in the above tables are not individually impaired since they are fully or over collateralised.

## I) Individually impaired loans and advances

in EUR thousand

31.12.2016	NLB Group			NLB		
	Gross value	Impairment provision	Net value	Gross value	Impairment provision	Net value
Loans to government	12,556	(5,814)	6,742	9,260	(3,137)	6,123
Loans to financial organisations	26,261	(25,461)	800	26,229	(25,429)	800
Loans to individuals	113,027	(68,358)	44,669	52,059	(23,564)	28,495
<i>Granted overdrafts</i>	10,974	(7,768)	3,206	7,925	(4,941)	2,984
<i>Loans for houses and flats</i>	50,730	(22,423)	28,307	35,152	(13,785)	21,367
<i>Consumer loans</i>	35,351	(25,155)	10,196	7,484	(3,902)	3,582
<i>Other loans</i>	15,972	(13,012)	2,960	1,498	(936)	562
Loans to other customers	1,008,733	(655,285)	353,448	600,636	(370,629)	230,007
<i>Loans to large corporate customers</i>	323,493	(199,610)	123,883	252,848	(148,337)	104,511
<i>Loans to small- and medium-sized enterprises</i>	685,240	(455,675)	229,565	347,788	(222,292)	125,496
Other financial assets	14,225	(12,096)	2,129	4,746	(3,112)	1,634
<b>Total</b>	<b>1,174,802</b>	<b>(767,014)</b>	<b>407,788</b>	<b>692,930</b>	<b>(425,871)</b>	<b>267,059</b>

in EUR thousand

31.12.2015	NLB Group			NLB		
	Gross value	Impairment provision	Net value	Gross value	Impairment provision	Net value
Loans to government	16,836	(6,524)	10,312	12,754	(3,327)	9,427
Loans to banks	5,439	(241)	5,198	1,338	(197)	1,141
Loans to financial organisations	72,282	(36,948)	35,334	314,078	(45,488)	268,590
Loans to individuals	184,308	(112,559)	71,749	105,041	(51,682)	53,359
<i>Granted overdrafts</i>	15,182	(10,611)	4,571	11,984	(7,609)	4,375
<i>Loans for houses and flats</i>	85,150	(39,594)	45,556	66,093	(27,672)	38,421
<i>Consumer loans</i>	62,339	(43,471)	18,868	24,940	(15,120)	9,820
<i>Other loans</i>	21,637	(18,883)	2,754	2,024	(1,281)	743
Loans to other customers	1,475,971	(937,144)	538,827	895,611	(513,930)	381,681
<i>Loans to large corporate customers</i>	438,867	(271,822)	167,045	285,868	(170,867)	115,001
<i>Loans to small- and medium-sized enterprises</i>	1,037,104	(665,322)	371,782	609,743	(343,063)	266,680
Other financial assets	31,711	(26,144)	5,567	11,340	(4,492)	6,848
<b>Total</b>	<b>1,786,547</b>	<b>(1,119,560)</b>	<b>666,987</b>	<b>1,340,162</b>	<b>(619,116)</b>	<b>721,046</b>

## m) Net loans analysis

in EUR thousand

NLB Group				
31.12.2016	Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	85,315	-	-	85,315
Loans to government	767,498	1,746	6,742	775,986
Loans to banks	435,518	19	-	435,537
Loans to financial organisations	73,335	209	800	74,344
Loans to individuals	2,978,744	68,095	44,669	3,091,508
<i>Granted overdrafts</i>	174,093	5,023	3,206	182,322
<i>Loans for houses and flats</i>	1,549,029	12,426	28,307	1,589,762
<i>Consumer loans</i>	1,051,958	27,966	10,196	1,090,120
<i>Other loans</i>	203,664	22,680	2,960	229,304
Loans to other customers	2,562,089	54,692	353,448	2,970,229
<i>Loans to large corporate customers</i>	1,404,587	6,158	123,883	1,534,628
<i>Loans to small- and medium-sized enterprises</i>	1,157,502	48,534	229,565	1,435,601
Other financial assets	56,533	2,352	2,129	61,014
<b>Total</b>	<b>6,959,032</b>	<b>127,113</b>	<b>407,788</b>	<b>7,493,933</b>

in EUR thousand

NLB Group				
31.12.2015	Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	394,579	-	-	394,579
Loans to government	669,638	8,524	10,312	688,474
Loans to banks	426,548	29	5,198	431,775
Loans to financial organisations	104,377	141	35,334	139,852
Loans to individuals	2,616,056	220,186	71,749	2,907,991
<i>Granted overdrafts</i>	160,377	20,964	4,571	185,912
<i>Loans for houses and flats</i>	1,387,863	70,395	45,556	1,503,814
<i>Consumer loans</i>	876,948	67,068	18,868	962,884
<i>Other loans</i>	190,868	61,759	2,754	255,381
Loans to other customers	2,241,526	176,951	538,827	2,957,304
<i>Loans to large corporate customers</i>	1,433,719	44,405	167,045	1,645,169
<i>Loans to small- and medium-sized enterprises</i>	807,807	132,546	371,782	1,312,135
Other financial assets	59,930	4,024	5,567	69,521
<b>Total</b>	<b>6,512,654</b>	<b>409,855</b>	<b>666,987</b>	<b>7,589,496</b>

in EUR thousand

NLB				
31.12.2016	Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	85,315	-	-	85,315
Loans to government	662,177	-	6,123	668,300
Loans to banks	408,056	-	-	408,056
Loans to financial organisations	272,510	-	800	273,310
Loans to individuals	1,896,633	25,987	28,495	1,951,115
<i>Granted overdrafts</i>	141,534	3,261	2,984	147,779
<i>Loans for houses and flats</i>	1,181,625	6,004	21,367	1,208,996
<i>Consumer loans</i>	469,532	7,512	3,582	480,626
<i>Other loans</i>	103,942	9,210	562	113,714
Loans to other customers	1,718,354	2,508	230,007	1,950,869
<i>Loans to large corporate customers</i>	1,191,467	148	104,511	1,296,126
<i>Loans to small- and medium-sized enterprises</i>	526,887	2,360	125,496	654,743
Other financial assets	34,460	57	1,634	36,151
<b>Total</b>	<b>5,077,505</b>	<b>28,552</b>	<b>267,059</b>	<b>5,373,116</b>

in EUR thousand

NLB				
31.12.2015	Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	394,579	-	-	394,579
Loans to government	568,756	1	9,427	578,184
Loans to banks	343,791	275	1,141	345,207
Loans to financial organisations	123,288	33	268,590	391,911
Loans to individuals	1,806,452	29,872	53,359	1,889,683
<i>Granted overdrafts</i>	144,333	3,334	4,375	152,042
<i>Loans for houses and flats</i>	1,119,301	8,078	38,421	1,165,800
<i>Consumer loans</i>	452,484	9,585	9,820	471,889
<i>Other loans</i>	90,334	8,875	743	99,952
Loans to other customers	1,581,107	3,573	381,681	1,966,361
<i>Loans to large corporate customers</i>	1,148,030	24	115,001	1,263,055
<i>Loans to small- and medium-sized enterprises</i>	433,077	3,549	266,680	703,306
Other financial assets	41,989	107	6,848	48,944
<b>Total</b>	<b>4,859,962</b>	<b>33,861</b>	<b>721,046</b>	<b>5,614,869</b>

## n) Repossessed assets

NLB Group and NLB received the following assets by taking possession of collateral held as security and held them at the reporting date:

in EUR thousand

Nature of assets	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Net value		Net value	
Securities (note 5.4.b)	24,162	21,277	20,832	18,977
Investment property (note 5.10.)	48,658	57,599	3,750	3,750
Property and equipment (note 5.9.)	1,523	1,839	7	7
Investments in subsidiaries and associates	-	-	2,484	3,248
Other assets (note 5.13.)	79,059	75,652	4,263	3,371
<b>Total</b>	<b>153,402</b>	<b>156,367</b>	<b>31,336</b>	<b>29,353</b>

Other assets on NLB Group in the amount of EUR 76,416 thousand (31 December 2015: EUR 72,433 thousand) and on NLB in the amount of EUR 4,263 thousand (31 December 2015: EUR 3,371 thousand) consist of real estate, and the rest are other assets received as collateral.

## o) Analysis of loans and advances by industry sectors

in EUR thousand

NLB Group	31.12.2016				31.12.2015			
	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	435,886	(349)	435,537	5.81	432,017	(242)	431,775	5.69
Finance	132,156	(27,863)	104,293	1.39	202,661	(38,300)	164,361	2.17
Electricity, gas, and water	176,230	(19,754)	156,476	2.09	134,658	(29,576)	105,082	1.38
Construction industry	260,537	(109,189)	151,348	2.02	319,901	(164,532)	155,369	2.05
Heavy industry	852,257	(168,205)	684,052	9.13	911,548	(241,932)	669,616	8.82
Education	15,314	(696)	14,618	0.20	18,036	(1,263)	16,773	0.22
Agriculture, forestry, and fishing	43,309	(9,515)	33,794	0.45	67,071	(24,400)	42,671	0.56
Public sector	364,764	(12,270)	352,494	4.70	424,955	(15,831)	409,124	5.39
Individuals	3,190,724	(99,216)	3,091,508	41.25	3,050,810	(142,819)	2,907,991	38.32
Mining	31,913	(6,300)	25,613	0.34	86,915	(14,202)	72,713	0.96
Entrepreneurs	99,715	(6,642)	93,073	1.24	103,205	(16,617)	86,588	1.14
Services	962,743	(156,285)	806,458	10.76	1,208,684	(246,164)	962,520	12.68
Transport and communications	869,779	(39,908)	829,871	11.07	829,706	(39,330)	790,376	10.41
Trade industry	873,406	(242,743)	630,663	8.42	964,366	(282,832)	681,534	8.98
Health care and social security	27,936	(4,815)	23,121	0.31	28,519	(5,037)	23,482	0.31
Other financial assets	76,467	(15,453)	61,014	0.81	96,599	(27,078)	69,521	0.92
<b>Total</b>	<b>8,413,136</b>	<b>(919,203)</b>	<b>7,493,933</b>	<b>100.00</b>	<b>8,879,651</b>	<b>(1,290,155)</b>	<b>7,589,496</b>	<b>100.00</b>

in EUR thousand

NLB	31.12.2016				31.12.2015			
	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	408,056	-	408,056	7.59	345,404	(197)	345,207	6.15
Finance	341,644	(45,910)	295,734	5.50	461,704	(48,575)	413,129	7.36
Electricity, gas, and water	112,083	(6,279)	105,804	1.97	86,984	(16,559)	70,425	1.25
Construction industry	136,071	(71,294)	64,777	1.21	163,190	(91,144)	72,046	1.28
Heavy industry	569,022	(88,472)	480,550	8.94	652,104	(138,005)	514,099	9.16
Education	10,643	(54)	10,589	0.20	13,342	(402)	12,940	0.23
Agriculture, forestry, and fishing	15,437	(1,223)	14,214	0.26	27,611	(10,492)	17,119	0.30
Public sector	248,993	(2,265)	246,728	4.59	301,481	(2,647)	298,834	5.32
Individuals	1,990,184	(39,069)	1,951,115	36.31	1,957,859	(68,176)	1,889,683	33.65
Mining	25,332	(5,297)	20,035	0.37	30,910	(5,860)	25,050	0.45
Entrepreneurs	46,148	(2,587)	43,561	0.81	64,181	(10,502)	53,679	0.96
Services	782,110	(91,419)	690,691	12.85	988,569	(144,690)	843,879	15.03
Transport and communications	777,964	(17,903)	760,061	14.15	756,836	(26,859)	729,977	13.00
Trade industry	366,587	(131,753)	234,834	4.37	393,574	(127,080)	266,494	4.75
Health care and social security	11,439	(1,223)	10,216	0.19	17,091	(3,727)	13,364	0.24
Other financial assets	39,922	(3,771)	36,151	0.67	54,067	(5,123)	48,944	0.87
<b>Total</b>	<b>5,881,635</b>	<b>(508,519)</b>	<b>5,373,116</b>	<b>100.00</b>	<b>6,314,907</b>	<b>(700,038)</b>	<b>5,614,869</b>	<b>100.00</b>

## p) Analysis of net loans and advances by geographical sectors

in EUR thousand

Country	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Republic of Slovenia	4,633,952	4,752,525	4,663,239	4,869,768
Other European Union members	468,887	439,839	393,858	357,823
Other countries	2,391,094	2,397,132	316,019	387,278
<b>Total</b>	<b>7,493,933</b>	<b>7,589,496</b>	<b>5,373,116</b>	<b>5,614,869</b>

## q) Analysis of debt securities and derivative financial instruments by geographical sectors

in EUR thousand

Country	NLB Group						NLB				
	Loans and advances	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative financial instruments	Loans and advances	Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative financial instruments
Republic of Slovenia	85,315	49,747	-	544,187	415,165	13,347	85,315	49,747	479,792	415,165	13,347
Other members of European Union	-	19,010	734	1,031,073	196,284	5,399	-	19,010	1,031,073	196,284	5,399
- Italy	-	-	-	42,203	-	-	-	-	42,203	-	-
- Ireland	-	-	471	35,935	-	-	-	-	35,935	-	-
- France	-	-	103	149,327	48,720	10	-	-	149,327	48,720	10
- Belgium	-	-	-	45,511	16,031	98	-	-	45,511	16,031	98
- Netherlands	-	-	-	102,420	26,123	240	-	-	102,420	26,123	240
- Austria	-	19,010	-	29,609	40,878	1	-	19,010	29,609	40,878	1
- Germany	-	-	-	200,358	43,533	146	-	-	200,358	43,533	146
- Finland	-	-	-	39,220	3,247	-	-	-	39,220	3,247	-
- Sweden	-	-	160	64,610	-	-	-	-	64,610	-	-
- Denmark	-	-	-	67,722	-	-	-	-	67,722	-	-
- Luxembourg	-	-	-	57,222	16,729	-	-	-	57,222	16,729	-
- Great Britain	-	-	-	113,675	-	4,904	-	-	113,675	-	4,904
- Slovakia	-	-	-	20,583	-	-	-	-	20,583	-	-
- Spain	-	-	-	25,930	-	-	-	-	25,930	-	-
- Other	-	-	-	36,748	1,023	-	-	-	36,748	1,023	-
United States of America	-	-	-	9,074	-	-	-	-	9,074	-	-
Other countries	-	-	-	414,199	-	413	-	-	6,848	-	407
- Macedonia	-	-	-	159,993	-	-	-	-	-	-	-
- Serbia	-	-	-	54,568	-	6	-	-	-	-	-
- Bosnia and Herzegovina	-	-	-	72,384	-	-	-	-	-	-	-
- Montenegro	-	-	-	54,765	-	-	-	-	-	-	-
- Kosovo	-	-	-	65,641	-	405	-	-	-	-	405
- Other	-	-	-	6,848	-	2	-	-	6,848	-	2
<b>Total</b>	<b>85,315</b>	<b>68,757</b>	<b>734</b>	<b>1,998,533</b>	<b>611,449</b>	<b>19,159</b>	<b>85,315</b>	<b>68,757</b>	<b>1,526,787</b>	<b>611,449</b>	<b>19,153</b>

in EUR thousand

31.12.2015	NLB Group						NLB				
	Loans and advances	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative financial instruments	Loans and advances	Trading assets	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative financial instruments
Republic of Slovenia	394,579	82,096	-	470,881	383,540	10,172	394,579	82,096	423,884	383,540	10,639
Other members of European Union	-	154,273	753	740,851	181,995	20,835	-	154,273	738,184	181,995	20,835
- Italy	-	-	-	23,333	5,064	-	-	-	23,333	5,064	-
- Ireland	-	-	486	6,933	5,161	-	-	-	6,933	5,161	-
- France	-	-	104	78,656	21,958	1	-	-	78,656	21,958	1
- Belgium	-	-	-	58,054	3,527	1,083	-	-	55,388	3,527	1,083
- Netherlands	-	-	-	73,039	36,494	14,357	-	-	73,039	36,494	14,357
- Austria	-	20,007	-	52,914	37,592	-	-	20,007	52,914	37,592	-
- Germany	-	73,156	-	161,928	52,519	597	-	73,156	161,928	52,519	597
- Finland	-	-	-	38,928	3,273	-	-	-	38,928	3,273	-
- Sweden	-	-	163	37,036	-	-	-	-	37,036	-	-
- Denmark	-	25,001	-	6,450	-	-	-	25,001	6,450	-	-
- Luxembourg	-	-	-	68,177	13,326	-	-	-	68,177	13,326	-
- Great Britain	-	33,008	-	99,102	-	4,797	-	33,008	99,102	-	4,797
- Slovakia	-	3,101	-	15,801	2,059	-	-	3,101	15,801	2,059	-
- Spain	-	-	-	14,745	-	-	-	-	14,745	-	-
- Other	-	-	-	5,755	1,022	-	-	-	5,754	1,022	-
United States of America	-	-	-	15,879	-	-	-	-	15,879	-	-
Other countries	-	993	-	434,118	-	117	-	993	-	-	117
- Macedonia	-	-	-	175,366	-	3	-	-	-	-	-
- Serbia	-	-	-	81,491	-	-	-	-	-	-	1
- Bosnia and Herzegovina	-	-	-	59,712	-	-	-	-	-	-	-
- Montenegro	-	-	-	49,786	-	-	-	-	-	-	-
- Kosovo	-	-	-	67,763	-	114	-	-	-	-	116
- Other	-	993	-	-	-	-	-	993	-	-	-
<b>Total</b>	<b>394,579</b>	<b>237,362</b>	<b>753</b>	<b>1,661,729</b>	<b>565,535</b>	<b>31,124</b>	<b>394,579</b>	<b>237,362</b>	<b>1,177,947</b>	<b>565,535</b>	<b>31,591</b>

## r) Internal rating of derivatives counterparties

	31.12.2016	31.12.2015
NLB Group and NLB	in %	in %
A	76.66	81.27
B	22.17	15.84
C	0.11	1.24
D and E	1.06	1.65
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

All derivatives in the banking book are entered into with counterparties with an external investment-grade rating.

When derivatives are entered into on behalf of NLB Group's customers, such customers usually do not have an external rating, but all such transactions are covered through back-to-back transactions involving third parties with an external investment-grade rating.

## s) Debt securities in NLB's and NLB Group's portfolio that represent subordinated liabilities for the issuer

in EUR thousand

31.12.2016	NLB Group				NLB			
Internal rating	A	B	C	Total	A	B	C	Total
Available-for-sale financial assets	583	-	-	583	583	-	-	583
Loans and advances								
- loans and advances to banks	-	-	-	-	10,961	3,989	-	14,950
- loans and advances to customers	-	-	-	-	-	-	5,898	5,898
<b>Total</b>	<b>583</b>	<b>-</b>	<b>-</b>	<b>583</b>	<b>11,544</b>	<b>3,989</b>	<b>5,898</b>	<b>21,431</b>

in EUR thousand

31.12.2015	NLB Group				NLB			
Internal rating	A	B	C	Total	A	B	C	Total
Available-for-sale financial assets	601	-	-	601	601	-	-	601
Loans and advances								
- loans and advances to banks	-	-	1,136	1,136	10,946	3,982	1,136	16,064
- loans and advances to customers	-	-	132	132	-	-	6,435	6,435
<b>Total</b>	<b>601</b>	<b>-</b>	<b>1,268</b>	<b>1,869</b>	<b>11,547</b>	<b>3,982</b>	<b>7,571</b>	<b>23,100</b>

## t) Presentation of net financial instruments by measurement category

in EUR thousand

NLB Group								
31.12.2016	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Financial leases	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	1,299,014	-	-	-	1,299,014
Securities	68,757	6,694	2,072,153	85,340	-	611,449	-	2,844,393
- Bonds	19,735	734	1,619,228	85,315	-	611,449	-	2,336,461
- Shares	-	-	73,620	-	-	-	-	73,620
- Commercial bills	19,010	-	274,489	-	-	-	-	293,499
- Cash certificates	-	-	199	-	-	-	-	199
- Treasury bills	30,012	-	104,617	-	-	-	-	134,629
- Private equity fund	-	2,011	-	-	-	-	-	2,011
- Reverse sell and repurchase agreements	-	-	-	25	-	-	-	25
- Other investments	-	3,949	-	-	-	-	-	3,949
Derivatives	18,942	-	-	-	-	-	217	19,159
Loans and receivables	-	-	-	7,197,167	150,412	-	-	7,347,579
- Loans to government	-	-	-	765,154	10,832	-	-	775,986
- Loans to banks	-	-	-	435,537	-	-	-	435,537
- Loans to financial organisations	-	-	-	74,312	32	-	-	74,344
- Loans to individuals	-	-	-	3,027,652	63,856	-	-	3,091,508
<i>Granted overdrafts</i>	-	-	-	182,322	-	-	-	182,322
<i>Loans for houses and flats</i>	-	-	-	1,589,762	-	-	-	1,589,762
<i>Consumer loans</i>	-	-	-	1,090,120	-	-	-	1,090,120
<i>Other loans</i>	-	-	-	165,448	63,856	-	-	229,304
- Loans to other customers	-	-	-	2,894,512	75,692	-	-	2,970,204
<i>Loans to large corporate customers</i>	-	-	-	1,530,194	4,409	-	-	1,534,603
<i>Loans to small- and medium-sized enterprises</i>	-	-	-	1,364,318	71,283	-	-	1,435,601
Other financial assets	-	-	-	61,014	-	-	-	61,014
<b>Total financial assets</b>	<b>87,699</b>	<b>6,694</b>	<b>2,072,153</b>	<b>8,642,535</b>	<b>150,412</b>	<b>611,449</b>	<b>217</b>	<b>11,571,159</b>

in EUR thousand

NLB Group								
31.12.2015	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Financial leases	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	1,161,983	-	-	-	1,161,983
Securities	237,372	7,595	1,737,191	394,604	-	565,535	-	2,942,297
- Bonds	43,555	753	1,350,942	394,579	-	545,561	-	2,335,390
- Shares	10	-	75,462	-	-	-	-	75,472
- Commercial bills	151,171	-	151,168	-	-	-	-	302,339
- Certificates of deposits	-	-	77,939	-	-	-	-	77,939
- Treasury bills	42,636	-	81,680	-	-	19,974	-	144,290
- Private equity fund	-	4,913	-	-	-	-	-	4,913
- Reverse sell and repurchase agreements	-	-	-	25	-	-	-	25
- Other investments	-	1,929	-	-	-	-	-	1,929
Derivatives	30,041	-	-	-	-	-	1,083	31,124
Loans and receivables	-	-	-	6,947,552	177,819	-	-	7,125,371
- Loans to government	-	-	-	675,094	13,380	-	-	688,474
- Loans to banks	-	-	-	431,775	-	-	-	431,775
- Loans to financial organisations	-	-	-	139,559	293	-	-	139,852
- Loans to individuals	-	-	-	2,843,107	64,884	-	-	2,907,991
<i>Granted overdrafts</i>	-	-	-	185,912	-	-	-	185,912
<i>Loans for houses and flats</i>	-	-	-	1,503,814	-	-	-	1,503,814
<i>Consumer loans</i>	-	-	-	962,884	-	-	-	962,884
<i>Other loans</i>	-	-	-	190,497	64,884	-	-	255,381
- Loans to other customers	-	-	-	2,858,017	99,262	-	-	2,957,279
<i>Loans to large corporate customers</i>	-	-	-	1,615,919	29,225	-	-	1,645,144
<i>Loans to small- and medium-sized enterprises</i>	-	-	-	1,242,098	70,037	-	-	1,312,135
Other financial assets	-	-	-	69,521	-	-	-	69,521
<b>Total financial assets</b>	<b>267,413</b>	<b>7,595</b>	<b>1,737,191</b>	<b>8,573,660</b>	<b>177,819</b>	<b>565,535</b>	<b>1,083</b>	<b>11,330,296</b>

in EUR thousand

NLB							
31.12.2016	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	617,039	-	-	617,039
Securities	68,757	2,011	1,594,094	85,340	611,449	-	2,361,651
- Bonds	19,735	-	1,262,363	85,315	611,449	-	1,978,862
- Shares	-	-	67,307	-	-	-	67,307
- Commercial bills	19,010	-	209,331	-	-	-	228,341
- Treasury bills	30,012	-	55,093	-	-	-	85,105
- Private equity fund	-	2,011	-	-	-	-	2,011
- Reverse sell and repurchase agreements	-	-	-	25	-	-	25
Derivatives	18,936	-	-	-	-	217	19,153
Loans and receivables	-	-	-	5,251,625	-	-	5,251,625
- Loans to government	-	-	-	668,300	-	-	668,300
- Loans to banks	-	-	-	408,056	-	-	408,056
- Loans to financial organisations	-	-	-	273,285	-	-	273,285
- Loans to individuals	-	-	-	1,951,115	-	-	1,951,115
<i>Granted overdrafts</i>	-	-	-	147,779	-	-	147,779
<i>Loans for houses and flats</i>	-	-	-	1,208,996	-	-	1,208,996
<i>Consumer loans</i>	-	-	-	480,626	-	-	480,626
<i>Other loans</i>	-	-	-	113,714	-	-	113,714
- Loans to other customers	-	-	-	1,950,869	-	-	1,950,869
<i>Loans to large corporate customers</i>	-	-	-	1,296,126	-	-	1,296,126
<i>Loans to small- and medium-sized enterprises</i>	-	-	-	654,743	-	-	654,743
Other financial assets	-	-	-	36,151	-	-	36,151
<b>Total financial assets</b>	<b>87,693</b>	<b>2,011</b>	<b>1,594,094</b>	<b>5,990,155</b>	<b>611,449</b>	<b>217</b>	<b>8,285,619</b>

in EUR thousand

NLB							
31.12.2015	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity financial assets	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	496,806	-	-	496,806
Securities	237,372	4,913	1,248,359	394,604	565,535	-	2,450,783
- Bonds	43,555	-	999,781	394,579	545,561	-	1,983,476
- Shares	10	-	70,412	-	-	-	70,422
- Commercial bills	151,171	-	151,168	-	-	-	302,339
- Treasury bills	42,636	-	26,998	-	19,974	-	89,608
- Private equity fund	-	4,913	-	-	-	-	4,913
- Reverse sell and repurchase agreements	-	-	-	25	-	-	25
Derivatives	30,508	-	-	-	-	1,083	31,591
Loans and receivables	-	-	-	5,171,321	-	-	5,171,321
- Loans to government	-	-	-	578,184	-	-	578,184
- Loans to banks	-	-	-	345,207	-	-	345,207
- Loans to financial organisations	-	-	-	391,911	-	-	391,911
- Loans to individuals	-	-	-	1,889,683	-	-	1,889,683
<i>Granted overdrafts</i>	-	-	-	152,042	-	-	152,042
<i>Loans for houses and flats</i>	-	-	-	1,165,800	-	-	1,165,800
<i>Consumer loans</i>	-	-	-	471,889	-	-	471,889
<i>Other loans</i>	-	-	-	99,952	-	-	99,952
- Loans to other customers	-	-	-	1,966,336	-	-	1,966,336
<i>Loans to large corporate customers</i>	-	-	-	1,263,030	-	-	1,263,030
<i>Loans to small- and medium-sized enterprises</i>	-	-	-	703,306	-	-	703,306
Other financial assets	-	-	-	48,944	-	-	48,944
<b>Total financial assets</b>	<b>267,880</b>	<b>4,913</b>	<b>1,248,359</b>	<b>6,111,675</b>	<b>565,535</b>	<b>1,083</b>	<b>8,199,445</b>

As at 31 December 2016 and 31 December 2015, all of NLB Group's financial liabilities, except for derivatives designated as hedging instruments, trading liabilities and financial liabilities designated at fair value through profit or loss, were carried at amortised cost.

## 7.2. Market risk

NLB defines market risk as the risk of potential financial losses due to changes in rates and/or market prices (exchange rates, credit spreads, and equity prices) or in parameters that affect prices (volatilities and correlations). Losses may impact profit or loss directly, for example in the case of trading book positions. However, for the banking book positions they are reflected in the revaluation reserve. The exposure to the market risk is to a certain degree integrated into the banking industry and offers an opportunity to create financial results and value.

The Global Risk Department of NLB is independent from the trading activities and reports to the bank's committee ALCO. They also monitor and manage exposure to market risks separately for the banking and the trading book. Exposures and limits are monitored daily and reported to the ALCO committee on a regular basis.

The bank uses a wide selection of quantitative and qualitative tools for measuring, managing, and reporting market risks such as value-at-risk (VaR), sensitivity analysis, stress testing, back-testing, scenarios, other market risk mitigants (concentration of exposures, gap limits, stop-loss

limits, etc.), net interest income sensitivity, economic value of equity, and economic capital. Stress testing provides an indication of the potential losses that could occur in severe market conditions.

In the area of currency risk, NLB Group pursues the goal of low exposure. NLB monitors the open position of NLB Group on an ongoing basis. The orientation of NLB Group in interest rate risk management is to prevent negative effects on the net revenues arising from changed market interest rates. In line with this, the tolerance for this risk is low. The conclusion of transactions involving derivatives at NLB is limited to the servicing of the clients' and hedging of the Group's own open positions. In accordance with the provisions of the Strategy on trading in financial instruments in NLB Group, the trading activities in other NLB Group members are very restricted. Thus, NLB is the only Group member with a trading book in accordance with CRR requirements.

Monitoring and managing NLB Group's exposure to market risks is decentralised. However, uniform guidelines and exposure limits for each type of risk are set for individual NLB Group entities. The methodologies are in line with regulatory requirements on individual and consolidated levels, while reporting to the regulator on the consolidated level is carried out using the standardised approach. Pursuant to the relevant policies, NLB Group entities must monitor and manage exposure to market risks and report to NLB accordingly. The exposure of an individual NLB Group entity is regularly monitored and reported to the Assets and Liabilities Committee of NLB Group (NLB Group ALCO).

#### **7.2.1. Currency risk (FX)**

Foreign currency risk (FX) is a risk of the potential losses from the open FX positions due to the changes of the foreign currency rates. The exposures of NLB to the movement of the FX rates have impact on the financial position and cash flows of the bank. The bank measures and manages the FX risk with a usage of combination of sensitivity analysis, VaR, scenarios and stress testing.

In the trading book, similar to the other market risks, risk is managed on the basis of VaR limits which are approved by the Management Board and in accordance to the adopted Policy of managing market risk in the trading book of NLB.

NLB monitors and manages FX risk in the banking book according to the Policy of managing FX risk in NLB. The policy is primarily composed to protect Common Equity Tier 1 against the negative effects of the volatility of the FX rates.

Currency risk management in NLB Group is decentralised. Each member is responsible for its own currency risk policy, which also includes a limit system and is in line with local regulatory requirements as well as the parent Bank's guidelines and standards. Policies are confirmed by local committees. NLB monitors and manages NLB Group currency risk exposure on a monthly basis for each member and on the consolidated level.

The positions of all currencies in the statement of financial position of NLB, for which a daily limit is set, are monitored daily. Exposure to currency risks is managed by the Financial Markets Department on the basis of a report obtained from the Global Risk Department. The Financial Markets Department manages FX positions on the currency level so that they are always within the limits or close.

Exposure to currency risks is discussed at daily liquidity meetings and monthly meetings of the Assets and Liabilities Committee of NLB Group.

## a) The amount of financial instruments denominated in euros and in foreign currency

in EUR thousand

31.12.2016	NLB Group					Total
	EUR	USD	CHF	Other		
<b>Financial assets</b>						
Cash, cash balances at central banks, and other demand deposits at banks	855,746	63,403	38,516	341,349	1,299,014	
Trading assets	87,693	-	-	6	87,699	
Financial assets designated at fair value through profit or loss	6,694	-	-	-	6,694	
Available-for-sale financial assets	1,824,890	30,151	3,330	213,782	2,072,153	
Derivatives - hedge accounting	217	-	-	-	217	
Loans and advances						
- debt securities	85,315	-	-	-	85,315	
- loans and advances to banks	322,404	79,204	-	33,929	435,537	
- loans and advances to customers	6,013,998	55,829	90,670	751,570	6,912,067	
- other financial assets	42,037	91	28	18,858	61,014	
Held-to-maturity financial assets	611,449	-	-	-	611,449	
Fair value changes of the hedged items in portfolio hedge of interest rate risk	678	-	-	-	678	
<b>Total financial assets</b>	<b>9,851,121</b>	<b>228,678</b>	<b>132,544</b>	<b>1,359,494</b>	<b>11,571,837</b>	
<b>Financial liabilities</b>						
Trading liabilities	18,788	-	-	3	18,791	
Financial liabilities designated at fair value through profit or loss	2,011	-	-	-	2,011	
Derivatives - hedge accounting	29,024	-	-	-	29,024	
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	18,835	6,798	8,800	7,901	42,334	
- borrowings from banks and central banks	328,348	25,285	18,130	6	371,769	
- due to customers	8,110,708	192,654	73,334	1,060,451	9,437,147	
- borrowings from other customers	83,619	-	-	-	83,619	
- debt securities in issue	277,726	-	-	-	277,726	
- subordinated liabilities	27,145	-	-	-	27,145	
- other financial liabilities	90,732	1,454	1,873	16,236	110,295	
<b>Total financial liabilities</b>	<b>8,986,936</b>	<b>226,191</b>	<b>102,137</b>	<b>1,084,597</b>	<b>10,399,861</b>	
<b>Net on-balance sheet financial position</b>	<b>864,185</b>	<b>2,487</b>	<b>30,407</b>	<b>274,897</b>	<b>1,171,976</b>	
Derivative financial instruments	26,519	2,077	(21,417)	(13,954)	(6,775)	
<b>Net financial position</b>	<b>890,704</b>	<b>4,564</b>	<b>8,990</b>	<b>260,943</b>	<b>1,165,201</b>	
<b>31.12.2015</b>						
<b>Total financial assets</b>	<b>9,688,316</b>	<b>204,996</b>	<b>151,560</b>	<b>1,286,165</b>	<b>11,331,037</b>	
<b>Total financial liabilities</b>	<b>8,871,950</b>	<b>208,203</b>	<b>103,304</b>	<b>1,042,770</b>	<b>10,226,227</b>	
<b>Net on-balance sheet financial position</b>	<b>816,366</b>	<b>(3,207)</b>	<b>48,256</b>	<b>243,395</b>	<b>1,104,810</b>	
Derivative financial instruments	53,173	1,998	(45,057)	(16,964)	(6,850)	
<b>Net financial position</b>	<b>869,539</b>	<b>(1,209)</b>	<b>3,199</b>	<b>226,431</b>	<b>1,097,960</b>	

in EUR thousand

31.12.2016	NLB					Total
	EUR	USD	CHF	Other		
<b>Financial assets</b>						
Cash, cash balances at central banks, and other demand deposits at banks	531,072	36,647	11,289	38,031		617,039
Trading assets	87,693	-	-	-		87,693
Financial assets designated at fair value through profit or loss	2,011	-	-	-		2,011
Available-for-sale financial assets	1,563,577	28,148	-	2,369		1,594,094
Derivatives - hedge accounting	217	-	-	-		217
Loans and advances						
- debt securities	85,315	-	-	-		85,315
- loans and advances to banks	335,806	52,274	377	19,599		408,056
- loans and advances to customers	4,693,213	51,882	88,281	10,218		4,843,594
- other financial assets	36,060	65	1	25		36,151
Held-to-maturity financial assets	611,449	-	-	-		611,449
Fair value changes of the hedged items in portfolio hedge of interest rate risk	678	-	-	-		678
<b>Total financial assets</b>	<b>7,947,091</b>	<b>169,016</b>	<b>99,948</b>	<b>70,242</b>		<b>8,286,297</b>
<b>Financial liabilities</b>						
Trading liabilities	18,787	-	-	-		18,787
Financial liabilities designated at fair value through profit or loss	2,011	-	-	-		2,011
Derivatives - hedge accounting	29,024	-	-	-		29,024
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	30,443	22,030	12,112	10,392		74,977
- borrowings from banks and central banks	295,052	25,285	18,130	-		338,467
- due to customers	6,415,472	120,909	47,802	31,207		6,615,390
- borrowings from other customers	4,274	-	-	-		4,274
- debt securities in issue	277,726	-	-	-		277,726
- other financial liabilities	67,301	960	94	429		68,784
<b>Total financial liabilities</b>	<b>7,140,090</b>	<b>169,184</b>	<b>78,138</b>	<b>42,028</b>		<b>7,429,440</b>
<b>Net on-balance sheet financial position</b>	<b>807,001</b>	<b>(168)</b>	<b>21,810</b>	<b>28,214</b>		<b>856,857</b>
Derivative financial instruments	26,519	2,077	(21,417)	(13,954)		(6,775)
<b>Net financial position</b>	<b>833,520</b>	<b>1,909</b>	<b>393</b>	<b>14,260</b>		<b>850,082</b>
<b>31.12.2015</b>						
<b>Total financial assets</b>	<b>7,839,819</b>	<b>157,334</b>	<b>123,931</b>	<b>79,102</b>		<b>8,200,186</b>
<b>Total financial liabilities</b>	<b>7,057,066</b>	<b>158,946</b>	<b>82,194</b>	<b>48,934</b>		<b>7,347,140</b>
<b>Net on-balance sheet financial position</b>	<b>782,753</b>	<b>(1,612)</b>	<b>41,737</b>	<b>30,168</b>		<b>853,046</b>
Derivative financial instruments	53,260	1,998	(44,678)	(17,427)		(6,847)
<b>Net financial position</b>	<b>836,013</b>	<b>386</b>	<b>(2,941)</b>	<b>12,741</b>		<b>846,199</b>

## b) Sensitivity analysis for currency risk

## NLB Group and NLB

Scenarios	31.12.2016	31.12.2015
USD	+/-8%	+/-13%
CHF	+/-4%	+/-4%
CZK	+/-1%	+/-1%
RSD	+/-2%	+/-3%
MKD	+/-1%	+/-0.4%
JPY	+/-12.5%	+/-10.5%
AUD	+/-11%	+/-15%
HUF	+/-5%	+/-7%
HRK	+/-2%	+/-1%

in EUR thousand

31.12.2016	NLB Group		NLB	
	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensive income
Appreciation of				
USD	271	-	72	7
CHF	(205)	227	13	-
CZK	(8)	23	2	-
RSD	(3)	1,567	2	-
MKD	1	-	1	-
Other	(16)	2,053	70	-
<b>Effects on comprehensive income</b>	<b>40</b>	<b>3,870</b>	<b>160</b>	<b>7</b>
Depreciation of				
USD	(229)	-	(61)	(6)
CHF	187	(208)	(12)	-
CZK	7	(22)	(2)	-
RSD	2	(1,506)	(2)	-
MKD	(1)	-	(1)	-
Other	23	(2,001)	(60)	-
<b>Effects on comprehensive income</b>	<b>(11)</b>	<b>(3,737)</b>	<b>(138)</b>	<b>(6)</b>
<b>Total</b>	<b>29</b>	<b>133</b>	<b>22</b>	<b>1</b>

in EUR thousand

31.12.2015	NLB Group		NLB	
	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensive income
Appreciation of				
USD	(11)	-	45	10
CHF	(434)	384	(9)	-
CZK	(7)	38	9	-
RSD	(5)	2,391	1	-
MKD	1	782	1	-
Other	(27)	718	65	-
<b>Effects on comprehensive income</b>	<b>(483)</b>	<b>4,313</b>	<b>112</b>	<b>10</b>
Depreciation of				
USD	8	-	(35)	(8)
CHF	397	(351)	8	-
CZK	6	(37)	(9)	-
RSD	5	(2,235)	(1)	-
MKD	(1)	(771)	(1)	-
Other	35	(709)	(52)	-
<b>Effects on comprehensive income</b>	<b>450</b>	<b>(4,103)</b>	<b>(90)</b>	<b>(8)</b>
<b>Total</b>	<b>(33)</b>	<b>210</b>	<b>22</b>	<b>2</b>

### c) Value at Risk analysis

The methodology for measuring currency risk at NLB Group level is based on the net open foreign exchange position principle and monitoring of the nominal limits (for the total open position by currency), related to the capital size of an NLB Group member. The internal CVaR method described above is used for the illustration below of exposure to currency risk which derives from the quarterly net open positions of NLB Group entities. CVaR was the result of exchange rate volatility, which affected the potential loss or the level of CVaR.

in EUR thousand

NLB Group	2016			2015		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Currency risk (trading book and banking book)	1,291	1,495	1,034	6,019	21,564	3,480

NLB uses an internal 'Conditional Value at Risk' (CVaR) model to calculate currency risk arising from open positions. The calculation of the CVaR value is adjusted to Basel standards (99% confidence interval, monitored period of 300 business days, 10-day holding position period), and based on the historical simulation method. CVaR is calculated for currency risk for the whole open bank position (e.g. the position of the trading and banking book together) as NLB's total open position is managed by the Treasury Department.

in EUR thousand

NLB	2016			2015		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Currency risk (trading book and banking book)	157	414	52	307	4,353	7

### 7.2.2. Managing market risks in the trading book

Market risk exposure in the trading book arises mostly as a result of the changes in interest rates, credit spreads, FX rates, and equity prices.

The Management Board determines total risk appetite and limits by the risk type. The limits are monitored daily by the Global Risk Department.

NLB uses an internal VaR model based on the variance-covariance method for other market risks. The daily calculation of the VaR value is adjusted to Basel standards (99% confidence interval, monitored period of 250 business days, 10-day holding position period).

In 2016, FX risk in the trading book amounted to an average of EUR 104 thousand (2015: EUR 182 thousand). Compared to the previous year, the average VaR ratio is lower. An occasionally higher VaR mainly arises from SPOT deals with companies with the trading date t+0, and a closing deal with the trading date t+2.

In 2016, interest rate risks in the trading book amounted to an average of EUR 232 thousand (2015: EUR 346 thousand), and is lower compared to the previous year. At the end of 2016, the market value of the debt securities portfolio amounted to EUR 68,757 thousand (2015: EUR 237,372 thousand).

in EUR thousand

NLB Group and NLB	2016			2015		
	Average	Minimum	Maximum	Average	Minimum	Maximum
VaR						
FX risk trading book	104	5	771	182	18	893
Interest rate risk in trading book	232	63	538	346	151	717

The average, maximum, and minimum values in the upper table are calculated on the basis of daily VaR calculations, which are based on daily open positions and movements in market data during the past monitored period (250 working days). The “average” value represents the arithmetic mean of daily VaR values in 2016, while the “maximum” and “minimum” values represent the highest and lowest values of daily VaR calculations in 2016, respectively.

### 7.2.3. Managing interest rate risk

The management of interest rate risks in the NLB banking book is separated from the measurement and monitoring of those risks. In the past, NLB implemented an interest rate risk management policy that reflects a conservative strategy for assuming interest rate risks and is based on general Basel risk management standards and EBA guidelines.

NLB manages interest rate risk in conjunction with credit, currency foreign exchange, and liquidity risks as there is a close correlation between those risks that can have a significant impact on the stability of the interest rate margin. NLB also stabilises its interest rate margin through an appropriate pricing policy, a fund transfer pricing policy, and the securities portfolio of the banking book.

The management of interest rate risk arising from banking book transactions is facilitated by managing the interest rate maturity of all on- and off-balance sheet items in individual maturity buckets. It takes into account the positions in each currency, adjusted to credit risk. The maturity calculation model for interest-insensitive liability items and interest-sensitive items without maturity (e.g. available capital and stable sight deposits) was approved by the national regulator. An important part of managing interest rate risk is the securities portfolio of the banking book, which is subject to strict internal rules and policies. The primary purpose of the portfolio is to maintain adequate liquidity reserves, while it also contributes to the stability of the interest rate margin.

Several analyses are performed in the management of interest rate risks (limited positions in individual maturity buckets, modified duration, BPV limits, and interest rate margin). The BPV (basis point value) method helps to estimate changes in the market value of a banking book position due to a parallel shift in the yield curve. The BPV is calculated for different segments of the banking book and for the banking book as a whole. NLB also prepares calculations of the impact of changes in interest rates on net interest income.

The basic tool for managing interest rate risk in the banking book is the management of items from NLB's statement of financial position. The strategies that foresee appropriate adjustments to items from the statement of financial position are discussed and adopted at the executive level of NLB, or within the scope of NLB's Assets and Liabilities Committee. If the management of interest rate risk using items from the statement of financial position is not possible, NLB manages risk by using the following derivative financial instruments:

- interest rate swaps,
- overnight index swaps,
- cross currency swaps, and
- forward rate agreements.

The management of NLB Group's interest rate exposure is not performed at the consolidated level. However, NLB monitors the risk positions of individual members of NLB Group on a regular basis in accordance with the Standards for Risk Management in NLB Group. The aforementioned document comprises guidelines for uniform and effective interest rate risk management.

NLB Group measures Interest Rate Risk in the Banking Book (IRRBB) from an economic view of, as well as earnings sensitivity. Exposure is monitored weekly on the NLB solo level and monthly on the Group level. Measurement and management is done on the basis of maturity gaps, BPV analyses, NII sensitivity stress tests, and limits. Guidelines regarding the limitation and management of interest risks within individual NLB Group members are approved by the ALCO. Beside the prescribed scenario of parallel 200 bp shock on market interest rates, NLB Group also performs other relevant stress scenarios.

IRRBB measurement includes interest-sensitive performing assets and liabilities. Measurement and management of IRRBB include assumptions about non-maturing deposits in line with the valid regulation. The Bank regularly monitors effects of prepayment and early redemption risk on IRRBB exposure, and includes results in stress testing. Beside this hypothesis, banks in monitoring of IRRBB also include other relevant behavioural assumptions.

## a) Analysis of financial instruments according to the exposure to interest rate risk

Illustrated below are the carrying amounts of financial instruments categorised by the earlier of contractual reprising or residual maturity.

in EUR thousand

31.12.2016	NLB Group							
	Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
<b>Financial assets</b>								
Cash, cash balances at central banks, and other demand deposits at banks	1,299,014	450,644	848,370	848,370	-	-	-	-
Trading assets	87,699	6	87,693	19,220	49,085	9,168	10,220	-
Financial assets designated at fair value through profit or loss	6,694	5,960	734	-	-	-	734	-
Available-for-sale financial assets	2,072,153	73,620	1,998,533	110,145	267,093	494,924	759,436	366,935
Derivatives - hedge accounting	217	217	-	-	-	-	-	-
Loans and advances								
- debt securities	85,315	-	85,315	-	-	1,891	-	83,424
- loans and advances to banks	435,537	7	435,530	114,962	42,138	276,794	1,636	-
- loans and advances to customers	6,912,067	54,612	6,857,455	1,816,432	1,387,083	2,524,693	840,204	289,043
- other financial assets	61,014	61,014	-	-	-	-	-	-
Held-to-maturity financial assets	611,449	-	611,449	37,691	63,047	16,866	264,360	229,485
Fair value changes of the hedged items in portfolio hedge of interest rate risk	678	678	-	-	-	-	-	-
<b>Total financial assets</b>	<b>11,571,837</b>	<b>646,758</b>	<b>10,925,079</b>	<b>2,946,820</b>	<b>1,808,446</b>	<b>3,324,336</b>	<b>1,876,590</b>	<b>968,887</b>
<b>Financial liabilities</b>								
Trading liabilities	18,791	-	18,791	18,791	-	-	-	-
Financial liabilities designated at fair value through profit or loss	2,011	2,011	-	-	-	-	-	-
Derivatives - hedge accounting	29,024	29,024	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	42,334	332	42,002	41,439	563	-	-	-
- borrowings from banks and central banks	371,769	-	371,769	6,779	134,777	203,215	26,381	617
- due to customers	9,437,147	61,672	9,375,475	7,035,752	572,913	1,342,213	417,065	7,532
- borrowings from other customers	83,619	-	83,619	1,298	8,769	26,878	40,966	5,708
- debt securities in issue	277,726	-	277,726	-	-	277,726	-	-
- subordinated liabilities	27,145	-	27,145	200	11,938	15,007	-	-
- other financial liabilities	110,295	110,295	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>10,399,861</b>	<b>203,334</b>	<b>10,196,527</b>	<b>7,104,259</b>	<b>728,960</b>	<b>1,865,039</b>	<b>484,412</b>	<b>13,857</b>
<b>Total interest repricing gap</b>				<b>(4,157,439)</b>	<b>1,079,486</b>	<b>1,459,297</b>	<b>1,392,178</b>	<b>955,030</b>

in EUR thousand

31.12.2015	NLB Group							
	Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
<b>Financial assets</b>								
Cash, cash balances at central banks, and other demand deposits at banks	1,161,983	505,720	656,263	656,263	-	-	-	-
Trading assets	267,413	10	267,403	40,184	32,940	194,278	1	-
Financial assets designated at fair value through profit or loss	7,595	4,913	2,682	1,929	-	-	753	-
Available-for-sale financial assets	1,737,191	75,462	1,661,729	140,587	110,575	293,237	809,994	307,336
Derivatives - hedge accounting	1,083	1,083	-	-	-	-	-	-
Loans and advances								
- debt securities	394,579	-	394,579	-	-	311,466	-	83,113
- loans and advances to banks	431,775	25	431,750	61,550	46,699	322,784	717	-
- loans and advances to customers	6,693,621	51,431	6,642,190	1,969,369	1,345,506	2,463,505	662,116	201,694
- other financial assets	69,521	69,521	-	-	-	-	-	-
Held-to-maturity financial assets	565,535	-	565,535	46,620	17,440	51,696	263,554	186,225
Fair value changes of the hedged items in portfolio hedge of interest rate risk	741	741	-	-	-	-	-	-
<b>Total financial assets</b>	<b>11,331,037</b>	<b>708,906</b>	<b>10,622,131</b>	<b>2,916,502</b>	<b>1,553,160</b>	<b>3,636,966</b>	<b>1,737,135</b>	<b>778,368</b>
<b>Financial liabilities</b>								
Trading liabilities	29,920	-	29,920	29,920	-	-	-	-
Financial liabilities designated at fair value through profit or loss	4,912	4,912	-	-	-	-	-	-
Derivatives - hedge accounting	33,842	33,842	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	57,982	60	57,922	56,986	-	722	214	-
- borrowings from banks and central banks	571,029	-	571,029	5,517	176,629	349,694	36,254	2,935
- due to customers	9,020,666	79,603	8,941,063	6,244,768	666,622	1,563,576	428,403	37,694
- borrowings from other customers	100,267	-	100,267	1,323	3,019	21,284	46,637	28,004
- debt securities in issue	304,962	-	304,962	-	-	29,917	275,045	-
- subordinated liabilities	27,340	-	27,340	-	12,219	15,121	-	-
- other financial liabilities	75,307	75,307	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>10,226,227</b>	<b>193,724</b>	<b>10,032,503</b>	<b>6,338,514</b>	<b>858,489</b>	<b>1,980,314</b>	<b>786,553</b>	<b>68,633</b>
<b>Total interest repricing gap</b>				<b>(3,422,012)</b>	<b>694,671</b>	<b>1,656,652</b>	<b>950,582</b>	<b>709,735</b>

in EUR thousand

31.12.2016	NLB							Over 5 Years
	Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	
<b>Financial assets</b>								
Cash, cash balances at central banks, and other demand deposits at banks	617,039	128,519	488,520	488,520	-	-	-	-
Trading assets	87,693	-	87,693	19,220	49,085	9,168	10,220	-
Financial assets designated at fair value through profit or loss	2,011	2,011	-	-	-	-	-	-
Available-for-sale financial assets	1,594,094	67,307	1,526,787	27,709	195,730	371,601	569,219	362,528
Derivatives - hedge accounting	217	217	-	-	-	-	-	-
Loans and advances								
- debt securities	85,315	-	85,315	-	-	1,891	-	83,424
- loans and advances to banks	408,056	7	408,049	77,061	28,596	302,392	-	-
- loans and advances to customers	4,843,594	43,021	4,800,573	1,422,972	1,316,675	1,682,375	227,870	150,681
- other financial assets	36,151	36,151	-	-	-	-	-	-
Held-to-maturity financial assets	611,449	-	611,449	37,691	63,047	16,866	264,360	229,485
Fair value changes of the hedged items in portfolio hedge of interest rate risk	678	678	-	-	-	-	-	-
<b>Total financial assets</b>	<b>8,286,297</b>	<b>277,911</b>	<b>8,008,386</b>	<b>2,073,173</b>	<b>1,653,133</b>	<b>2,384,293</b>	<b>1,071,669</b>	<b>826,118</b>
<b>Financial liabilities</b>								
Trading liabilities	18,787	-	18,787	18,787	-	-	-	-
Financial liabilities designated at fair value through profit or loss	2,011	2,011	-	-	-	-	-	-
Derivatives - hedge accounting	29,024	29,024	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	74,977	-	74,977	74,977	-	-	-	-
- borrowings from banks and central banks	338,467	-	338,467	4,708	133,117	186,846	13,796	-
- due to customers	6,615,390	-	6,615,390	5,281,645	408,851	744,327	174,193	6,374
- borrowings from other customers	4,274	-	4,274	-	-	-	4,265	9
- debt securities in issue	277,726	-	277,726	-	-	277,726	-	-
- other financial liabilities	68,784	68,784	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>7,429,440</b>	<b>99,819</b>	<b>7,329,621</b>	<b>5,380,117</b>	<b>541,968</b>	<b>1,208,899</b>	<b>192,254</b>	<b>6,383</b>
<b>Total interest repricing gap</b>				<b>(3,306,944)</b>	<b>1,111,165</b>	<b>1,175,394</b>	<b>879,415</b>	<b>819,735</b>

in EUR thousand

31.12.2015	NLB							
	Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
<b>Financial assets</b>								
Cash, cash balances at central banks, and other demand deposits at banks	496,806	128,682	368,124	368,124	-	-	-	-
Trading assets	267,880	10	267,870	40,651	32,940	194,278	1	-
Financial assets designated at fair value through profit or loss	4,913	4,913	-	-	-	-	-	-
Available-for-sale financial assets	1,248,359	70,412	1,177,947	39,489	60,220	184,845	590,844	302,549
Derivatives - hedge accounting	1,083	1,083	-	-	-	-	-	-
Loans and advances								
- debt securities	394,579	-	394,579	-	-	311,466	-	83,113
- loans and advances to banks	345,207	10	345,197	20,507	23,904	300,626	160	-
- loans and advances to customers	4,826,139	41,199	4,784,940	1,595,772	1,263,047	1,659,100	178,044	88,977
- other financial assets	48,944	48,944	-	-	-	-	-	-
Held-to-maturity financial assets	565,535	-	565,535	46,620	17,440	51,696	263,554	186,225
Fair value changes of the hedged items in portfolio hedge of interest rate risk	741	741	-	-	-	-	-	-
<b>Total financial assets</b>	<b>8,200,186</b>	<b>295,994</b>	<b>7,904,192</b>	<b>2,111,163</b>	<b>1,397,551</b>	<b>2,702,011</b>	<b>1,032,603</b>	<b>660,864</b>
<b>Financial liabilities</b>								
Trading liabilities	29,909	-	29,909	29,909	-	-	-	-
Financial liabilities designated at fair value through profit or loss	4,912	4,912	-	-	-	-	-	-
Derivatives - hedge accounting	33,842	33,842	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	96,736	-	96,736	96,731	-	5	-	-
- borrowings from banks and central banks	519,926	-	519,926	1,821	174,298	327,414	14,853	1,540
- due to customers	6,293,339	-	6,293,339	4,719,557	505,119	865,732	191,889	11,042
- borrowings from other customers	16,168	-	16,168	-	-	10,009	6,149	10
- debt securities in issue	304,962	-	304,962	-	-	29,917	275,045	-
- other financial liabilities	47,346	47,346	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>7,347,140</b>	<b>86,100</b>	<b>7,261,040</b>	<b>4,848,018</b>	<b>679,417</b>	<b>1,233,077</b>	<b>487,936</b>	<b>12,592</b>
<b>Total interest repricing gap</b>				<b>(2,736,855)</b>	<b>718,134</b>	<b>1,468,934</b>	<b>544,667</b>	<b>648,272</b>

**b) Net interest income sensitivity analysis and an economic view of interest rate risk in the banking book**

The analysis of interest income sensitivity assumes a move in interest rates by 50 basis points in the short term. The analysis is based on the assumption that the positions used remain unchanged, and that the yield curve shift is parallel. The assessment of the impact of a change in interest rates of 50 basis points on the amount of net interest income of the banking book position:

in EUR thousand

2016	NLB Group			NLB		
	Average (assessment)	Minimum (assessment)	Maximum (assessment)	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest income sensitivity						
EUR	12,009	11,154	13,121	12,025	11,155	12,699
USD	417	319	507	311	182	407
CHF	161	78	247	166	83	248
Other	1,238	1,058	1,390	45	31	50

in EUR thousand

2015	NLB Group			NLB		
	Average (assessment)	Minimum (assessment)	Maximum (assessment)	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest income sensitivity						
EUR	11,788	10,481	12,763	11,408	10,247	12,316
USD	120	9	296	107	13	212
CHF	282	95	608	171	68	277
Other	1,112	1,000	1,310	47	36	61

The values in the table are calculated on the basis of monthly calculations of short-term interest rate gaps, where the applied parallel shift of the yield curve by 50 basis points represents a realistic and practical scenario. The “average” value represents the arithmetic mean of monthly calculations, while the “maximum” and “minimum” values represent the highest and lowest values calculated during the period.

The BPV (Basis Point Value) method is a measure of sensitivity of financial instruments to market interest rates, i.e. changes of the required return. The BPV method is used to assess the change in the value of a position in case market interest rates change by +/- 200 basis points. In this method, a parallel shift of the yield curve is assumed. The basis point value is the measurement of the change in the market value of a position in the case of an assumed change in market interest rates by a certain number of basis points, which is expressed in monetary units. NLB weekly calculates the absolute value of potential negative economic effects that would result from a parallel shift in interest rates by 200 bp.

The assessment of the impact of a change in interest rates of 200 basis points on the economic value of the banking book position:

in EUR thousand

2016	NLB Group			NLB		
	Average (assessment)	Minimum (assessment)	Maximum (assessment)	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest risk in banking book - BPV	162,224	145,727	198,017	120,515	105,469	153,501
Interest risk in banking book - BPV, as % of equity	12.59%	11.36%	14.82%	10.60%	9.29%	13.48%

in EUR thousand

2015	NLB Group			NLB		
	Average (assessment)	Minimum (assessment)	Maximum (assessment)	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest risk in banking book - BPV	134,423	127,415	146,900	103,878	89,619	115,005
Interest risk in banking book - BPV, as % of equity	10.80%	10.24%	11.79%	9.27%	7.90%	10.39%

The values in the table have been calculated on the basis of weekly calculations of interest rate gaps for NLB and monthly on the Group level. The applied parallel shift of the yield curve is by 200 basis points. The “average” value represents the arithmetic mean of monthly calculations, while the “maximum” and “minimum” values represent the highest and lowest values calculated during the period. The calculation does not take the allocation of the stable part of sight deposits into account.

Exposure to interest rate risk mainly arises from investments in high quality debt securities, which are held primarily for liquidity risk management purposes. Due to low/negative interest rate environment in 2016 the bank has also recorded an increase of fixed interest rate mortgage loans. Long-term interest positions of other members in NLB Group, from which present a majority of their exposure to interest-rate risk (economic point of view), mainly arise from a portfolio of mortgage loans with a fixed interest rate.

#### 7.2.4. Risk of changes in prices in the portfolio of equity securities in the banking book

NLB Group’s financial instruments trading strategy includes guidelines for the effective management of risks associated with equity investments. Trading with equity securities is not permitted in subsidiaries. Only stock broking services are provided. The majority of the equity securities portfolio in the banking book derives from NLB’s position, while smaller positions are also held by certain NLB Group entities.

In terms of equity security investments, NLB has adopted policies for managing these investments that were approved by the Management and the Supervisory Board. The policies relate to the investment structure of the portfolio, its diversification, and the monitoring and measurement of risks. In addition to a standardised methodology, NLB also uses an internal model, which has been adapted in accordance with the requirements of the Basel standards for monitoring and measuring risks related to the equity portfolio.

The carrying value of the equities portfolio in the banking book of NLB Group and NLB is represented in note 5.4.

#### 7.3. Liquidity risk

Liquidity risk is the risk that the bank is unable to meet all of its payment obligations, as well as the risk that the bank is unable to fund the growth of assets at reasonable prices, or at all.

Risk tolerance for liquidity risk is low, therefore NLB Group maintains an adequate level of liquidity to provide sufficient funds for settling its liabilities at all times, even if a specific stress scenario is realised. The Bank measures and manages its liquidity in three stages:

- Current exposure and compliance,
- Forward-looking and stress testing,
- Liquidity in exceptional circumstances.

Overall assessment of the liquidity position of NLB Group is assessed in Internal Liquidity Adequacy Assessment Process (ILAAP) at least once per year for NLB Group, and it includes a clear formal statement on liquidity adequacy, supported by an analysis of ILAAP outcomes. NLB Group maintains a sufficient amount of liquidity reserves in the form of high credit quality debt securities that are eligible for refinancing via the ECB or on the interbank market. In the current situation, NLB Group also strives to follow as closely as possible the long-term trend of diversification on both the liability and asset sides of the balance sheet. NLB Group regularly performs stress tests with the aim of testing the liquidity stability and availability of liquidity reserves in various stress situations. In addition, special attention is given to the fulfilment of the liquidity regulation (CRR/CRD), with monitoring and reporting of the liquidity coverage ratio (LCR) according to the Delegated Act (DA) and net stable funding ratio (NSFR). This also includes monitoring and reporting of Additional Liquidity Monitoring Metrics (ALMM) on solo and consolidated levels. In accordance with the Commission Implementing Regulation (EU), NLB Group regularly monitors and issues quarterly reports on asset encumbrance (AE). Increase in the volume of encumbered assets boosts liquidity risk and the risk of financing, since the Bank has fewer available assets as a liquidity reserve for unexpected liquidity needs.

NLB prepares a monthly static liquidity mismatch table by residual maturity and dynamic liquidity projections taking several cash-flow scenarios into account, to ensure monitoring over the liquidity position of each NLB Group member.

NLB manages its liquidity position (liquidity within one day) daily, for a period of several days or weeks, based on the planning and monitoring of cash flows. Each NLB Group member is responsible for its own liquidity position and carries out the following activities:

- managing intraday liquidity;
- planning and monitoring cash flows;
- monitoring and complying with the liquidity regulations of the central bank;
- adopting business decisions;
- managing liquidity reserves; and
- performing intraday liquidity stress test to define liquidity buffer for smooth functioning of payment system in stressed circumstances.

The Bank actively manages liquidity over the course of a day, taking into account the characteristics of payment settlements to ensure the timely settlement of liabilities in normal and stressed circumstances.

NLB Group has defined a liquidity management plan for exceptional circumstances that lays down guidelines and a plan of activities for recognising problems, searching for solutions, and handling exceptional circumstances. It also provides for the establishment of a system of liquidity management that ensures the maintenance of NLB Group's liquidity and protects the commercial interests of its customers and shareholders.

Liquidity risk management in NLB Group is decentralised under strict monitoring by NLB as a parent bank. Standardised reporting to NLB by all group members is done on a monthly basis. Global Risk gives guidelines and defines minimal standards for group members regarding liquidity risk management in NLB Group Risk Management Standards. Each group member is responsible for ensuring adequate liquidity via the necessary sources of funding and their appropriate diversification and maturity, and by managing liquidity reserves and fulfilling the requirements of regulations governing liquidity. The exposure of an individual NLB Group entity is regularly monitored and reported to the Assets and Liabilities Committee of NLB Group (NLB Group ALCO).

The objectives of monitoring and managing liquidity risk in NLB Group are as follows:  
ensuring a sufficient level of liquid assets;

- minimising the costs of maintaining liquidity;
  - optimising the amount of liquidity reserves;
  - ensuring an appropriate level of liquidity for different situations and stress scenarios; and
  - anticipating emergencies or crisis conditions, and implementing contingency plans in the event of extraordinary circumstances.
- preparing dynamic projections of liquidity taking several cash-flow scenarios into account;
- preparing proposals for establishing additional financial assets as collateral for sources of funding

### a) Managing NLB Group's liquidity reserves

NLB Group has liquidity reserves available to cover liabilities that fall or may become due. Liquidity reserves must become available on short notice following the realisation of a stress scenario (immediately, i.e. within one week). Liquidity reserves comprise cash, the settlement account at the central bank, sight deposits and short-term deposits at banks, debt securities and loans eligible as collateral for Eurosystem claims, on the basis of which the Bank may generate the requisite liquidity at any time. Available liquidity reserves are liquidity reserves decreased by the reserve requirement, required balances for the continuous performance of payment transactions, encumbered securities, and credit claims for different purposes (secured funding).

The structure of liquidity reserves is shown in the following table.

#### Structural liquidity reserves

in EUR thousand

	NLB Group		NLB	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
<b>Liquidity reserves</b>				
Cash, cash balances at central banks, and other demand deposits at banks	1,299,014	1,161,983	617,039	496,806
Placements with banks	433,883	427,195	387,599	315,016
Trading book securities	68,757	237,362	68,757	237,362
Banking book securities	2,695,297	2,621,843	2,223,551	2,138,061
ECB eligible loans	849,080	799,757	849,080	799,757
<b>Total liquid assets</b>	<b>5,346,031</b>	<b>5,248,140</b>	<b>4,146,026</b>	<b>3,987,002</b>
Encumbered liquid assets	489,775	588,333	161,786	345,398
Unencumbered liquid assets	4,856,256	4,659,807	3,984,240	3,641,604

As at 31 December 2016, 75.8% (31 December 2015: 87.5%) of debt securities in the banking book of NLB Group were government securities and 24.2% (31 December 2015: 12.5%) were bonds from financial organisations. On 15 December 2016, the second of the two GGB securities issued by BAMC in 2013 matured in the amount of EUR 309 million.

The purpose of banking book securities is to provide liquidity, along with stabilisation of the interest margin and interest rate risk management simultaneously. When managing the portfolio, NLB Group uses conservative principles, particularly with respect to the portfolio's structure in terms of issuers' ratings and asset class. The framework for managing the banking book securities are the Policy for managing debt securities in the Financial markets' banking book and the Policy for the management of domestic (Slovenian) corporate debt securities by the Large Corporate Division, which clearly define the objectives and characteristics of the associated portfolio.

The ECB-eligible credit claims comprise loans which fulfil the high eligibility criteria set by the ECB itself and for domestic loans are specified in the Resolution about general rules on Eurosystem monetary policy instruments and procedures (Chapter 4) adopted by the Bank of Slovenia. NLB is the only member of NLB Group that complies with the conditions set by the Eurosystem to classify as an eligible counterparty. This is why these ECB credit claims are included among liquidity reserves.

NLB has encumbered liquid assets for different purposes; the biggest proportion represents ECB-eligible loans and debt securities encumbered for secured funding at the ECB. Members of NLB Group manage their liquidity reserves on a decentralised basis in compliance with the local liquidity regulation and valid policies of NLB Group.

## b) Encumbered liquid assets

in EUR thousand

2016	NLB Group				NLB			
	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities
Loans on demand	-	-	1,038,402	-	-	-	488,520	-
Equity instruments	-	-	79,580	79,580	-	-	69,318	69,318
Debt securities	94,340	102,049	2,670,448	2,712,588	94,340	102,049	2,197,968	2,243,792
Loans and advances other than loans on demand	44,557	-	7,364,061	-	37,987	-	5,249,814	-
Other assets	-	-	747,623	-	-	-	640,019	-
<b>Total</b>	<b>138,897</b>		<b>11,900,114</b>		<b>132,327</b>		<b>8,645,639</b>	

in EUR thousand

2015	NLB Group				NLB			
	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities
Loans on demand	-	-	933,827	-	-	-	368,124	-
Equity instruments	-	-	82,314	82,314	-	-	75,335	75,335
Debt securities	158,700	166,533	2,701,258	2,755,369	158,700	166,533	2,216,723	2,270,834
Loans and advances other than loans on demand	169,180	-	7,025,737	-	169,180	-	5,051,110	-
Other assets	-	-	750,599	-	-	-	667,613	-
<b>Total</b>	<b>327,880</b>		<b>11,493,735</b>		<b>327,880</b>		<b>8,378,905</b>	

c) Collateral received - unencumbered

The nominal amount of collateral received or own debt securities issued not available for encumbrance is shown in the table below:

in EUR thousand

	NLB Group		NLB	
	2016	2015	2016	2015
Equity instruments	174,680	168,393	161,636	150,419
Debt securities	-	106	-	46
Loans and advances other than loans on demand	127,851	148,303	39,846	50,627
Other assets	7,380,987	8,016,021	3,755,558	4,222,727
<b>Total</b>	<b>7,683,518</b>	<b>8,332,823</b>	<b>3,957,040</b>	<b>4,423,819</b>

Neither NLB Group nor NLB has collateral received or own debt securities issued available for encumbrance.

d) Source of encumbrance

in EUR thousand

	NLB Group				NLB			
	2016		2015		2016		2015	
	Collateralised liability	Assets given as collateral						
Derivatives	35,755	37,987	32,519	29,087	35,755	37,987	32,519	29,087
Deposits and loans	5,099,974	94,340	4,899,112	298,793	5,099,974	94,340	4,899,112	298,793
Other securities of encumbrance	6,570	6,570	-	-	-	-	-	-
<b>Total</b>	<b>5,142,299</b>	<b>138,897</b>	<b>4,931,631</b>	<b>327,880</b>	<b>5,135,729</b>	<b>132,327</b>	<b>4,931,631</b>	<b>327,880</b>

As at 31 December 2016, NLB Group and NLB had a large share of unencumbered assets. On the NLB Group level the amount of encumbered assets equalled EUR 138.9 million, relating to the deposit guarantee scheme and to secure funding received from international financial organisations. Due to a very good liquidity position NLB repaid total secured funding in January 2017, therefore encumbered assets decreased even more.

The difference between encumbered liquidity reserves and encumbered assets is presented by a deposit placed as collateral for derivative instruments transactions in accordance with CSA contracts. This deposit does not constitute part of the liquidity reserves. Other sources of encumbrance also represent deposits placed as collateral for issued counter-guarantees.

## e) Non-derivative cash flows

The tables below illustrate the cash flows from non-derivative financial instruments by residual maturities at the end of the year. The amounts disclosed in the table are the undiscounted contractual cash flows determined on the basis of spot rates at the end of the reporting period.

in EUR thousand

31.12.2016	NLB Group					Total
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	
<b>Financial liabilities and credit-related commitments</b>						
Financial liabilities designated at fair value through profit or loss	-	-	1,457	554	-	2,011
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	41,947	167	-	222	-	42,336
- borrowings from banks and central banks	4,984	7,015	172,540	137,280	56,492	378,311
- due to customers	6,912,469	461,621	1,349,330	704,753	59,223	9,487,396
- borrowings from other customers	1,343	3,276	10,960	45,228	30,170	90,977
- debt securities in issue	-	-	282,348	-	-	282,348
- subordinated liabilities	-	532	2,193	23,569	12,013	38,307
- other financial liabilities	98,829	3,522	7,668	276	-	110,295
Credit risk related commitments	511,700	185,749	402,635	242,572	91,378	1,434,034
Non-financial guarantees	17,217	38,617	103,531	191,815	65,970	417,150
<b>Total</b>	<b>7,588,489</b>	<b>700,499</b>	<b>2,332,662</b>	<b>1,346,269</b>	<b>315,246</b>	<b>12,283,165</b>
<b>Total financial assets</b>	<b>2,422,252</b>	<b>744,482</b>	<b>2,308,621</b>	<b>4,488,567</b>	<b>2,782,468</b>	<b>12,746,390</b>

in EUR thousand

31.12.2015	NLB Group					Total
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	
<b>Financial liabilities and credit related commitments</b>						
Financial liabilities designated at fair value through profit or loss	-	1,390	1,460	2,062	-	4,912
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	57,046	-	738	214	-	57,998
- borrowings from banks and central banks	3,189	21,433	166,225	310,960	83,358	585,165
- due to customers	6,198,264	590,519	1,519,765	712,502	55,571	9,076,621
- borrowings from other customers	1,346	3,119	21,493	47,840	28,077	101,875
- debt securities in issue	-	-	35,409	282,986	-	318,395
- subordinated liabilities	-	597	1,524	17,772	18,341	38,234
- other financial liabilities	60,622	5,620	4,291	4,774	-	75,307
Credit risk related commitments	518,261	170,080	444,414	217,214	135,749	1,485,718
Non-financial guarantees	14,718	41,207	107,763	196,183	72,913	432,784
<b>Total</b>	<b>6,853,446</b>	<b>833,965</b>	<b>2,303,082</b>	<b>1,792,507</b>	<b>394,009</b>	<b>12,177,009</b>
<b>Total financial assets</b>	<b>2,446,251</b>	<b>554,541</b>	<b>2,538,232</b>	<b>4,358,254</b>	<b>2,610,207</b>	<b>12,507,485</b>

in EUR thousand

31.12.2016	NLB					Total
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	
<b>Financial liabilities and credit-related commitments</b>						
Financial liabilities designated at fair value through profit or loss	-	-	1,457	554	-	2,011
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	74,977	-	-	-	-	74,977
- borrowings from banks and central banks	3,173	5,211	161,423	118,333	55,868	344,008
- due to customers	5,205,105	314,863	780,567	270,662	55,392	6,626,589
- borrowings from other customers	-	-	-	4,265	9	4,274
- debt securities in issue	-	-	282,348	-	-	282,348
- other financial liabilities	65,854	2,930	-	-	-	68,784
Credit risk-related commitments	437,335	165,656	274,160	166,079	31,489	1,074,719
Non-financial guarantees	14,225	32,702	83,194	171,579	43,740	345,440
<b>Total</b>	<b>5,800,669</b>	<b>521,362</b>	<b>1,583,149</b>	<b>731,472</b>	<b>186,498</b>	<b>8,823,150</b>
<b>Total financial assets</b>	<b>1,250,372</b>	<b>534,380</b>	<b>1,614,007</b>	<b>3,317,296</b>	<b>2,248,475</b>	<b>8,964,530</b>

in EUR thousand

31.12.2015	NLB					Total
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	
<b>Financial liabilities and credit-related commitments</b>						
Financial liabilities designated at fair value through profit or loss	-	1,390	1,460	2,062	-	4,912
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	96,732	-	5	-	-	96,737
- borrowings from banks and central banks	173	19,361	151,090	279,229	81,949	531,802
- due to customers	4,640,241	412,545	912,190	298,736	47,663	6,311,375
- borrowings from other customers	-	-	10,019	6,149	10	16,178
- debt securities in issue	-	-	35,409	282,986	-	318,395
- other financial liabilities	42,098	5,248	-	-	-	47,346
Credit risk-related commitments	472,311	126,881	317,253	155,197	69,614	1,141,256
Non-financial guarantees	12,771	32,335	86,952	181,766	59,065	372,889
<b>Total</b>	<b>5,264,326</b>	<b>597,760</b>	<b>1,514,378</b>	<b>1,206,125</b>	<b>258,301</b>	<b>8,840,890</b>
<b>Total financial assets</b>	<b>1,291,636</b>	<b>349,793</b>	<b>1,872,826</b>	<b>3,350,224</b>	<b>2,048,505</b>	<b>8,912,984</b>

When determining the gap between the financial liabilities and financial assets in the maturity bucket of up to one month, it is necessary to take account of the fact that financial liabilities include total demand deposits, and that NLB may apply a stability weight of 60% to demand deposits when ensuring compliance with the central bank's regulations concerning calculation of the liquidity position. To ensure NLB Group's and NLB's liquidity, and based on its approach to risk, in previous years NLB Group compiled a substantial amount of high-quality liquid investments, mostly government securities and selected loans, which are accepted as adequate financial assets by the ECB.

Liabilities and credit-related commitments are included in maturity buckets based on their residual contractual maturity.

## f) An analysis of the statement of financial position by residual maturity

in EUR thousand

31.12.2016	NLB Group					Total
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	
Cash, cash balances at central banks, and other demand deposits at banks	1,299,014	-	-	-	-	1,299,014
Trading assets	19,226	49,085	9,168	10,220	-	87,699
Financial assets designated at fair value through profit or loss	3,949	-	-	734	2,011	6,694
Available-for-sale financial assets	200,080	243,215	454,698	735,882	438,278	2,072,153
Derivatives - hedge accounting	217	-	-	-	-	217
Loans and advances						-
- debt securities	-	-	1,891	-	83,424	85,315
- loans and advances to banks	115,030	42,157	276,758	1,592	-	435,537
- loans and advances to customers	682,223	301,455	1,372,325	2,858,422	1,697,642	6,912,067
- other financial assets	58,801	281	1,460	472	-	61,014
Held-to-maturity financial assets	4,471	63,056	17,200	297,206	229,516	611,449
Fair value changes of hedged in portfolio hedge of interest rate risk	164	-	-	180	334	678
Non-current assets classified as held for sale	-	-	4,263	-	-	4,263
Property and equipment	-	-	-	23,368	173,481	196,849
Investment property	-	-	-	43,999	39,664	83,663
Intangible assets	-	-	-	10,818	23,152	33,970
Investments in associates, and joint ventures	-	-	240	-	43,008	43,248
Current income tax assets	490	244	2,124	30	-	2,888
Deferred income tax assets	-	-	-	7,553	182	7,735
Other assets	40,419	655	23,257	27,314	2,913	94,558
<b>Total assets</b>	<b>2,424,084</b>	<b>700,148</b>	<b>2,163,384</b>	<b>4,017,790</b>	<b>2,733,605</b>	<b>12,039,011</b>
Trading liabilities	18,791	-	-	-	-	18,791
Financial liabilities designated at fair value through profit or loss			1,457	554		2,011
Derivatives - hedge accounting	29,024	-	-	-	-	29,024
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	41,947	165	-	222	-	42,334
- borrowings from banks and central banks	4,855	6,920	171,008	133,715	55,271	371,769
- due to customers	6,909,677	456,725	1,331,996	681,072	57,677	9,437,147
- borrowings from other customers	1,298	2,987	9,868	41,616	27,850	83,619
- debt securities in issue	-	-	277,726	-	-	277,726
- subordinated liabilities	-	166	177	16,938	9,864	27,145
- other financial liabilities	98,829	3,522	7,668	276	-	110,295
Provisions	912	827	35,886	62,474	815	100,914
Current income tax liabilities	1,522	284	1,340	-	-	3,146
Deferred income tax liabilities	-	-	-	614	113	727
Other liabilities	6,975	152	1,093	483	-	8,703
<b>Total liabilities</b>	<b>7,113,830</b>	<b>471,748</b>	<b>1,838,219</b>	<b>937,964</b>	<b>151,590</b>	<b>10,513,351</b>
Credit risk related commitments	476,421	114,272	273,914	173,064	64,082	1,101,753
Non-financial guarantees	17,217	38,617	103,531	191,815	65,969	417,149
<b>Total liabilities and credit-related commitments</b>	<b>7,607,468</b>	<b>624,637</b>	<b>2,215,664</b>	<b>1,302,843</b>	<b>281,641</b>	<b>12,032,253</b>

in EUR thousand

31.12.2015	NLB Group					Total
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	
Cash, cash balances at central banks, and other demand deposits at banks	1,161,983	-	-	-	-	1,161,983
Trading assets	39,191	32,940	194,278	994	10	267,413
Financial assets designated at fair value through profit or loss	1,929	-	-	753	4,913	7,595
Available-for-sale financial assets	209,965	105,128	293,249	750,640	378,209	1,737,191
Derivatives - hedge accounting	1,083	-	-	-	-	1,083
Loans and advances						
- debt securities	-	-	311,466	-	83,113	394,579
- loans and advances to banks	61,556	45,394	322,216	2,609	-	431,775
- loans and advances to customers	900,979	305,796	1,159,058	2,691,095	1,636,693	6,693,621
- other financial assets	52,531	705	822	15,463	-	69,521
Held-to-maturity financial assets	7,573	17,440	57,916	296,381	186,225	565,535
Fair value changes of hedged in portfolio hedge of interest rate risk	-	187	-	-	554	741
Non-current assets classified as held for sale	-	-	4,629	-	-	4,629
Property and equipment	-	-	-	20,835	186,895	207,730
Investment property	-	-	-	90,598	2,915	93,513
Intangible assets	-	-	-	12,819	26,508	39,327
Investments in associates, and joint ventures	-	-	-	294	39,402	39,696
Current income tax assets	423	475	31	-	-	929
Deferred income tax assets	-	-	4,876	4,524	-	9,400
Other assets	32,988	2,461	46,815	10,100	2,990	95,354
<b>Total assets</b>	<b>2,470,201</b>	<b>510,526</b>	<b>2,395,356</b>	<b>3,897,105</b>	<b>2,548,427</b>	<b>11,821,615</b>
Trading liabilities	29,920	-	-	-	-	29,920
Financial liabilities designated at fair value through profit or loss	-	1,390	1,460	2,062	-	4,912
Derivatives - hedge accounting	33,842	-	-	-	-	33,842
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	57,045	-	723	214	-	57,982
- borrowings from banks and central banks	3,050	21,047	163,144	303,381	80,407	571,029
- due to customers	6,194,532	584,268	1,497,562	690,395	53,909	9,020,666
- borrowings from other customers	1,303	3,020	21,124	46,828	27,992	100,267
- debt securities in issue	-	-	29,917	275,045	-	304,962
- subordinated liabilities	-	212	33	12,184	14,911	27,340
- other financial liabilities	60,622	5,620	4,291	4,774	-	75,307
Provisions	616	240	34,330	86,006	1,447	122,639
Current income tax liabilities	-	512	7,002	-	-	7,514
Deferred income tax liabilities	-	-	251	62	-	313
Other liabilities	11,234	480	1,750	1,075	-	14,539
<b>Total liabilities</b>	<b>6,392,164</b>	<b>616,789</b>	<b>1,761,587</b>	<b>1,422,026</b>	<b>178,666</b>	<b>10,371,232</b>
Credit risk-related commitments	518,261	170,080	444,414	217,214	135,749	1,485,718
Non-financial guarantees	14,718	41,207	107,763	196,183	72,913	432,784
<b>Total liabilities and credit-related commitments</b>	<b>6,925,143</b>	<b>828,076</b>	<b>2,313,764</b>	<b>1,835,423</b>	<b>387,328</b>	<b>12,289,734</b>

in EUR thousand

31.12.2016	NLB					Total
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	
Cash, cash balances at central banks, and other demand deposits at banks	617,039	-	-	-	-	617,039
Trading assets	19,220	49,085	9,168	10,220	-	87,693
Financial assets designated at fair value through profit or loss	-	-	-	-	2,011	2,011
Available-for-sale financial assets	27,709	195,730	371,601	569,219	429,835	1,594,094
Derivatives - hedge accounting	217	-	-	-	-	217
Loans and advances						
- debt securities	-	-	1,891	-	83,424	85,315
- loans and advances to banks	76,786	28,708	289,795	1,816	10,951	408,056
- loans and advances to customers	481,337	177,014	832,452	2,080,704	1,272,087	4,843,594
- other financial assets	35,400	29	492	230	-	36,151
Held-to-maturity financial assets	4,471	63,056	17,200	297,206	229,516	611,449
Fair value changes of hedged in portfolio hedge of interest rate risk	164	-	-	180	334	678
Non-current assets classified as held for sale	-	-	1,788	-	-	1,788
Property and equipment	-	-	-	16,588	73,908	90,496
Investment property	-	-	-	8,151	-	8,151
Intangible assets	-	-	-	9,883	13,462	23,345
Investments in subsidiaries, associates, and joint ventures	-	-	79	38,361	308,284	346,724
Current income tax assets	-	-	2,124	-	-	2,124
Deferred income tax assets	-	-	-	10,622	-	10,622
Other assets	3,423	-	4,996	-	-	8,419
<b>Total assets</b>	<b>1,265,766</b>	<b>513,622</b>	<b>1,531,586</b>	<b>3,043,180</b>	<b>2,423,812</b>	<b>8,777,966</b>
Trading liabilities	18,787	-	-	-	-	18,787
Financial liabilities designated at fair value through profit or loss	-	-	1,457	554	-	2,011
Derivatives - hedge accounting	29,024	-	-	-	-	29,024
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	74,977	-	-	-	-	74,977
- borrowings from banks and central banks	3,167	5,140	160,295	115,212	54,653	338,467
- due to customers	5,204,618	313,155	776,673	266,779	54,165	6,615,390
- borrowings from other customers	-	-	-	4,265	9	4,274
- debt securities in issue	-	-	277,726	-	-	277,726
- other financial liabilities	65,854	2,930	-	-	-	68,784
Provisions	166	475	25,730	53,175	-	79,546
Other liabilities	3,626	7	70	483	-	4,186
<b>Total liabilities</b>	<b>5,400,219</b>	<b>321,707</b>	<b>1,241,951</b>	<b>440,468</b>	<b>108,827</b>	<b>7,513,172</b>
Credit risk related commitments	437,335	165,656	274,160	166,079	31,489	1,074,719
Non-financial guarantees	14,225	32,702	83,194	171,579	43,740	345,440
<b>Total liabilities and credit related commitments</b>	<b>5,851,779</b>	<b>520,065</b>	<b>1,599,305</b>	<b>778,126</b>	<b>184,056</b>	<b>8,933,331</b>

in EUR thousand

31.12.2015	NLB					Total
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	
Cash, cash balances at central banks, and other demand deposits at banks	496,806	-	-	-	-	496,806
Trading assets	39,658	32,940	194,278	994	10	267,880
Financial assets designated at fair value through profit or loss	-	-	-	-	4,913	4,913
Available-for-sale financial assets	39,489	60,220	184,845	590,844	372,961	1,248,359
Derivatives - hedge accounting	1,083	-	-	-	-	1,083
Loans and advances						
- debt securities	-	-	311,466	-	83,113	394,579
- loans and advances to banks	19,645	21,290	283,551	9,790	10,931	345,207
- loans and advances to customers	677,932	195,689	726,807	2,057,805	1,167,906	4,826,139
- other financial assets	33,764	45	5	15,130	-	48,944
Held-to-maturity financial assets	7,573	17,440	57,916	296,381	186,225	565,535
Fair value changes of hedged in portfolio hedge of interest rate risk	-	187	-	-	554	741
Non-current assets classified as held for sale	-	-	1,776	-	-	1,776
Property and equipment	-	-	-	15,151	79,419	94,570
Investment property	-	-	-	8,613	-	8,613
Intangible assets	-	-	-	11,681	17,946	29,627
Investments in subsidiaries, associates, and joint ventures	-	-	-	34,420	318,675	353,095
Deferred income tax assets	-	-	4,692	4,447	-	9,139
Other assets	6,017	-	3,762	-	-	9,779
<b>Total assets</b>	<b>1,321,967</b>	<b>327,811</b>	<b>1,769,098</b>	<b>3,045,256</b>	<b>2,242,653</b>	<b>8,706,785</b>
Trading liabilities	29,909	-	-	-	-	29,909
Financial liabilities designated at fair value through profit or loss	-	1,390	1,460	2,062	-	4,912
Derivatives - hedge accounting	33,842	-	-	-	-	33,842
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	96,731	-	5	-	-	96,736
- borrowings from banks and central banks	166	19,194	148,818	272,736	79,012	519,926
- due to customers	4,639,535	410,150	904,687	292,564	46,403	6,293,339
- borrowings from other customers	-	-	10,009	6,149	10	16,168
- debt securities in issue	-	-	29,917	275,045	-	304,962
- other financial liabilities	42,098	5,248	-	-	-	47,346
Provisions	-	-	27,494	77,643	-	105,137
Current income tax liabilities	-	-	6,681	-	-	6,681
Other liabilities	3,989	78	570	1,039	-	5,676
<b>Total liabilities</b>	<b>4,846,270</b>	<b>436,060</b>	<b>1,129,641</b>	<b>927,238</b>	<b>125,425</b>	<b>7,464,634</b>
Credit risk-related commitments	472,311	126,881	317,253	155,197	69,614	1,141,256
Non-financial guarantees	12,771	32,335	86,952	181,766	59,065	372,889
<b>Total liabilities and credit-related commitments</b>	<b>5,331,352</b>	<b>595,276</b>	<b>1,533,846</b>	<b>1,264,201</b>	<b>254,104</b>	<b>8,978,779</b>

## g) Derivative cash flows

The table below illustrates cash flows from derivatives, broken down into the relevant maturity buckets based on residual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows prepared on the basis of spot rates on the reporting date.

in EUR thousand

31.12.2016	NLB Group					Total
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	
<b>Foreign exchange derivatives</b>						
- Forwards						
- Outflow	(118,175)	(11,542)	(70,553)	-	-	(200,270)
- Inflow	118,256	11,541	70,625	-	-	200,422
- Swaps						
- Outflow	(52,543)	(3,205)	(1,329)	-	-	(57,077)
- Inflow	52,656	3,202	1,330	-	-	57,188
- Futures						
- Outflow	(2,386)	-	-	-	-	(2,386)
- Inflow	2,400	-	-	-	-	2,400
<b>Interest rate derivatives</b>						
- Interest rate swaps and cross-currency swaps						
- Outflow	(809)	(1,411)	(9,409)	(29,866)	(18,562)	(60,057)
- Inflow	348	957	6,205	13,729	10,018	31,257
<b>Total outflow</b>	<b>(173,913)</b>	<b>(16,158)</b>	<b>(81,291)</b>	<b>(29,866)</b>	<b>(18,562)</b>	<b>(319,790)</b>
<b>Total inflow</b>	<b>173,660</b>	<b>15,700</b>	<b>78,160</b>	<b>13,729</b>	<b>10,018</b>	<b>291,267</b>

in EUR thousand

31.12.2015	NLB Group					Total
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	
<b>Foreign exchange derivatives</b>						
- Forwards						
- Outflow	(38,548)	(42,424)	(45,561)	-	-	(126,533)
- Inflow	38,572	42,477	45,610	-	-	126,659
- Swaps						
- Outflow	(67,211)	(25,255)	(1,156)	-	-	(93,622)
- Inflow	67,157	25,256	1,157	-	-	93,570
- Options						
- Outflow	(1,833)	(5,515)	-	-	-	(7,348)
- Inflow	1,833	5,260	-	-	-	7,093
- Futures						
- Outflow	-	(2,518)	-	-	-	(2,518)
- Inflow	-	2,500	-	-	-	2,500
<b>Interest rate derivatives</b>						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,469)	(1,412)	(32,516)	(44,167)	(35,015)	(114,579)
- Inflow	474	923	27,624	27,686	24,198	80,905
<b>Total outflow</b>	<b>(109,061)</b>	<b>(77,124)</b>	<b>(79,233)</b>	<b>(44,167)</b>	<b>(35,015)</b>	<b>(344,600)</b>
<b>Total inflow</b>	<b>108,036</b>	<b>76,416</b>	<b>74,391</b>	<b>27,686</b>	<b>24,198</b>	<b>310,727</b>

in EUR thousand

31.12.2016	NLB					Total
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	
<b>Foreign exchange derivatives</b>						
- Forwards						
- Outflow	(116,500)	(11,542)	(70,553)	-	-	(198,595)
- Inflow	116,581	11,541	70,625	-	-	198,747
- Swaps						
- Outflow	(52,543)	(3,205)	(1,329)	-	-	(57,077)
- Inflow	52,656	3,202	1,330	-	-	57,188
- Futures						
- Outflow	(2,386)	-	-	-	-	(2,386)
- Inflow	2,400	-	-	-	-	2,400
<b>Interest rate derivatives</b>						
- Interest rate swaps and cross-currency swaps						
- Outflow	(809)	(1,411)	(9,409)	(29,866)	(18,562)	(60,057)
- Inflow	349	957	6,205	13,729	10,018	31,258
<b>Total outflow</b>	<b>(172,238)</b>	<b>(16,158)</b>	<b>(81,291)</b>	<b>(29,866)</b>	<b>(18,562)</b>	<b>(318,115)</b>
<b>Total inflow</b>	<b>171,986</b>	<b>15,700</b>	<b>78,160</b>	<b>13,729</b>	<b>10,018</b>	<b>289,593</b>

in EUR thousand

31.12.2015	NLB					Total
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	
<b>Foreign exchange derivatives</b>						
- Forwards						
- Outflow	(37,951)	(42,944)	(45,558)	-	-	(126,453)
- Inflow	37,972	42,999	45,610	-	-	126,581
- Swaps						
- Outflow	(67,211)	(25,255)	(1,156)	-	-	(93,622)
- Inflow	67,157	25,256	1,156	-	-	93,569
- Options						
- Outflow	(1,833)	(5,515)	-	-	-	(7,348)
- Inflow	1,833	5,260	-	-	-	7,093
- Futures						
- Outflow	-	(2,518)	-	-	-	(2,518)
- Inflow	-	2,500	-	-	-	2,500
<b>Interest rate derivatives</b>						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,469)	(1,412)	(32,516)	(44,178)	(35,069)	(114,644)
- Inflow	483	943	27,707	28,010	24,368	81,511
<b>Total outflow</b>	<b>(108,464)</b>	<b>(77,644)</b>	<b>(79,230)</b>	<b>(44,178)</b>	<b>(35,069)</b>	<b>(344,585)</b>
<b>Total inflow</b>	<b>107,445</b>	<b>76,958</b>	<b>74,473</b>	<b>28,010</b>	<b>24,368</b>	<b>311,254</b>

#### 7.4. Information regarding the quality of debt securities

The portfolio of debt securities in the banking book is intended to provide liquidity and manage NLB Group's interest rate risk.

When managing the portfolio, NLB Group uses conservative principles, particularly with respect to issuers' ratings and the maturity of the portfolio.

##### a) Geographical analysis of the debt securities portfolio in the banking book

in EUR thousand

Country	NLB Group				NLB			
	31.12.2016		31.12.2015		31.12.2016		31.12.2015	
	Carrying value	in %						
Austria	70,487	2.6	90,506	3.5	70,487	3.2	90,506	4.3
France	198,047	7.3	100,718	3.9	198,047	8.9	100,615	4.7
Germany	243,891	9.0	214,447	8.2	243,891	11.0	214,447	10.0
Netherlands	128,543	4.8	109,533	4.2	128,543	5.8	109,533	5.1
Belgium	61,542	2.3	61,581	2.4	61,542	2.8	58,914	2.8
Slovenia	1,044,751	38.8	1,248,999	47.6	980,357	44.1	1,202,003	56.2
Macedonia	159,995	5.9	172,807	6.6	-	-	-	-
Serbia	54,566	2.0	81,110	3.1	-	-	-	-
Other	733,475	27.2	542,142	20.6	540,684	24.3	362,043	16.9
<b>Total</b>	<b>2,695,297</b>	<b>100.0</b>	<b>2,621,843</b>	<b>100.0</b>	<b>2,223,551</b>	<b>100.0</b>	<b>2,138,061</b>	<b>100.0</b>

\*The analysis includes all debt securities in the banking book regardless of their measurement category (note 7.1.t).

##### b) Structure of the banking book according to the Fitch credit rating agency

in EUR thousand

Rating	NLB Group				NLB			
	31.12.2016		31.12.2015		31.12.2016		31.12.2015	
	Carrying value	in %						
AAA	271,157	10.1	349,987	13.3	271,157	12.2	349,987	16.4
AA	349,839	13.0	249,074	9.5	349,839	15.7	245,718	11.5
A	1,455,401	54.0	232,667	8.9	1,455,401	65.5	232,667	10.9
BBB	138,366	5.1	1,278,201	48.7	132,254	5.9	1,271,873	59.5
Other	480,534	17.8	511,914	19.5	14,900	0.7	37,816	1.7
<b>Total</b>	<b>2,695,297</b>	<b>100.0</b>	<b>2,621,843</b>	<b>100.0</b>	<b>2,223,551</b>	<b>100.0</b>	<b>2,138,061</b>	<b>100.0</b>

## c) Structure of the trading book according to the Fitch credit rating agency

	31.12.2016	31.12.2015
NLB Group and NLB	in %	in %
<b>Rating</b>		
A	72.3	36.7
BBB	-	36.3
Other	27.7	27.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

**7.5. Management of non-financial risks****a) Operational risk**

When assuming operational risks, NLB Group follows the guideline that such risks may not materially impact its operations and, therefore, the risk appetite for operational risks is low to moderate. Currently, the complexity of NLB Group operations is on a moderate level, although it is constantly reducing through the divestment of non-core activities. The Group has set up a system of collecting loss events, identification, assessment, and management of operational risks, all with the aim of ensuring quality management of operational risks.

All core members of NLB Group monitor the upper limit of tolerance to operational risk, defined as the limit amount of net loss that an individual member still allows in its operations. If the sum of net loss exceeds the tolerance limit, a special treatment of major loss events is required and, if necessary, taking of additional measures for the prevention of the same or similar loss events. The critical limit of loss events is also defined, representing the limit above which the member considers a possible increase in the capital requirement for operational risk within ICAAP and other possible risk management measures. The key risk indicators are regularly monitored (at least quarterly) within NLB Group's Risk Profile. In addition, the Bank has developed special methodology for monitoring key risk indicators, which could indicate increasing of operational risk. Indicators are defined at the level of the Bank.

As the highest authority in the area of operational risk management, NLB appointed an Operational Risk Committee. Relevant operational risk committees were also appointed at other NLB Group banks. The management board serves in this role at other subsidiaries. The main task of the aforementioned bodies is to discuss the most significant operational risks and loss events, and to monitor and support the effective management of operational risks within an individual entity. All NLB Group entities included in the consolidation have adopted relevant documents that are in line with NLB standards. In core members, these documents are in line with the development of operational risk management and regularly updated. The whole NLB Group uses uniform software support, which is also regularly upgraded.

In NLB Group, the reported incurred net loss arising from loss events in 2016 was considerably lower than in the previous year, and represents a relatively small part of the capital requirement for operational risk. In general, considerable attention is paid to reporting loss events and defining operational risks in all segments. To treat major loss events appropriately and as soon as possible, the Bank has introduced an escalation scale for reporting loss events to the top levels of decision-making at NLB and the Supervisory Board of NLB. Additional attention is paid to the reporting of potential loss events in order to improve the internal controls, and thus minimise those and similar events.

Through comprehensive identification of operational risks, possible future losses are identified, estimated, and appropriately managed. The major operational risks are actively managed with the measures taken to reduce them. An operational risk profile is prepared once a year on the basis of the operational risk identification. Special emphasis is put on the most topical risks, among which in particular are those with a low probability of occurrence and very high potential financial influence. For this purpose the Bank has developed the methodology of stress testing for operational risk. The methodology is a combination of modelling loss event data and scenario analysis for exceptional, but plausible events. Scenario analysis will be made based on experience and knowledge of experts from various critical areas.

The capital requirement for operational risk is calculated using the basic indicator approach at NLB Group and using the standardised approach at the NLB level.

### b) Business Continuity Management (BCM)

In NLB Group, business continuity management is carried out to protect lives, goods, and reputation. Business continuity plans are prepared to be used in the event of natural disasters, IT disasters, and undesired effects of the environment to mitigate their consequences.

The concept of the action plan, prepared each year, is such that the activities contribute to the upgrading or improvement of the system of business continuity management. The basis for modernising the business continuity plans is the regular annual analysis of the impact on operations (BIA). On its basis, the adequacy of the plans for office buildings and IT plans is checked. The best indicator of the adequacy of the business continuity plans is testing. In 2016, 44 tests were carried out at NLB (37 internal ones and 7 with external business partners). No major deviations were discovered.

In NLB Group, know-how and methodologies are transferred to the members (except small members). The members have adopted appropriate documents which are in line with the standards of NLB and revised in accordance with the development of business continuity management. The activity of the members is monitored throughout the year, and expert assistance is provided if necessary. For more efficient functioning of the business continuity management system in NLB Group, training courses and visits to individual banking members are also provided. In 2016, NLB thus carried out e-education for all NLB employees, a training course for members of the Crisis Management Team and the Crisis Teams of office buildings. Upon IT disasters/failures, the Bank successfully used the IT plans and instructions for manual procedures, and thus also ensured business operations in emergency situations.

### c) Management of other types of non-financial risks – capital risk, strategic risks, reputation risk and profitability risk

Risks not included in the calculation of capital requirements by the regulatory approach but which are also important for NLB Group are adequately discussed in the context of the internal capital adequacy assessment process (ICAAP). NLB has established the relevant methodologies for identifying and assessing specific types of risk (capital, strategic, reputation and profitability risk); the methodologies are subject to regular review. The calculation of internal capital requirements for non-financial risks is made quarterly at NLB Group level. If a certain risk is assessed as a key risk, capital requirements are created. Individual capital requirements for non-financial risks are calculated by certain NLB Group banks in accordance with their national regulations. Significant and material changes in the calculation of capital requirements for individual NLB Group entities could discretionarily result in an increase in relevant capital requirements at NLB Group level.

## 7.6. Fair value hierarchy of financial and non-financial assets and liabilities

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

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

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

availability of observable market inputs associated with the asset or liability that is the subject of the valuation. Unobservable inputs shall reflect the estimates and assumptions that other market participants would use when pricing the asset or liability.

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

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

in EUR thousand

31.12.2016	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
<b>Financial assets</b>								
Financial instruments held for trading	49,747	37,547	405	87,699	49,747	37,541	405	87,693
<i>Debt instruments</i>	49,747	19,010	-	68,757	49,747	19,010	-	68,757
<i>Derivatives</i>	-	18,537	405	18,942	-	18,531	405	18,936
Derivatives - hedge accounting	-	217	-	217	-	217	-	217
Financial assets designated at fair value through profit or loss	6,694	-	-	6,694	2,011	-	-	2,011
<i>Debt instruments</i>	734	-	-	734	-	-	-	-
<i>Equity instruments</i>	5,960	-	-	5,960	2,011	-	-	2,011
Financial assets available-for-sale	1,648,721	417,527	5,903	2,072,151	1,330,150	262,134	1,810	1,594,094
<i>Debt instruments</i>	1,627,608	370,924	-	1,998,532	1,309,223	217,564	-	1,526,787
<i>Equity instruments</i>	21,113	46,603	5,903	73,619	20,927	44,570	1,810	67,307
<b>Financial liabilities</b>								
Financial instruments held for trading	-	18,791	-	18,791	-	18,787	-	18,787
<i>Derivatives</i>	-	18,791	-	18,791	-	18,787	-	18,787
Derivatives - hedge accounting	-	29,024	-	29,024	-	29,024	-	29,024
Financial liabilities designated at fair value through profit or loss	-	2,011	-	2,011	-	2,011	-	2,011
<b>Non-financial assets</b>								
Investment properties	-	83,662	-	83,662	-	8,151	-	8,151
Non-current assets classified as held for sale	-	4,263	-	4,263	-	1,788	-	1,788
<b>Non-financial assets impaired during the year</b>								
Recoverable amount of property, plant, and equipment	-	4,762	-	4,762	-	967	-	967
Recoverable amount of investments in subsidiaries, associates, and joint ventures	-	-	-	-	-	16,663	20,198	36,861

in EUR thousand

31.12.2015	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
<b>Financial assets</b>								
Financial instruments held for trading	85,208	181,098	1,107	267,413	85,208	181,565	1,107	267,880
<i>Debt instruments</i>	85,198	151,171	993	237,362	85,198	151,171	993	237,362
<i>Equity instruments</i>	10	-	-	10	10	-	-	10
<i>Derivatives</i>	-	29,927	114	30,041	-	30,394	114	30,508
Derivatives - hedge accounting	-	1,083	-	1,083	-	1,083	-	1,083
Financial assets designated at fair value through profit or loss	7,595	-	-	7,595	4,913	-	-	4,913
<i>Debt instruments</i>	753	-	-	753	-	-	-	-
<i>Equity instruments</i>	6,842	-	-	6,842	4,913	-	-	4,913
Financial assets available-for-sale	1,344,175	383,056	9,960	1,737,191	1,037,876	203,609	6,874	1,248,359
<i>Debt instruments</i>	1,324,978	336,751	-	1,661,729	1,018,857	159,090	-	1,177,947
<i>Equity instruments</i>	19,197	46,305	9,960	75,462	19,019	44,519	6,874	70,412
<b>Financial liabilities</b>								
Financial instruments held for trading	-	29,920	-	29,920	-	29,909	-	29,909
<i>Derivatives</i>	-	29,920	-	29,920	-	29,909	-	29,909
Derivatives - hedge accounting	-	33,842	-	33,842	-	33,842	-	33,842
Financial liabilities designated at fair value through profit or loss	-	4,912	-	4,912	-	4,912	-	4,912
<b>Non-financial assets</b>								
Investment properties	-	93,513	-	93,513	-	8,613	-	8,613
Non-current assets classified as held for sale	-	4,629	-	4,629	-	1,776	-	1,776
<b>Non-financial assets impaired during the year</b>								
Recoverable amount of property, plant, and equipment	-	13,296	-	13,296	-	-	-	-
Recoverable amount of investments in subsidiaries, associates, and joint ventures	-	-	-	-	-	23,146	11,273	34,419

**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	Fixed income	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 in level 1)	valuation model	valuation model
3	valuation model	valuation model	valuation model	valuation model	valuation model (underlying in level 3)		
<b>Transfers</b>	from level 1 to level 3		from level 1 to level 3	from level 1 to level 2	from level 2 to level 3		
	equity excluded from exchange market		fund management stops publishing regular valuation	fixed income excluded from exchange market	underlying excluded from exchange market		
	from level 1 to level 3		from level 3 to level 1	from level 1 to level 2	from level 3 to level 2		
	companies in insolvency proceedings		fund management starts publishing regular valuation	fixed income not liquid (no trading for 6 months)	underlying included into exchange market		
	from level 3 to level 1			from level 1 to level 3 and from level 2 to level 3			
	equity included to exchange market			companies in insolvency proceedings			
				from level 2 to level 1 and from level 3 to level 1			
				start trading with fixed income on exchange market			
				from level 3 to level 2			
				until valuation parameters are confirmed on ALCO (at least on quarterly basis)			

For 2016 and 2015, neither NLB Group nor NLB had any significant transfers of financial instruments between levels of valuation.

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

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

- debt securities: bonds not quoted on active markets and valued by a 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 the risk premium to account for capital preservation are used. Rents at similar locations are generated from various sources, like data from lessors and lessees, web databases, and own databases. NLB Group has observable data for all investment property at its disposal. If observable data for similar locations are not available, NLB Group uses data from wider locations and appropriately adjusts such data.

Non-current assets held for sale represent property, plant, and equipment that are measured at fair value less costs to sell because it 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: mainly Slovenian corporate and financial equities that are not quoted on active markets; and
- derivative financial instruments: forward derivatives and options on equity instruments that are not quoted on an active organised market.

Fair values for forward derivatives are determined using the discounted cash flow model. Fair values for equity options are determined using valuation models for options (Garman and Kohlhagen model, binomial model and Black-Scholes model). Unobservable inputs include the fair values of underlying instruments determined using valuation models. The source of observable market inputs is the Reuters information system.

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

The most commonly used valuation technique is the income approach. The income approach is based on an estimation of future cash flows discounted to the present value. One of the key elements of the valuation is the projection of the cash flows the company is able to generate in the future. Based on that, the projection of the future cash flow is generated. The key variables that affect the amount of cash flows, and thus the estimated fair value of the financial asset also include an assumption regarding the long-term EBITDA margin. A discount rate that is appropriate for the risks associated with the realisation of these benefits is used to discount cash flows. The discount rate is determined as the weighted average cost of capital. A forecast of future cash flows and a calculation of the weighted average cost of capital is prepared for an accurate forecasting period (usually 10 years from the date of the prediction value), and for a period following the period of accurate forecasting. Assumptions of long-term stable growth in the amount of 2.5% 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 at Level 3

in EUR thousand

NLB Group	Financial instruments held for trading		Financial assets available-for-sale	Total financial assets	Financial liabilities held for trading
	Debt instruments	Derivatives	Equity instruments		Derivatives
<b>Balance as at 1 January 2015</b>	<b>892</b>	<b>120</b>	<b>6,742</b>	<b>7,754</b>	<b>4,171</b>
Exchange differences	101	-	(32)	69	-
Disposal of subsidiary	-	-	(48)	(48)	-
Valuation:					
- through profit or loss	-	(6)	(4,732)	(4,738)	87
- recognised in other comprehensive income	-	-	3,584	3,584	-
Increases	-	-	4,357	4,357	-
Decreases	-	-	(22)	(22)	(4,258)
Transfer out of level 3	-	-	111	111	-
<b>Balance as at 31 December 2015</b>	<b>993</b>	<b>114</b>	<b>9,960</b>	<b>11,067</b>	<b>-</b>
Exchange differences	(37)	-	29	(8)	-
Valuation:					
- through profit or loss	-	291	(178)	113	-
- recognised in other comprehensive income	-	-	1,431	1,431	-
Increases	-	-	1,066	1,066	-
Decreases	(956)	-	(6,405)	(7,361)	-
<b>Balance as at 31 December 2016</b>	<b>-</b>	<b>405</b>	<b>5,903</b>	<b>6,308</b>	<b>-</b>

in EUR thousand

NLB	Financial instruments held for trading		Financial assets available-for-sale	Total financial assets	Financial liabilities held for trading
	Debt instruments	Derivatives	Equity instruments		Derivatives
<b>Balance as at 1 January 2015</b>	<b>892</b>	<b>120</b>	<b>5,925</b>	<b>6,937</b>	<b>4,171</b>
Exchange differences	101	-	-	101	-
Valuation:					
- through profit or loss	-	(6)	(2,705)	(2,711)	87
- recognised in other comprehensive income	-	-	3,676	3,676	-
Decreases	-	-	(22)	(22)	(4,258)
<b>Balance as at 31 December 2015</b>	<b>993</b>	<b>114</b>	<b>6,874</b>	<b>7,981</b>	<b>-</b>
Exchange differences	(37)	-	-	(37)	-
Valuation:					
- through profit or loss	-	291	(178)	113	-
- recognised in other comprehensive income	-	-	453	453	-
Increases	-	-	1,066	1,066	-
Decreases	(956)	-	(6,405)	(7,361)	-
<b>Balance as at 31 December 2016</b>	<b>-</b>	<b>405</b>	<b>1,810</b>	<b>2,215</b>	<b>-</b>

NLB Group and NLB recognise the effects from the valuation of trading instruments in the income statement item 'Gains Less Losses from Financial Assets and Liabilities not classified at Fair Value through Profit or Loss' and exchange differences recognised in the income statement item 'Foreign Exchange Translation Gains Less Losses.' Effects from the valuation of available-for-sale financial assets are recognised in the income statement item 'Impairment Charge' and in the accumulated other comprehensive income item 'Available-for-sale Financial Assets.'

In 2016, NLB Group and NLB recognised the following unrealised gains or losses for financial instruments that were at Level 3 as at 31 December 2016:

31.12.2016	in EUR thousand			
	NLB Group		NLB	
	Trading assets	Available-for-sale financial assets	Trading assets	Available-for-sale financial assets
<b>Items of Income statement</b>				
Gains/(losses) from financial assets and liabilities held for trading	291	-	291	-
Impairment charge	-	178	-	178
<b>Item of Other comprehensive income</b>				
Available-for-sale financial assets	-	1,364	-	386

31.12.2015	in EUR thousand			
	NLB Group		NLB	
	Trading assets	Available-for-sale financial assets	Trading assets	Available-for-sale financial assets
<b>Items of Income statement</b>				
Gains/(losses) from financial assets and liabilities held for trading	(6)	-	(6)	-
Impairment charge	-	4,732	-	2,705
Foreign exchange translation gains/(losses)	101	-	101	-
<b>Item of Other comprehensive income</b>				
Available-for-sale financial assets	-	3,584	-	3,676

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

in EUR thousand

	NLB Group				NLB			
	31.12.2016		31.12.2015		31.12.2016		31.12.2015	
	Carrying value	Fair value						
Loans and advances								
- debt securities	85,315	78,953	394,579	397,079	85,315	78,953	394,579	397,079
- loans and advances to banks	435,537	434,958	431,775	431,736	408,056	415,771	345,207	354,369
- loans and advances to customers	6,912,067	6,962,419	6,693,621	6,685,798	4,843,594	4,884,828	4,826,139	4,838,561
- other financial assets	61,014	61,014	69,521	69,521	36,151	36,151	48,944	48,944
Held-to-maturity investments	611,449	671,344	565,535	624,977	611,449	671,344	565,535	624,977
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	42,334	42,314	57,982	58,008	74,977	74,977	96,736	96,736
- borrowings from banks and central banks	371,769	377,037	571,029	566,144	338,467	348,331	519,926	513,719
- due to customers	9,437,147	9,461,925	9,020,666	9,036,023	6,615,390	6,626,851	6,293,339	6,299,181
- borrowings from other customers	83,619	83,851	100,267	101,197	4,274	4,258	16,168	15,783
- debt securities in issue	277,726	280,278	304,962	308,989	277,726	280,278	304,962	308,989
- subordinated liabilities	27,145	28,777	27,340	27,585	-	-	-	-
- other financial liabilities	110,295	110,295	75,307	75,307	68,784	68,784	47,346	47,346

*Loans and advances to banks*

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

*Loans and advances to customers*

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

*Deposits and borrowings*

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

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

*Held-to-maturity financial assets and issued debt securities*

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

*Other financial assets and liabilities*

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

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

in EUR thousand

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

in EUR thousand

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

### 7.7. Offsetting financial assets and financial liabilities

NLB Group has entered into foreign exchange netting arrangements with certain banks and companies. Cash flows from all FX derivatives with counterparties that are due on the same day are settled on a net basis, i.e. a single cash flow for each currency. Assets and liabilities related to these FX netting arrangements are not presented in a net amount in the statement of financial position because netting rules apply to cash flows and not to an instrument as a whole.

In accordance with the European Market Infrastructure Regulation (EMIR), NLB Group also novated certain standardised derivative financial instruments to a central counterparty in 2013. A system of daily margins assures the mitigation and collateralisation of exposures, as well as the daily settlement of cash flows for each currency.

in EUR thousand

NLB Group				
Amounts not set-off on the statement of financial position				
31.12.2016				
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	18,746	5,335	300	13,111
Derivatives - liabilities	39,663	5,335	31,180	3,148

in EUR thousand

NLB Group				
Amounts not set-off on the statement of financial position				
31.12.2015				
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	29,918	10,100	7,844	11,974
Derivatives - liabilities	47,454	10,100	22,882	14,472

in EUR thousand

NLB				
Amounts not set-off on the statement of financial position				
31.12.2016				
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	18,746	5,335	300	13,111
Derivatives - liabilities	39,663	5,335	31,180	3,148

in EUR thousand

NLB				
Amounts not set-off on the statement of financial position				
31.12.2015				
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	30,385	10,100	7,844	12,441
Derivatives - liabilities	47,454	10,100	22,881	14,473

NLB Group and NLB have no financial assets/liabilities set off in the statement of financial position.

## 8. Analysis by segment for NLB Group

## a) Segments

in EUR thousand

2016	NLB Group							Unallocated	Total
	Corporate banking in Slovenia	Retail banking in Slovenia	Financial markets in Slovenia	Foreign strategic markets	Non-core markets and activities	Other activities			
Total net income	76,768	137,757	50,171	179,370	26,293	9,415	-	479,774	
<i>Net income from external customers</i>	85,060	130,120	43,997	180,629	26,173	9,765	-	475,744	
<i>Intersegment net income</i>	(8,292)	7,637	6,174	(1,259)	120	(350)	-	4,030	
Net interest income	45,891	71,222	48,536	136,909	15,404	(657)	-	317,305	
<i>Net interest income from external customers</i>	54,183	63,918	42,416	139,240	17,854	(306)	-	317,305	
<i>Intersegment net interest income</i>	(8,292)	7,304	6,120	(2,331)	(2,450)	(351)	-	-	
Administrative expenses	(40,159)	(90,794)	(11,118)	(87,477)	(21,884)	(13,758)	-	(265,190)	
Depreciation and amortisation	(4,394)	(10,350)	(1,036)	(8,013)	(2,290)	(2,262)	-	(28,345)	
Reportable segment profit/(loss) before impairment and provision charge	32,214	36,612	38,017	83,880	2,119	(6,604)	-	186,238	
Other net gains/(losses) from equity investments in subsidiaries, associates and joint ventures	-	5,159	-	-	(153)	-	-	5,006	
Impairment and provisions charge	(2,680)	(10,245)	53	(16,290)	(20,857)	(10,626)	-	(60,645)	
Profit/(loss) before income tax	29,534	31,527	38,070	67,590	(18,891)	(17,230)	-	130,600	
<i>Owners of the parent</i>	29,534	31,527	38,070	61,982	(18,891)	(17,230)	-	124,992	
<i>Non-controlling interests</i>	-	-	-	5,608	-	-	-	5,608	
Income tax	-	-	-	-	-	-	(14,975)	(14,975)	
<b>Profit for the year</b>								<b>110,017</b>	
Reportable segment assets	2,338,698	2,074,736	3,375,667	3,540,474	502,610	163,578	-	11,995,763	
Investments in associates and joint ventures	-	43,248	-	-	-	-	-	43,248	
Reportable segment liabilities	1,198,058	5,229,761	907,159	3,038,921	57,935	81,517	-	10,513,351	
Additions to non-current assets	2,305	7,286	363	7,882	2,928	463	-	21,227	

in EUR thousand

2015	NLB Group							Unallocated	Total
	Corporate banking in Slovenia	Retail banking in Slovenia	Financial markets in Slovenia	Foreign strategic markets	Non-core markets and activities	Other activities			
Total net income	85,149	150,746	72,909	165,946	10,025	2,526	-	487,301	
<i>Net income from external customers</i>	95,627	136,337	65,944	168,818	13,853	2,812	-	483,391	
<i>Intersegment net income</i>	(10,478)	14,409	6,965	(2,872)	(3,828)	(286)	-	3,910	
Net interest income	55,783	78,253	60,192	125,208	21,579	(813)	-	340,202	
<i>Net interest income from external customers</i>	66,261	59,210	57,583	128,858	28,816	(527)	-	340,202	
<i>Intersegment net interest income</i>	(10,478)	19,043	2,608	(3,650)	(7,237)	(286)	-	-	
Administrative expenses	(39,211)	(94,818)	(11,068)	(85,396)	(26,404)	(12,997)	-	(269,894)	
Depreciation and amortisation	(4,833)	(11,934)	(1,192)	(8,036)	(3,423)	(2,438)	-	(31,856)	
Reportable segment profit/(loss) before impairment and provision charge	41,105	43,994	60,649	72,514	(19,802)	(12,909)	-	185,551	
Other net gains/(losses) from equity investments in subsidiaries, associates and joint ventures	-	4,486	-	-	(174)	-	-	4,312	
Impairment and provisions charge	10,351	(9,795)	218	(27,807)	(50,103)	(5,969)	-	(83,105)	
Profit/(loss) before income tax	51,456	38,685	60,867	44,707	(70,079)	(18,878)	-	106,758	
<i>Owners of the parent</i>	51,456	38,685	60,867	41,243	(70,079)	(18,878)	-	103,294	
<i>Non-controlling interests</i>	-	-	-	3,464	-	-	-	3,464	
Income tax	-	-	-	-	-	-	(11,380)	(11,380)	
<b>Profit for the year</b>								<b>91,914</b>	
Reportable segment assets	2,160,440	2,015,459	3,350,804	3,389,032	752,137	114,047	-	11,781,919	
Investments in associates and joint ventures	-	39,696	-	-	-	-	-	39,696	
Reportable segment liabilities	1,193,660	4,906,699	1,139,738	2,942,463	114,111	74,561	-	10,371,232	
Additions to non-current assets	4,673	12,127	762	10,129	8,747	4,104	-	40,541	

Segment reporting is presented in accordance with the strategy on the basis of the organisational structure used in management reporting of NLB Group's results.

NLB Group's segments are business units that focus on different customers and markets. They are managed separately because each business unit requires different strategies and service levels.

Other NLB Group members are, based on their business activity, included in only one segment. The business activities of NLB are divided into several segments. Interest income is reallocated between segments on the basis of multiple internal transfer rates (fund transfer pricing – FTP).

Description of NLB Group's segments:

- Retail banking in Slovenia represents banking with individuals in NLB and assets management – NLB Skladi. It also includes the contribution to the financial result of the joint venture NLB Vita and the associates Skupna pokojninska družba and Bankart;
- Corporate banking in Slovenia, which includes: operations with large (key), medium-sized (mid-market), micro and small businesses, and Intensive Care and Non-performing loans;
- Financial markets in Slovenia, which include treasury activities, asset liability management, trading in financial instruments, brokerage, and custody of securities, as well as financial advisory;
- Foreign strategic markets represent all business activities of NLB Group members in strategic markets of NLB Group (Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia and Serbia), except leasing entities;
- Non-strategic markets and activities represent total activities of NLB Group members in non-strategic markets of NLB Group (Croatia, Germany, Switzerland, and Czech Republic) and all leasing entities. It also includes the operating result of non-financial entities (NLB Propria, Prospera Plus) and the performance of the Internal restructuring unit of NLB; and
- Other represents items of NLB income statement not related to reportable segments.

NLB Group is primarily a financial group, and net interest income represents the majority of its net revenues. NLB Group's main indicator of a segment's efficiency is net profit before tax.

There was no income from transactions with a single external customer that amounted to 10% or more of NLB Group's income.

#### b) Geographical information

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

in EUR thousand

NLB Group	Revenues		Net income		Profit/(loss) before income tax		Income tax	
	2016	2015	2016	2015	2016	2015	2016	2015
Slovenia	348,961	405,711	297,495	322,343	70,094	95,721	(7,854)	(7,198)
South East Europe	234,014	231,515	176,148	171,269	60,900	33,749	(7,115)	(4,188)
<i>Macedonia</i>	83,364	79,578	61,824	55,944	28,533	13,927	(2,755)	(1,549)
<i>Serbia</i>	21,585	22,463	18,822	19,025	1,733	(1,199)	(152)	(35)
<i>Montenegro</i>	30,186	30,986	16,484	21,661	(794)	6,414	(116)	(126)
<i>Croatia</i>	181	840	(125)	707	(3,250)	(4,321)	(1)	-
<i>Bosnia and Herzegovina</i>	65,882	65,531	51,698	47,865	22,098	9,759	(2,802)	(1,436)
<i>Bulgaria</i>	-	-	-	(1)	84	(77)	-	-
<i>Kosovo</i>	32,816	32,117	27,445	26,068	12,496	9,246	(1,289)	(1,042)
Western Europe	1,127	3,033	2,105	(10,185)	(137)	(20,997)	(6)	5
<i>Germany</i>	19	2	474	250	(248)	243	-	-
<i>Switzerland</i>	1,108	3,031	1,631	(10,435)	111	(21,240)	(6)	5
<i>Czech Republic</i>	1	-	(4)	(36)	(257)	(1,715)	-	1
<b>Total</b>	<b>584,103</b>	<b>640,259</b>	<b>475,744</b>	<b>483,391</b>	<b>130,600</b>	<b>106,758</b>	<b>(14,975)</b>	<b>(11,380)</b>

The column 'Revenues' includes interest and similar income, dividend income, and fee and commission income. The column 'Net Income' includes net interest income, dividend income, net fee and commission income, the net effect of financial instruments, foreign exchange translation, effect on derecognition of assets, and net operating income.

in EUR thousand

NLB Group	Non-current assets		Total assets		Number of employees	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Slovenia	225,643	240,592	8,393,754	8,289,804	3,065	3,225
South East Europe	130,949	138,513	3,602,358	3,469,279	3,104	3,136
<i>Macedonia</i>	33,448	33,919	1,147,375	1,117,708	891	875
<i>Serbia</i>	24,822	24,778	316,023	280,274	424	480
<i>Montenegro</i>	29,476	35,580	478,682	495,044	342	341
<i>Croatia</i>	2,568	3,623	27,164	33,032	16	16
<i>Bosnia and Herzegovina</i>	27,222	27,031	1,116,169	1,077,299	942	930
<i>Bulgaria</i>	-	1	-	333	-	2
<i>Kosovo</i>	13,413	13,581	516,945	465,589	489	492
Western Europe	247	296	39,742	58,961	6	11
<i>Germany</i>	222	240	2,782	3,273	1	2
<i>Switzerland</i>	25	56	36,960	55,688	5	9
<i>Czech Republic</i>	891	865	3,157	3,571	-	-
<b>Total</b>	<b>357,730</b>	<b>380,266</b>	<b>12,039,011</b>	<b>11,821,615</b>	<b>6,175</b>	<b>6,372</b>

The table below presents data on NLB Group members before intercompany eliminations and consolidation journals.

in EUR thousand

NLB Group	Revenues		Net income		Profit/(loss) before income tax		Income tax	
	2016	2015	2016	2015	2016	2015	2016	2015
Slovenia	390,240	435,691	333,099	342,489	52,829	34,302	(4,554)	(8,516)
South East Europe	234,257	231,869	179,677	167,159	66,530	34,943	(7,083)	(4,057)
<i>Macedonia</i>	83,422	79,638	61,078	54,737	28,739	13,997	(2,755)	(1,549)
<i>Serbia</i>	21,748	22,685	19,235	19,005	2,304	(686)	(119)	(53)
<i>Montenegro</i>	30,199	30,887	21,073	20,267	4,456	6,292	(116)	23
<i>Croatia</i>	152	813	(695)	(383)	(3,378)	(4,015)	(1)	-
<i>Bosnia and Herzegovina</i>	65,921	65,729	51,228	47,187	22,087	10,148	(2,803)	(1,436)
<i>Bulgaria</i>	-	-	-	(1)	(230)	(77)	-	-
<i>Kosovo</i>	32,815	32,117	27,758	26,347	12,552	9,284	(1,289)	(1,042)
Western Europe	1,197	4,036	1,455	5,534	(4,958)	(4,792)	(6)	5
<i>Germany</i>	20	3	466	242	(247)	243	-	-
<i>Switzerland</i>	1,177	4,033	989	5,292	(4,711)	(5,035)	(6)	5
<i>Czech Republic</i>	107	108	2	(217)	(257)	(1,715)	-	1
<b>Total</b>	<b>625,801</b>	<b>671,704</b>	<b>514,233</b>	<b>514,965</b>	<b>114,144</b>	<b>62,738</b>	<b>(11,643)</b>	<b>(12,567)</b>

## 9. Related-party transactions

A related party is a person or entity that is related to NLB Group in such a manner that it has control or joint control, has a significant influence, or is a member of the key management personnel of the reporting entity. Related parties of NLB Group and NLB include: key management personnel (Management Board, other key management personnel and their family members); the Supervisory Board; companies in which members of the Management Board, key management personnel or their family members have control, joint control, or a significant influence; the ultimate parent; subsidiaries, associates, and joint ventures.

A number of banking transactions are entered into with related parties in the normal course of business. The volume of related-party transactions and the outstanding balances are as follows:

in EUR thousand

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	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Loans issued</b>								
Balance as at 1 January	1,953	2,102	468	347	375	451	2	18
Increase	1,367	1,046	445	326	368	89	-	30
Decrease	(1,210)	(1,195)	(421)	(205)	(372)	(165)	(2)	(46)
<b>Balance as at 31 December</b>	<b>2,110</b>	<b>1,953</b>	<b>492</b>	<b>468</b>	<b>371</b>	<b>375</b>	<b>-</b>	<b>2</b>
Interest income	41	44	9	12	9	10	-	-
<b>Deposits received</b>								
Balance as at 1 January	2,158	1,958	729	1,136	106	199	223	115
Increase	3,038	3,042	725	971	464	191	146	485
Decrease	(3,117)	(2,842)	(757)	(1,378)	(90)	(284)	(239)	(377)
<b>Balance as at 31 December</b>	<b>2,079</b>	<b>2,158</b>	<b>697</b>	<b>729</b>	<b>480</b>	<b>106</b>	<b>130</b>	<b>223</b>
Interest expense	(14)	(20)	(4)	(10)	-	-	(1)	(1)
<b>Other financial liabilities</b>	<b>1,536</b>	<b>794</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>Guarantees issued and credit commitments</b>	<b>248</b>	<b>223</b>	<b>83</b>	<b>83</b>	<b>147</b>	<b>14</b>	<b>3</b>	<b>17</b>
Fee income	13	11	6	6	9	7	-	1
Other income	2	-	-	-	-	-	-	-
Other expenses	(2)	-	-	-	-	-	-	-

Ultimate parent company of NLB is the Republic of Slovenia.

in EUR thousand

	NLB Group		NLB	
	Ultimate parent		Ultimate parent	
	2016	2015	2016	2015
<b>Loans issued</b>				
Balance as at 1 January	227,341	233,895	220,646	225,971
Increase	7,520	32,384	7,355	32,177
Decrease	(56,272)	(38,938)	(54,841)	(37,502)
<b>Balance as at 31 December</b>	<b>178,589</b>	<b>227,341</b>	<b>173,160</b>	<b>220,646</b>
Interest income	5,896	7,648	5,732	7,441
<b>Deposits received</b>				
Balance as at 1 January	110,001	375,102	110,001	375,102
Increase	12,803,693	47,400,068	12,803,693	47,400,068
Decrease	(12,843,689)	(47,665,169)	(12,843,689)	(47,665,169)
<b>Balance as at 31 December</b>	<b>70,005</b>	<b>110,001</b>	<b>70,005</b>	<b>110,001</b>
Interest expense	(5)	(43)	(5)	(43)
<b>Investments in securities</b>				
Balance as at 1 January	891,576	1,094,826	845,039	1,015,263
Exchange difference on opening balance	-	(1)	-	-
Increase	390,860	405,541	366,845	343,435
Decrease	(345,457)	(594,698)	(339,544)	(499,873)
Valuation	(2,643)	(14,092)	(2,399)	(13,786)
<b>Balance as at 31 December</b>	<b>934,336</b>	<b>891,576</b>	<b>869,941</b>	<b>845,039</b>
Interest income	28,019	28,889	27,224	28,602
<b>Other financial assets</b>	<b>153</b>	<b>168</b>	<b>1</b>	<b>16</b>
<b>Other financial liabilities</b>	<b>6</b>	<b>9</b>	<b>6</b>	<b>9</b>
<b>Guarantees issued and credit commitments</b>	<b>849</b>	<b>824</b>	<b>849</b>	<b>824</b>
Fee income	129	113	129	113
Fee expense	(39)	(55)	(39)	(55)
Other income	5	32	5	32
Other expense	(1)	(2)	(1)	(2)

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

in EUR thousand

NLB Group and NLB	Amount of significant transactions concluded during the year		Number of significant transactions concluded during the year	
	2016	2015	2016	2015
Loans	158,136	200,000	1	1
Borrowings, deposits and business accounts	-	48,669	-	1
Commitments to extend credit	140,004	-	2	-

	Year-end balance of all significant transactions		Number of significant transactions at year-end	
	2016	2015	2016	2015
Loans	770,407	617,185	5	5
Debt securities classified as loans and advances	85,315	394,579	1	1
Borrowings, deposits and business accounts	135,020	134,798	3	3
Commitments to extend credit	140,000	-	2	-

	Effects in income statement during the year	
	2016	2015
Interest income from loans	3,796	3,291
Interest income from debt securities classified as loans and receivables	16,425	25,066
Interest expense from borrowings, deposits and business accounts	(225)	(517)
Interest income from commitments to extend credit	894	294

in EUR thousand

NLB Group	Associates		Joint ventures	
	2016	2015	2016	2015
<b>Loans issued</b>				
Balance as at 1 January	1,625	1,942	93,823	104,590
Increase	124	1,453	109,548	37,215
Decrease	(331)	(1,770)	(183,514)	(47,982)
<b>Balance as at 31 December</b>	<b>1,418</b>	<b>1,625</b>	<b>19,857</b>	<b>93,823</b>
Interest income	48	65	932	2,681
Impairment	16	(23)	9,730	(5,794)
<b>Deposits received</b>				
Balance as at 1 January	1,179	1,642	6,036	4,116
Exchange difference on opening balance	-	-	(37)	(17)
Increase	6,945	6,503	182,990	138,099
Decrease	(2,286)	(6,966)	(183,791)	(136,162)
<b>Balance as at 31 December</b>	<b>5,838</b>	<b>1,179</b>	<b>5,198</b>	<b>6,036</b>
Interest expense	-	(1)	(25)	(139)
Debt securities in issue	-	569	-	-
Interest expense	(17)	(23)	-	-
<b>Other financial assets</b>	<b>30</b>	<b>32</b>	<b>141</b>	<b>208</b>
Impairment	-	-	(1)	(1)
<b>Other financial liabilities</b>	<b>927</b>	<b>1,025</b>	<b>92</b>	<b>203</b>
Interest expense	-	-	-	(132)
<b>Guarantees issued and credit commitments</b>	<b>40</b>	<b>43</b>	<b>28</b>	<b>29</b>
Income provisions for guaranties and commitments	-	-	-	776
Fee income	126	113	3,689	3,301
Fee expense	(11,502)	(9,903)	(2,055)	(1,905)
Other income	233	367	580	560
Other expense	(1,092)	(1,119)	(89)	-

in EUR thousand

NLB	Subsidiaries		Associates		Joint ventures	
	2016	2015	2016	2015	2016	2015
<b>Loans issued</b>						
Balance as at 1 January	381,746	608,748	1,625	1,942	93,799	103,972
Increase	105,439	289,100	124	1,453	109,508	33,985
Decrease	(166,461)	(516,102)	(331)	(1,770)	(183,485)	(44,158)
<b>Balance as at 31 December</b>	<b>320,724</b>	<b>381,746</b>	<b>1,418</b>	<b>1,625</b>	<b>19,822</b>	<b>93,799</b>
Interest income	7,453	10,679	48	65	931	2,679
Impairment	(9,272)	(18,626)	16	(23)	9,730	(5,794)
<b>Deposits</b>						
Balance as at 1 January	3,438	12,328	-	-	-	-
Increase	298,795	193,746	-	-	-	-
Decrease	(273,802)	(202,636)	-	-	-	-
<b>Balance as at 31 December</b>	<b>28,431</b>	<b>3,438</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Interest income	9	251	-	-	-	-
Impairment	-	6,796	-	-	-	-
<b>Deposits received</b>						
Balance as at 1 January	59,407	48,380	1,179	1,642	3,438	770
Increase	11,271,052	8,128,118	6,945	6,503	77,034	45,232
Decrease	(11,275,903)	(8,117,091)	(2,286)	(6,966)	(76,029)	(42,564)
<b>Balance as at 31 December</b>	<b>54,556</b>	<b>59,407</b>	<b>5,838</b>	<b>1,179</b>	<b>4,443</b>	<b>3,438</b>
Interest expense	(29)	(20)	-	(1)	-	(2)
<b>Debt securities in issue</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>569</b>	<b>-</b>	<b>-</b>
Interest expense	-	-	(17)	(23)	-	-
<b>Derivatives</b>						
Fair value	-	469	-	-	-	-
Contractual amount	-	3,836	-	-	-	-
<b>Other financial assets</b>	<b>723</b>	<b>5,054</b>	<b>30</b>	<b>28</b>	<b>140</b>	<b>207</b>
Impairment	11	(11)	-	-	(1)	(1)
<b>Other financial liabilities</b>	<b>296</b>	<b>357</b>	<b>849</b>	<b>948</b>	<b>1</b>	<b>176</b>
Interest expense	-	-	-	-	-	(132)
<b>Guarantees issued and credit commitments</b>	<b>34,451</b>	<b>38,660</b>	<b>40</b>	<b>43</b>	<b>27</b>	<b>28</b>
Income/(expense) provisions for guaranties and commitments	442	46	-	-	-	776
<b>Received loan commitments and financial guarantees</b>	<b>500</b>	<b>750</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fee income	4,336	4,935	126	113	3,419	3,040
Fee expense	(75)	(109)	(10,182)	(9,903)	(1,427)	(1,413)
Other income	527	478	233	367	540	481
Other expense	(2,830)	(2,914)	(845)	(1,119)	(89)	-

### Key management compensation

The performance of key management is defined by financial and non-financial criteria. They are entitled to the annual variable part of the salary based on their achievement of the financial and non-financial performance criteria, which encompass the goals of NLB Group or NLB, the goals of the organisational unit, and the personal goals of the employee performing special work.

Members of the Management Board are entitled to contractual gross salary considering the limitations of the Slovenian and European legislation.

Simultaneously, under the contract, members of the Management Board are entitled to a performance bonus based on criteria set by the Supervisory Board. Each year, the Supervisory Board determines the criteria of remuneration upon the adoption of the Bank's annual business plan. The Supervisory Board determines the performance bonuses with the conclusion of each business year. In accordance with the legislation, the annual performance bonus cannot in any case exceed 30 percent of gross salaries in a business year of members of the Management Board. In addition, members of the Management Board are entitled to performance bonuses only proportionally, depending on their actual employment in the Bank for the period for which the performance bonus relates. The first 50 percent of the performance bonus is due for payment within 15 days of the General Meeting of Shareholders that voted on use of the previous year's profit and the discharge of the Management Board. Payment of the remaining 50 percent of the performance bonus is deferred.

Upon the conclusion of the General Meeting of Shareholders, members of the Supervisory Board receive payment for their performance and attendance, while the previously mentioned amounts are limited to a decision of the General Meeting of Shareholders, and are in full compliance with the applicable recommendations of corporate governance.

NLB Group and NLB	in EUR thousand					
	Management Board		Other key management personnel		Supervisory Board	
	2016	2015	2016	2015	2016	2015
Short-term benefits	504	579	4,866	4,372	245	182
Cost refunds	4	7	112	113	74	77
Long-term bonuses:						
- severance pay	-	-	-	36	-	-
- other benefits	5	3	76	40	-	-
- variable part of payments	78	77	499	536	-	-
<b>Total</b>	<b>591</b>	<b>666</b>	<b>5,553</b>	<b>5,097</b>	<b>319</b>	<b>259</b>

Short-term benefits include:

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

The reimbursement of cost comprises food allowances and travel expenses.

## Payments to individual members of the Management Board

in EUR

Member		2016	2015
Blaž Brodnjak 01.12.2012	Short-term benefits:		
	- gross salary and holiday allowance	137,586	131,601
	- benefits and other short-term bonuses	3,049	4,109
	Costs refunds	1,267	1,230
	Long-term bonuses:		
	- other benefits	1,410	763
	- variable part of payments	19,621	19,246
	<b>Total</b>	<b>162,933</b>	<b>156,949</b>
Andreas Burkhardt 18.09.2013	Short-term benefits:		
	- gross salary and holiday allowance	137,586	131,601
	- benefits and other short-term bonuses	26,148	27,364
	Costs refunds	1,157	1,169
	Long-term bonuses:		
	- other benefits	1,410	763
	- variable part of payments	19,621	19,246
	<b>Total</b>	<b>185,922</b>	<b>180,143</b>
Archibald Kremser 31.07.2013	Short-term benefits:		
	- gross salary and holiday allowance	137,586	131,601
	- benefits and other short-term bonuses	19,150	20,037
	Costs refunds	1,151	1,187
	Long-term bonuses:		
	- other benefits	1,410	763
	- variable part of payments	19,621	19,246
	<b>Total</b>	<b>178,918</b>	<b>172,834</b>
Laszlo Pelle 26.10.2016	Short-term benefits:		
	- gross salary and holiday allowance	13,570	-
	- benefits and other short-term bonuses	3,278	-
	Costs refunds	115	-
	Long-term bonuses:		
	- other benefits	470	-
	- variable part of payments	19,621	-
	<b>Total</b>	<b>17,433</b>	<b>-</b>
Janko Medja 2.10.2012 - 5.2.2016	Short-term benefits:		
	- gross salary and holiday allowance	25,033	131,601
	- benefits and other short-term bonuses	166	1,652
	Costs refunds	538	3,299
	Long-term bonuses:		
	- other benefits	235	763
	- variable part of payments	19,621	19,246
	<b>Total</b>	<b>45,593</b>	<b>156,561</b>

The above table shows earnings paid to individuals in the year when they were members of the Management Board.

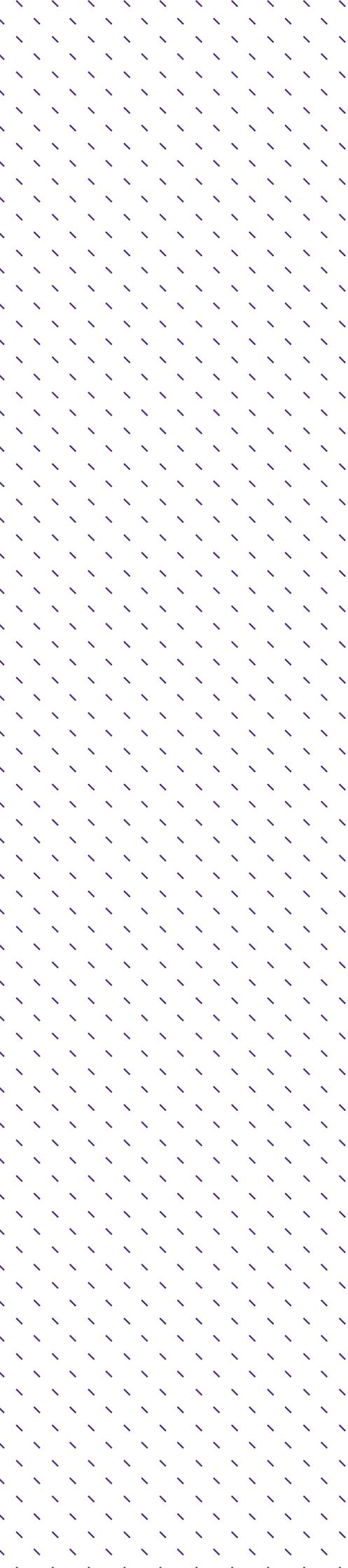
## Payments to individual members of the Supervisory Board

		in EUR	
Member		2016	2015
Sergeja Slapničar 12.06.2013	Session fees	7,370	6,600
	Annual compensation	27,547	21,619
	Costs refunds	898	1,562
Uroš Ivanc 12.06.2013	Session fees	6,930	6,655
	Annual compensation	25,096	21,619
	Costs refunds	404	214
Andreas Klingen 22.06.2015	Session fees	7,370	2,420
	Annual compensation	25,744	10,365
	Costs refunds	13,833	8,051
Primož Karpe 11.02.2016	Session fees	6,600	-
	Annual compensation	28,585	-
	Costs refunds	5,591	-
László Zoltan Urbán 11.02.2016	Session fees	5,280	-
	Annual compensation	16,563	-
	Costs refunds	5,341	-
Matjaž Titan 04.08.2016	Session fees	1,430	-
	Annual compensation	8,750	-
	Costs refunds	-	-
David Kastelic 04.08.2016	Session fees	1,155	-
	Annual compensation	8,750	-
	Costs refunds	-	-
Alexander Bayr 04.08.2016	Session fees	1,650	-
	Annual compensation	7,440	-
	Costs refunds	3,564	-
David Eric Simon 04.08.2016	Session fees	1,375	-
	Annual compensation	8,750	-
	Costs refunds	1,958	-
Janko Gedrih 10.2.2016 - 15.4.2016	Session fees	1,045	-
	Annual compensation	6,261	-
	Costs refunds	180	-
Anton Macuh 10.2.2016 - 15.4.2016	Session fees	1,485	-
	Annual compensation	3,324	-
	Costs refunds	60	-
Anton Ribnikar 10.2.2016 - 15.4.2016	Session fees	1,705	-
	Annual compensation	4,499	-
	Costs refunds	267	-

Member		in EUR	
		2016	2015
Miha Košak 12.6.2013 - 10.2.2016	Session fees	1,210	7,931
	Annual compensation	3,950	26,749
	Costs refunds	3,536	22,955
Gorazd Podbevšek 12.6.2013 - 10.2.2016	Session fees	1,210	6,886
	Annual compensation	3,362	24,894
	Costs refunds	-	1,306
Tit A. Erker 12.6.2013 - 3.8.2016	Session fees	5,720	6,831
	Annual compensation	14,826	25,556
	Costs refunds	38,598	42,262
Peter Groznik 4.11.2014 - 27.8.2015	Session fees	-	2,915
	Annual compensation	-	11,085
	Costs refunds	-	616

The above table shows earnings paid to individuals in the year when they were members of the Supervisory Board.





# Regulatory Part



# Statement of Management's Responsibility

The Management Board hereby confirms the statements made in the business report, which are in accordance with the attached financial statements as at 31 December 2016, and represent the actual and fair financial standing of the

Bank and the NLB Group as well as their operating results in the year that ended 31 December 2016.

The Management Board confirms that the business report includes a fair view of

developments and operating results of the Bank and the Group and their financial standings, including a description of the key types of risks and the companies under consolidation are exposed as a whole.

## Managemenet Board of the NLB d.d.



**László 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

## Types of Services for Which NLB d.d. Holds Authorisation

Pursuant to the provisions of Article 14 of the Regulation on the Books of Account and Annual Reports of Banks and Savings Banks, which the Bank of Slovenia adopted on the basis of the authorisation from Article 93 of the ZBan-2, NLB lists all types of financial services it performed in the period for which the business report has been compiled in accordance with the authorisation of the Bank of Slovenia.

NLB d.d., Ljubljana holds the authorisation to perform banking services pursuant to Article 5 of the Banking Act (Official Gazette of the RS, no. 25/12; hereinafter: ZBan-2). The banking services include the services of accepting deposits and other repayable funds from the public, and lending for its own account.

The Bank is also authorised for provision of mutually-recognised financial services and additional financial services.

The Bank may perform the following mutually recognised financial services pursuant to Article 5 of the ZBan-2:

1. Accepting deposits and other repayable funds;
2. Lending, which also includes:
  - consumer loans,
  - mortgage loans,
  - factoring, with or without recourse,
  - financing of commercial transactions, including export financing on the basis of discount, non-recourse purchase of long-term outstanding receivables secured with a financial instrument (forfeiting);

3. Payment services;
4. Issuing and managing other payment instruments (e.g. travellers cheques and bank bills of exchange) in the part where this service is not included in the service from item 4 of this Article;
5. Issuing of guarantees and other sureties;
6. Trading for own account or for account of customers in:
  - money market instruments,
  - foreign exchange, including currency exchange transactions,
  - standard futures contracts and options,
  - currency and interest-rate instruments, and
  - transferable securities, cooperation in the issue of securities and services related thereto,
7. Participation in the issuing of securities and related services;
8. Offering advice to companies concerning capital structure, business strategy and related matters, as well as advice and services related to mergers and acquisitions;
9. Monetary intermediation on inter-bank markets,
10. Consultancy related to asset management;
11. Safekeeping of securities and other services related thereto,
12. Ratings services: collection, analysis, and provision of information on credit-worthiness;
13. Safe custody services;
14. Investment and ancillary investment services and operations under the law on Financial Instruments Market.

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

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

# Corporate Governance

## Statement of NLB d.d.

Pursuant to the fifth paragraph of Article 70 of the Companies Act<sup>1</sup>, Nova Ljubljanska banka d.d., Ljubljana (hereinafter: **NLB**) hereby gives the following Corporate Governance Statement as a part of the Business Report of the Annual Report.

### 1. References to the two codes, the recommendations, and other internal regulations on corporate governance

In 2016 NLB abided by the following recommended standards in its conduct of business:

- Corporate Governance Code for Joint-Stock companies, 8 December 2009, available on <http://www.ljse.si>;
- Corporate Governance Code for Companies with a State Capital Investment, 19 December 2014 and March 2016, available on the website of the Slovenian Sovereign Holding d.d. (hereinafter: SSH) <http://www.sdh.si> and
- Recommendations and Expectations of the Slovenian Sovereign Holding, adopted by SSH on 19 December 2014 and February 2016, available on the SSH website <http://www.sdh.si>.

In implementation of corporate governance in 2016 NLB also respected the Catalogue of Commitments made by the Republic of Slovenia to the European Commission in relation to the state aid procedure concerning NLB (the public version dated 18 December 2013 is available on the website of the European Commission

[http://ec.europa.eu/competition/state\\_aid/cases/245268/245268\\_1518816\\_267\\_7.pdf](http://ec.europa.eu/competition/state_aid/cases/245268/245268_1518816_267_7.pdf)).

Corporate governance of NLB is also defined by the Articles of Association of NLB (adopted by the General Assembly on 4 August 2016) and NLB Management Policy (approved by the Supervisory Board of NLB on 18 December 2015).

Corporate governance of the NLB Group in 2016 NLB and NLB Group members is regulated by the Corporate Governance Policy of the NLB Group (Version 10, December 2015). The Corporate Governance system is explained on the NLB website (<http://www.nlb.si/corporate-governance>). The documents referred to in this paragraph are published there.

In subsidiaries of the NLB Group, NLB mostly follows the principles and recommendations of both mentioned codes through the Corporate Governance Policy of the NLB Group (minimum standards by particular business area), depending on the local legislation and the organisational possibilities in the companies.

### 2. The corporate governance of nlb deviates from the following provisions:

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

#### a) Corporate Governance Code for Joint-Stock Companies

##### Item 12:

In our opinion, the Bank is not providing payment to the Supervisory Board members that would correspond to their responsibilities and the fines threatened by the new banking law.

##### Items 16 and 16.1.

NLB deviates from the proposed provision in the Code because the Act Regulating the Incomes of Managers of Companies Owned by the Republic of Slovenia and Municipalities ("ZPPOGD") restricts executive pay, which has posed a severe impediment to the winning over, and retaining of suitable staff. It results in a high level of operational risk and poses, in the Bank's opinion, one of the main obstacles to a suitable restructuring of Slovenian businesses (and state-owned enterprises). The Bank will therefore continue to promote public discussion and the abolishment of restrictions.

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

**Item 20.4:**

NLB deviates from the proposed provision of the Code by not publishing in advance the dates of General Meetings. The method and rules of convocations of general meetings are laid down by the Articles of Association of NLB.

**Item 22.7:**

NLB discloses net and gross receipts, but does not disclose all elements in item 22.7 of the Code.

**b) Corporate Governance  
Code for Companies with a  
State Capital Investment**

**Item 5.1.1:**

The recommendation is implemented in full in the part relating to operations. Nevertheless, we wish to point out the anomaly and the deprived position of NLB, since we believe that the Code recommendation on the arm's length conditions for NLB as for the other non-state-owned companies is not met, since NLB is subject to numerous limitations or additional obligations that do not apply to privately-owned companies (limited receipts of the management bodies and the obligation to report certain confidential information in accordance with the provisions of the (ZDIJZ-1) Law on Access to Public Information).

**Item 6.5.1:**

A competence profile is prepared by the Supervisory Board but is not published.

**Item 6.9:**

The recommendations under items 6.9.1. is followed only partly, as no restriction applies to additional payments to

committee members for the performance of the office in accordance with a resolution of the General Meeting of NLB. Based on a resolution of the General Meeting of NLB, payments have been supplemented by a meal allowance.

**Item 6.10:**

The recommendation of the Supervisory Board of NLB does not specify the extent to which the self-assessment has contributed to changes.

**Item 6.11:**

Due to the fact that in 2016 considerable changes were made to the composition of the Supervisory Board, the assessment of the new composition of the Supervisory Board in the year 2016 was not done. Namely, considerable changes were made from last year's composition of the Supervisory Board as only three members still perform the function. Apart from that, the term in office of the four new members of the Supervisory Board has been short, as they started to perform function from 4 August 2016 on. The Supervisory Board will take all necessary steps to fulfill this recommendation in due time.

**Item 7.3:**

So far, the Bank had not approved the Policy on the Remuneration of the Members of the Management Board at the General Meeting of Shareholders. In accordance with the provisions of the Slovenian Sovereign Holding Act, the Management Board and the Supervisory Board of the NLB will strive to obtain approval of the Policy at the General Meeting of Shareholders.

**Item 8.3:**

Remunerations of the NLB Group members are not published in the Annual Report of the NLB Group.

**Item 9.2.7:**

As a rule, recommendations are being implemented in line with the set deadlines. The Management Board and the Supervisory Board monitor the status of audit recommendations and the reasons for late implementation quarterly.

**c) Recommendations and Expectations  
of the Slovenian Sovereign Holding**  
NLB also takes a position on the adopted  
Recommendations and Expectations of the  
SSH.

**Recommendation no. 1.1:**

NLB tries to meet expectations in this recommendation in due time, while also observing valid legislation.

**Recommendation no 1.2:**

NLB tries to meet expectations in this recommendation in due time, while also observing valid legislation.

**Recommendation no 1.3:**

NLB tries to meet expectations in this recommendation in due time, while also observing valid legislation.

**Recommendation no. 3.7:**

NLB has signed some flat-rate agreements with the outsourced contractors for various needs, following the agreed cost optimisation and continuous reduction of the costs of outsourced providers.

**Recommendation no. 4.3:**

NLB did not disclose the information on the planned holiday allowance payment on intranet site. For NLB Group members a system of reporting on realised payments from 4.2.2. was set in the COGNOS system, however information on realised payments was not published on NLB's intranet site.

**Recommendation no. 4.4:**

The Bank does not publish the text of collective agreements on its website because the two applicable collective agreements are available on the website of the NLB Trade Union representing the Bank's employees.

**Recommendation no. 5.1:**

Due to the activities of refreshing the Business and IT/digital strategies, self-assessment using the recognised European excellence model was not carried out in 2016. With the aim of achieving higher quality the new strategy is introducing a new initiative on lean organisation and processes. The bank started with introduction of the ownership of the processes and achievements of KPI in the direction of optimisation, and with the goal to achieve higher quality.

**Recommendation no. 6.2:**

SSH Expectations were sent to NLB Group members. There also might be local regulations requesting a discharge in d.o.o. (in Croatia).

### **3. The main features of internal control and risk management systems in relation to financial reporting**

NLB is governed by the Companies Act and the Banking Act regulating, among other, the Bank's obligation to set up and maintain appropriate internal control and risk management systems. Concerning this subject, the Bank of Slovenia as the supervisory authority of banks issues specific implementing regulations by which the NLB abides as applicable. The Bank

also complies with the commitments made to the European Commission, in accordance with the Commission Decision of 18 December 2013 on state aid SA.33229(2012/C) – NLB Restructuring – Slovenia. Due to the above, the NLB maintains a steady and reliable corporate governance system encompassing the following:

- well-defined organisation with clear-cut, transparent, and consistent internal relations in the area of responsibility;
- efficient procedures to determine, measure or assess, control, and monitor risks to which the NLB is exposed or could be exposed in its operations;
- immediate action of the competent departments towards eliminating any established irregularities, particularly in the area of credit risk management;
- an appropriate system of internal controls comprising exact accounting procedures (reporting, work procedures, responsibilities, and automatic and manual controls in all stages of the accounting process).

Moreover, in compliance with the legislation, NLB also has an independent internal audit department which conducts audits, issues recommendations, and draws up reports in line with its authorisations in addition to reporting to the General Meeting of Shareholders about its work.

The NLB devotes special attention to the internal control and risk management systems in the scope of the NLB Group and its members. Corporate governance of the Group is separately presented in the chapter NLB Corporate Governance, subchapter Corporate Governance of the NLB Group, page 144 The risk profile of the NLB Group in conjunction with the business strategy is presented in detail under the Risk Management section in the financial report of the Annual Report, page 261

**3.1. Financial reporting**

With the aim of ensuring appropriate financial reporting procedures, NLB pursues the adopted Policy on Accounting Controls. The accounting controls are provided through the operation of the complete accounting function with the purpose of ensuring quality and reliable accounting information, and thereby accurate and timely financial reporting. The principal identified risks in this area are managed with an appropriate system of authorisations, a segregation of duties, compliance with accounting rules, documenting of all business events, custody system, posting on the day of a business event, in-built control mechanisms in source applications, and archiving pursuant to the laws and internal regulations. Furthermore, the policy precisely defines primary accounting controls, performed in the scope of analytical bookkeeping, and secondary accounting controls, i.e. checking the efficiency of implementation of primary accounting controls. With efficient mechanism of controls in the area of accounting reporting, NLB ensures:

- a reliable decision-making and operation support system,
- accurate, complete, and timely accounting data and the resulting accounting and other reports of the Bank,
- compliance with legal and other requirements.

### **4. Information concerning takeover legislation**

All data concerning the takeover legislation can be found in the chapter Corporate Governance, sub-chapter General Meeting, page 145, and in other chapters of the Annual Report.

## 5. Information on the work and key powers of the general meeting and a description of shareholders' rights and the means to exercise them

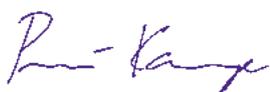
All data concerning the functioning and key authorisations of the General Meeting of Shareholders and description of shareholders' rights can be found in the chapter Corporate Governance, sub-chapter General Meeting, on page 144 and under point 3.3. (Capital instruments included in the capital) on page 365.

## 6. Data on the composition and functioning of the management or supervisory bodies and their committees

All data concerning the composition and functioning of the management or supervisory bodies or their committees can be found in the chapter NLB Corporate Governance, in the sections Supervisory Board and Management Board, on page 146 and page 145

Ljubljana, 7 April 2017

### NLB Supervisory Board



**Primož Karpe**  
Chairman of the  
Supervisory Board

### NLB Management Board



**László Pelle**  
Member of the  
Management Board



**Archibald Kremser**  
Member of the  
Management Board



**Andreas Burkhardt**  
Member of the  
Management Board



**Blaž Brodnjak**  
Chief Executive Officer

## 7. Corporate integrity

In accordance with the provisions of Item 3.4.1 of the Corporate Governance Code for Companies with a State Capital Investment the NLB included a description of the company's corporate integrity in the Corporate Governance Statement.

Within a year of adopting the Slovenian corporate integrity guidelines (adopted in January 2014), the Bank further upgraded its compliance and integrity program. From this point of view, the focus was on the establishment and consolidation of the system of identifying, monitoring, and assessing the risks in this area including adoption of new Compliance Policy, renewal of the Code of Ethics, and execution of Enterprise Compliance Risk Assessment.

Therefore, NLB can identify itself with all statements in the preamble and can adopt the general commitment about the corporate integrity and zero tolerance to illegal and non-ethical conduct by appropriately handling the perceived

violations, and taking the necessary measures.

In the framework of the preventive and development pillar of the compliance function, we consolidated the: (i) management of regulatory compliance, (ii) the procedure of preventive reviews of processes, and set up the (iii) general assessment of integrity and compliance risk system (SOTIS), including (iv) the second in the row survey of compliance and ethics and implementation of workshops with groups of employees with the topic of the renewed NLB Group Code. We continued with the activities of investigations, information protection, and money laundering prevention.

The Bank compiles an annual self-assessment of corporate identity which contains a comparison, a progress report, and a description of the current situation.

This Corporate Governance Statement of the NLB is publicly available also on NLB's web page (<http://www.nlb.si/corporate-governance>).

# Statement on the Management of Risk

NLB d.d.'s Management Board and Supervisory Board provide herewith a concise statement of risk management according to Article 17 of the Regulation on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks (Official Gazette of the RS, no. 73/2015 and 49/2016), Regulation (EU) 575/2013 (date of publication 21 December 2015), article 435 (Risk Management Objectives and Policies), point (e) and (f), as well as EBA Guidelines on Disclosure requirements (EBA GL/2016/11).

Risk management at NLB d.d. and in the NLB Group is implemented in accordance with established internal policies and procedures which take into account European banking regulations, the regulations adopted by the Bank of Slovenia, the current EBA guidelines, and relevant good banking practices.

Furthermore, NLB's risk management framework is defined and organised with regard to the Group's risk profile, business, and the risk strategy of the Group.

The NLB Group plans for a prudent risk appetite and optimally profitable operations in the long run, considering the risks assumed, while at the same time meeting all regulatory requirements. The Strategy of NLB Group, the risk appetite, the risk strategy, and the key internal risk policies of NLB Group approved by the Management Board and the Supervisory Board of NLB d.d. specify the strategic objectives and guidelines concerning: risk assumption; and the approaches and methodologies

for monitoring, measuring, mitigating, and managing all types of risk. NLB Group regularly monitors its target risk appetite profile, representing the key component of the risk mitigation process. The risk profile enables detailed monitoring and proactive management. The usage of risk profile limits and potential deviations from limits and target values are reported regularly to the respective committees and/or the Management Board of the Bank, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank. Additionally, NLB Group has set up early warning systems in different risk areas in order to strengthen the existing internal controls and timely responding when necessary.

In accordance with the Risk Appetite Statement, NLB Group, as the largest Slovenian banking and financial group, intends to be a sustainably profitable banking group, predominantly working with clients in those core markets. Management of credit risk, which is the most important risk in the NLB Group, focuses on the taking of moderate risks, and also ensuring an optimal return considering the risks assumed. Moreover, the Group's liquidity risk tolerance is low. The NLB Group must maintain an appropriate level of liquidity at all times to meet its short-term liabilities, even if a specific stress scenario is realised. Further, with the aim of minimising this risk, the Group pursues an appropriate structure of sources of financing. In the area of currency risk, the NLB Group thus pursues the goals of low to moderate exposure. The NLB Group's basic orientation in the management of interest rate risk is to

prevent negative effects on revenues that would arise from changed market interest rates and, therefore, a low tolerance for this risk is stated. The conclusion of transactions in derivative financial instruments at NLB d.d. is primarily limited to servicing customers and hedging NLB d.d.'s own positions. When assuming operational risk, the NLB Group pursues the orientation that such risk must not significantly impact its operations and, therefore, the risk appetite for operational risks is low to moderate. The tolerance for all other risk types (for example, reputation risk, profitability risk, and others) is low, and focuses on minimising their possible impacts on the Group's operations. These also include non-financial risks.

The main NLB Group risk appetite points include:

- Preservation of a prudent level of capital adequacy, including regulatory requirements and capital buffers;
- Maintenance of a solid level and structure of liquidity minimising potential shortfalls;
- Customers' deposits as the main funding base;
- A gradual improvement in the quality of the credit portfolio by reducing non-performing exposures and preservation of adequate level of provisions;
- Ensuring sustainable and limited credit risk volatility;
- Stable income by increasing share of non-interest income;
- Ensuring sustainable profitability;
- Ensuring sustainable and limited size of subsidiary banks.

The values of the most important risk appetite indicators of the NLB Group as at the end of 2016, reflecting the interconnection between business strategy and targeted risk profile, were the following:

- Capital adequacy ratio (CET1) 17.0%,
- Loan-to-deposit ratio (LTD) 74%,
- LCR: 332%,

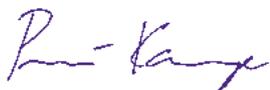
- NSFR:147%,
- The share of non-performing exposure by EBA 10.0%,
- Return on equity (ROE) after tax 7.4%.

Consequently, NLB Group concluded the year 2016 within its target risk appetite, with a strong capital and liquidity position.

The Condensed Statement of the management of risk is also published on the NLB intranet with the aim of strict adherence of the Banks' employees in daily operations of the Bank, as regards the definition and importance of a consistent tendency of the adopted risks, and ways to take into account when adopting its daily business decisions.

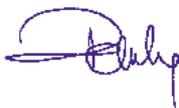
Ljubljana, 7 April 2017

**NLB Supervisory Board**



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Chairman of the  
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**NLB Management Board**



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Management Board



**Archibald Kremser**  
Member of the  
Management Board



**Andreas Burkhardt**  
Member of the  
Management Board



**Blaž Brodnjak**  
Chief Executive Officer

# Statement on the Arrangement of Internal Governance

NLB d.d. pursues internal governance, including corporate governance, according to the legislation applicable in the Republic of Slovenia, adhering also to its internal acts.

NLB d.d. fully complies with the acts referred to in Article 9, paragraph two of the Banking Act.<sup>2</sup>

With the aim of strengthening internal governance, the Bank operates especially in compliance with:

1. The provisions of the Banking Act defining the internal governance arrangements, especially the provisions of Chapter 3.4 (Governance System of a Bank) and Chapter 6 (Internal Governance Arrangements and Internal Capital Adequacy), in the part referring to bank/savings bank or members of a management body;
2. Regulation on internal governance arrangements, the management body, and the internal capital adequacy assessment process for banks and savings banks,<sup>3</sup> and
3. EBA Guidelines on internal governance, on the assessment of the suitability of members of the management body and key function holders, and the remuneration policies and practices, based on the relevant regulations of the Bank of Slovenia on the application of these Guidelines.<sup>4</sup>

By signing this statement we undertake to continue with proactive activities to strengthen and promote further internal governance arrangement and corporate integrity in wider professional, financial, corporate, and other publics.

Ljubljana, 7 April 2017

## NLB Supervisory Board



**Primož Karpe**  
Chairman of the  
Supervisory Board

## NLB Management Board



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Management Board



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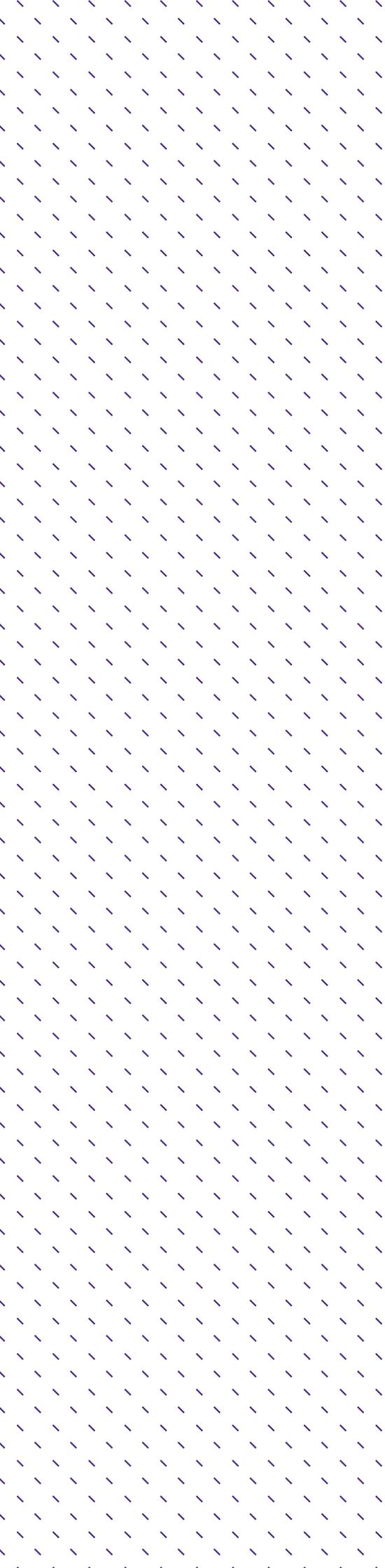


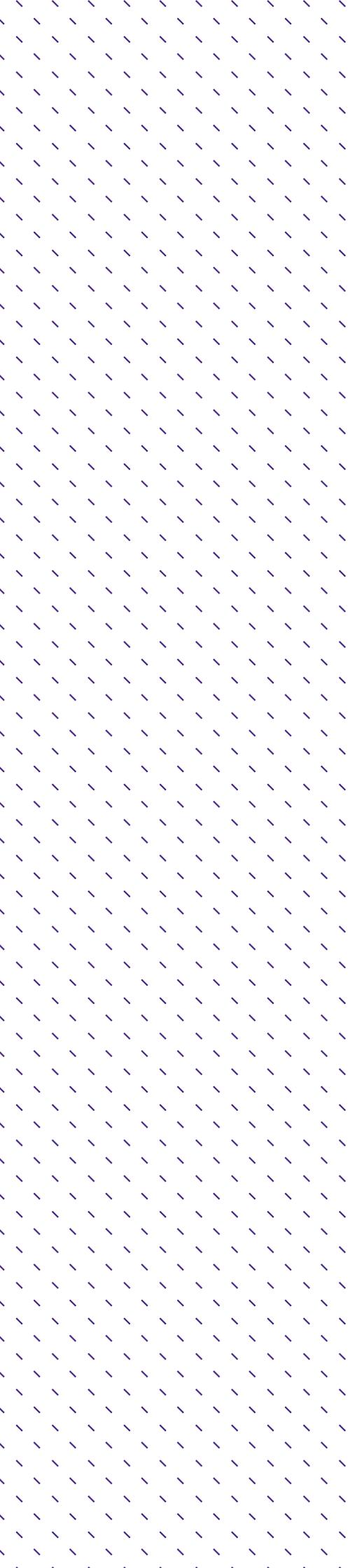
**Blaž Brodnjak**  
Chief Executive Officer

<sup>2</sup> Banking Act (ZBan-2), Official Gazette of the RS, no. 25/15 and 44/16;

<sup>3</sup> Regulation of the Bank of Slovenia on internal management arrangements, management body, and the internal capital adequacy assessment process for banks and savings banks, Official Gazette of the RS, no. 73/15 and 49/16;

<sup>4</sup> <http://www.bsi.si/zakoni-in-predpisi.asp?Mapald=1906>





# Risk and Capital Management

(Disclosures in Accordance with Pillar 3 of the Basel Standards)

# Contents

<b>1. Introduction</b>	<b>354</b>
<b>2. Scope of application</b>	<b>355</b>
<b>3. Capital</b>	<b>360</b>
3.1. Capital adequacy	360
3.2. Reconciliation of items with financial statements	361
3.3. Capital instruments included in the capital	365
3.4. Detailed presentation of capital elements	367
<b>4. Capital buffers</b>	<b>372</b>
<b>5. Capital requirements</b>	<b>373</b>
5.1. Summary of the approach to assessing the internal capital needed for current and planned activities	373
5.2. Capital requirements	374
<b>6. Exposure to counterparty credit risk</b>	<b>376</b>
6.1. The methodology used to assign internal capital and credit limits for counterparty credit exposures, and the measures for exposure value under the method used	376
6.2. Policies for collateralisation and the establishment of credit reserves, and impact of the amount of collateral the institution would have to provide in case of a downgrading of its credit rating	376
6.3. Discussion of policies with respect to wrong-way risk exposures	376
6.4. Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held, and net derivatives credit exposure	377
<b>7. Credit risk adjustments</b>	<b>377</b>
7.1. Breakdown of exposures and loan collaterals by exposure category	377
7.2. Geographical distribution of exposures broken down in significant areas by material exposure classes	382
7.3. Distribution of exposures by counterparty type or industry broken down by exposure classes	384
7.4. Residual maturity breakdown of all exposures broken down by exposure classes	388
7.5. Past due exposures and the volume of impairments for significant industries and significant geographical areas	389
<b>8. Use of ratings by external rating institutions (ECAI)</b>	<b>391</b>
<b>9. Leverage</b>	<b>391</b>
<b>10. Remuneration policy</b>	<b>395</b>
10.1. Information on the decision-making process used for determining the Remuneration Policy	395
10.2. Information on the link between pay and performance	396
10.3. The essential components of the policy of remuneration for employees performing special work	398
10.4. The ratio between fixed and variable remuneration	400
10.5. Information on the performance criteria on which the entitlement to shares, options, or variable components of remuneration are based	401
10.6. Main parameters and rationale for any variable component scheme and any other non-cash benefits	401
10.7. Quantitative information on remuneration	403
<b>11. Information regarding governance arrangements</b>	<b>404</b>
11.1. The recruitment policy for the selection of members of the management body and their actual knowledge, skills, and expertise	404
11.2. The policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved	404
<b>12. List of all disclosures required under Part 8 of Regulation (EU) No 575/2013</b>	<b>406</b>

## 1. Introduction

The European legislation on capital requirements, based on the Basel II and III principles, introduced, among other items, requirements regarding the transparency of bank operations. European banks are bound to disclose certain information which should provide sufficient information for potential investors about the risks assumed by banks in their operations.

The requirements for mandatory disclosures from the sphere of risks and capital adequacy are listed in Part Eight of the European Regulation on prudential requirements for credit institutions and investment firms (Regulation (EU) No 575/2013), which is directly binding in all member states. When preparing the disclosures, the Bank considered relevant implementing and regulatory technical standards, as well as guidelines from the European bank authority (EBA):

- Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Delegated Regulation (EU) No 2015/1555 of 28 May 2015 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Article 440;
- Commission Implementing Regulation (EU) 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions, according to Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Guidelines EBA/GL/2014/03 on disclosure of encumbered and unencumbered assets;
- Guidelines EBA/GL/2014/14 on materiality, proprietary, and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013; and
- Guidelines EBA/GL/2015/22 on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013.

In accordance with the capital legislation, NLB d.d. has the position of an “EU parent bank” and is therefore obliged to disclose information on a consolidated basis.

The table in Chapter 12 presents the entire list of necessary disclosures by article of the Regulation, together with an indication of the part of the Annual Report in which the relevant contents are disclosed.

The numerical data disclosed in the accounting part of the Annual Report (Audited Financial Statements) is based on a different consolidation method as envisaged by the Regulation on these disclosures. Nevertheless, some information is not disclosed according to both consolidation methods as owing to the immateriality of the differences (shown in the table under Chapter 2), their duplication would not improve transparency in terms of the risks involved. This concerns the following information:

- disclosures in relation to exposures in equities not included in the trading book (Article 447 a, b, c, and d), and
- disclosures in relation to impairments of financial assets measured at amortised cost (Article 442 a, b and i).

Some of the prescribed disclosures are not relevant for NLB Group as they relate to alternative approaches for calculation of capital requirements, or since they relate to types of transactions that NLB Group is currently not involved in.

NLB Group uses the following approaches for the calculation of capital requirements:

- credit risk – standardised approach,
- market risk – standardised approach, and
- operational risk – basic indicator approach.

Thus, the disclosures relating to other approaches not used by NLB Group are not applicable:

- disclosures related to the IRB approach in relation to credit risk (Articles 452 and 438 d),
- disclosures related to the advanced measurement approach for operational risk (Article 454), and
- disclosures related to internal models for the calculation of market risk capital requirements (Article 455).

In addition, the following disclosures are also not relevant for NLB Group because they relate to types of transactions currently not performed by NLB Group, or for other reasons (a consolidation method that is not used, disclosures only upon request of the competent authority, etc.):

- disclosures related to securitisation (Article 449),
- disclosures related to credit derivatives (Article 439 g, h, and i),
- disclosures related to on- and off-balance sheet netting (Article 453 a),
- disclosures related to the application of the provisions of Articles 7 and 9 of the Regulation (concerning the application of prudential requirements on an individual basis and the individual consolidation method) (Article 436 e),
- disclosures related to a capital buffer for global systemically important institutions (G-SII buffer) (Article 441),
- disclosures related to the result of the institution's internal capital adequacy assessment process (Article 438 b), and
- disclosures related to capital instruments issued prior to 31 December 2011 which, in accordance with the new legislation, are no longer eligible to be included in the capital and must be gradually excluded from the capital in the transitional period (Article 492(4)).

The figures in this part of the Annual Report have been prepared based on the COREP reports submitted to the supervisory authorities. As amounts are rounded off to one thousand Euros, minimum deviations can occur in the sums of individual categories and between tables.

## 2. Scope of application

### (Articles 436 a, b, c, and d of Regulation (EU) No 575/2013)

In accordance with the capital legislation, NLB d.d. has the position of an “EU parent bank” and is therefore obliged to disclose information regarding risk and capital management (pursuant to Part Eight of Regulation (EU) No 575/2013) only on a consolidated basis. Disclosures are thus prepared and published for NLB Group using a prudential consolidation pursuant to the provisions of Regulation (EU) No 575/2013, Part One, Title II, Chapter 2.

The differences between consolidation for prudential purposes and consolidation for accounting purposes (pursuant to the IFRS) are in the list of included companies, based on activity and in the method of consolidation:

- List of companies:

**The consolidation for accounting purposes** comprises all subsidiaries (i.e. entities controlled by the Bank or the banking group), all associated companies (in which it directly or indirectly holds between 20% and 50% of voting rights, has a material impact but does not control them), and jointly controlled companies (i.e. jointly controlled by NLB Group based on a contractual agreement). From among the subsidiaries, associated companies, and jointly controlled companies, the **prudential consolidation** only includes credit institutions, financial institutions, ancillary service undertakings, and asset management companies (in accordance with the definitions under Article 4 of Regulation (EU) No 575/2013). As regards NLB Group, this means that the prudential consolidation does not include companies operating in the area of insurance.

- Consolidation method:

In consolidation for accounting purposes, subsidiaries are consolidated according to the method of full consolidation, while associated companies and jointly controlled companies are consolidated according to the capital method. Prudential consolidation requires a different treatment of jointly controlled companies, which have to be consolidated in line with the proportional method.

The table below shows the list of NLB Group companies (subsidiaries, associated companies, and jointly controlled companies), their main characteristics, and the consolidation method. More details about individual companies are given in the accounting part of the Annual Report (Audited Financial Statements) under Chapter 5.12.



## NLB Group members as at 31 December 2016 and method of their inclusion in consolidated reports

	Nature of business	NLB Group's voting rights	Country of incorporation	Accounting consolidation method	Prudential consolidation method
<b>Subsidiaries:</b>					
LHB AG, Frankfurt	Finance	100.00%	Republic of Germany	Full	Full
NLB Banka a.d., Skopje	Banking	86.97%	Republic of Macedonia	Full	Full
NLB Banka a.d., Podgorica	Banking	98.00%	Republic of Montenegro	Full	Full
NLB Banka a.d., Beograd	Banking	99.997%	Republic of Serbia	Full	Full
NLB Banka d.d., Sarajevo	Banking	97.35%	Republic of Bosnia and Herzegovina	Full	Full
NLB Banka a.d., Banja Luka	Banking	99.85%	Republic of Bosnia and Herzegovina	Full	Full
NLB Banka sh.a., Prishtina	Banking	81.21%	Republic of Kosovo	Full	Full
NLB Leasing d.o.o., Ljubljana	Finance	100.00%	Republic of Slovenia	Full	Full
Optima Leasing d.o.o., Zagreb in liquidation	Finance	100.00%	Republic of Croatia	Full	Full
PRO-REM d.o.o., Ljubljana in liquidation	Real estate	100.00%	Republic of Slovenia	Full	Full
OL Nekretnine d.o.o., Zagreb in liquidation	Real estate	100.00%	Republic of Croatia	Full	Full
BH-RE d.o.o., Sarajevo	Real estate	100.00%	Republic of Bosnia and Herzegovina	Full	Full
NLB Leasing Podgorica d.o.o. in liquidation	Finance	100.00%	Republic of Montenegro	Full	Full
NLB Leasing d.o.o., Beograd in liquidation	Finance	100.00%	Republic of Serbia	Full	Full
NLB Leasing d.o.o., Sarajevo	Finance	100.00%	Republic of Bosnia and Herzegovina	Full	Full
NLB Lizing d.o.o.e.l., Skopje in liquidation	Finance	100.00%	Republic of Macedonia	Full	Full
NLB InterFinanz AG, Zürich in liquidation	Finance	100.00%	Switzerland	Full	Full
NLB InterFinanz Praha s.r.o., Praga	Finance	100.00%	Czech Republic	Full	Full
NLB InterFinanz d.o.o., Beograd	Finance	100.00%	Republic of Serbia	Full	Full
NLB Factoring a.s., Brno in liquidation	Finance	100.00%	Czech Republic	Full	Full
NLB Skladi d.o.o., Ljubljana	Asset management	100.00%	Republic of Slovenia	Full	Full
NLB Nov penziški fond a.d., Skopje	Insurance	100.00%	Republic of Macedonia	Full	-
NLB Crna gora d.o.o., Podgorica	Real estate	100.00%	Republic of Montenegro	Full	Full
NLB Propria d.o.o., Ljubljana in liquidation	Real estate	100.00%	Republic of Slovenia	Full	Full
NLB Srbija d.o.o., Beograd	Real estate	100.00%	Republic of Serbia	Full	Full
CBS Invest d.o.o., Sarajevo	Real estate	100.00%	Republic of Bosnia and Herzegovina	Full	Full
REAM d.o.o., Beograd	Real estate	100.00%	Republic of Serbia	Full	Full
REAM d.o.o., Podgorica	Real estate	100.00%	Republic of Montenegro	Full	Full
REAM d.o.o., Zagreb	Real estate	100.00%	Republic of Croatia	Full	Full
SR-RE d.o.o., Beograd	Real estate	100.00%	Republic of Serbia	Full	Full
Tara Hotel d.o.o., Budva	Real estate	100.00%	Republic of Montenegro	Full	Full
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	100.00%	Republic of Slovenia	Full	Full
<b>Associates:</b>					
Bankart d.o.o., Ljubljana	Card processing	39.44%	Republic of Slovenia	Equity	Equity
Skupna pokojninska družba d.d., Ljubljana	Insurance	28.13%	Republic of Slovenia	Equity	-
Kreditni biro SISBON d.o.o., Ljubljana in liquidation	Credit bureau	29.68%	Republic of Slovenia	Equity	Equity
ARG - Nekretnine d.o.o., Horjul	Real estate	75.00%	Republic of Slovenia	Equity	Equity
<b>Joint ventures:</b>					
NLB Vita d.d., Ljubljana	Insurance	50.00%	Republic of Slovenia	Equity	-
Skupina Prvi faktor, Ljubljana in liquidation	Finance	50.00%	Republic of Slovenia	Equity	Proportional

None of NLB Group's investments in subsidiaries, associated companies, and jointly controlled companies represents a deduction from capital. The total amount of investments that could become deductions from capital is relatively low and remains under the statutory thresholds.

Below a comparison is given of financial statements of NLB Group according to both consolidation methods.

## Statement of financial position of NLB Group – comparison of the two consolidation methods

in EUR thousand

	31.12.2016			31.12.2015		
	Accounting consolidation	Prudential consolidation	Difference	Accounting consolidation	Prudential consolidation	Difference
Cash, cash balances at central banks and other demand deposits at banks	1,299,014	1,299,313	-299	1,161,983	1,162,931	-948
Trading assets	87,699	87,699	0	267,413	267,413	0
Financial assets designated at fair value through profit or loss	6,694	6,694	0	7,595	7,595	0
Available for sale financial assets	2,072,153	2,068,470	3,683	1,737,191	1,734,636	2,555
Derivatives - hedge accounting	217	217	0	1,083	1,083	0
Loans and advances	7,493,933	7,489,784	4,149	7,589,496	7,598,650	-9,154
Debt securities	85,315	85,315	0	394,579	394,579	0
Loans and advances to banks	435,537	434,597	940	431,775	432,564	-789
Loans and advances to customers	6,912,067	6,904,216	7,851	6,693,621	6,692,953	668
Other financial assets	61,014	65,656	-4,642	69,521	78,554	-9,033
Held to maturity financial assets	611,449	611,449	0	565,535	565,535	0
Fair value changes of hedged items in portfolio hedge of interest rate risk	678	678	0	741	741	0
Non-current assets classified as held for sale	4,263	4,263	0	4,629	4,629	0
Property and equipment	196,849	196,869	-20	207,730	207,801	-71
Investment property	83,663	84,206	-543	93,513	94,205	-692
Intangible assets	33,970	33,926	44	39,327	39,274	53
Investments in associates and joint ventures	43,248	16,024	27,224	39,696	14,988	24,708
Current income tax assets	2,888	3,942	-1,054	929	1,602	-673
Deferred income tax assets	7,735	7,740	-5	9,400	9,543	-143
Other assets	94,558	94,438	120	95,354	95,159	195
<b>Total assets</b>	<b>12,039,011</b>	<b>12,005,712</b>	<b>33,299</b>	<b>11,821,615</b>	<b>11,805,785</b>	<b>15,830</b>
Trading liabilities	18,791	18,791	0	29,920	29,920	0
Financial liabilities designated at fair value through profit or loss	2,011	2,011	0	4,912	4,912	0
Derivatives - hedge accounting	29,024	29,024	0	33,842	33,842	0
Financial liabilities measured at amortized cost	10,350,035	10,358,105	-8,070	10,157,553	10,197,456	-39,903
Deposits from banks and central banks	42,334	42,334	0	57,982	57,982	0
Borrowings from banks and central banks	371,769	380,732	-8,963	571,029	611,214	-40,185
Due to customers	9,437,147	9,436,195	952	9,020,666	9,020,104	562
Borrowings from other customers	83,619	83,619	0	100,267	100,267	0
Debt securities in issue	277,726	277,726	0	304,962	304,962	0
Subordinated liabilities	27,145	27,145	0	27,340	27,340	0
Other financial liabilities	110,295	110,354	-59	75,307	75,587	-280
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0	0	0
Provisions	100,914	89,716	11,198	122,639	98,784	23,855
Current income tax liabilities	3,146	3,117	29	7,514	7,534	-20
Deferred income tax liabilities	727	711	16	313	289	24
Other liabilities	8,703	8,764	-61	14,539	14,602	-63
<b>Total liabilities</b>	<b>10,513,351</b>	<b>10,510,239</b>	<b>3,112</b>	<b>10,371,232</b>	<b>10,387,339</b>	<b>-16,107</b>
Share capital	200,000	200,000	0	200,000	200,000	0
Share premium	871,378	871,378	0	871,378	871,378	0
Other equity instruments issued	0	0	0	0	0	0
Accumulated other comprehensive income	29,969	20,102	9,867	23,603	15,693	7,910
Profit reserves	13,522	13,522	0	13,522	13,522	0
Retained earnings	380,444	360,329	20,115	314,307	290,484	23,823
Treasury shares	0	0	0	0	0	0
Non-controlling interests	30,347	30,142	205	27,573	27,369	204
<b>Total equity</b>	<b>1,525,660</b>	<b>1,495,473</b>	<b>30,187</b>	<b>1,450,383</b>	<b>1,418,446</b>	<b>31,937</b>
<b>Total liabilities and total equity</b>	<b>12,039,011</b>	<b>12,005,712</b>	<b>33,299</b>	<b>11,821,615</b>	<b>11,805,785</b>	<b>15,830</b>

## Income statement of NLB Group – comparison of the two consolidation methods

in EUR thousand

	31.12.2016			31.12.2015		
	Accounting consolidation	Prudential consolidation	Difference	Accounting consolidation	Prudential consolidation	Difference
Interest and similar income	388,494	389,422	-928	443,203	446,962	-3,759
Interest and similar expense	-71,189	-71,593	404	-103,001	-104,136	1,135
<b>Net interest income</b>	<b>317,305</b>	<b>317,829</b>	<b>-524</b>	<b>340,202</b>	<b>342,826</b>	<b>-2,624</b>
Dividend income	1,238	1,238	0	1,346	1,346	0
Fee and commission income	194,371	191,383	2,988	195,710	193,010	2,700
Fee and commission expenses	-48,706	-48,210	-496	-56,899	-56,309	-590
<b>Net fee and commission income</b>	<b>145,665</b>	<b>143,173</b>	<b>2,492</b>	<b>138,811</b>	<b>136,701</b>	<b>2,110</b>
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	14,788	14,788	0	10,659	10,659	0
Gains less losses from financial assets and liabilities held for trading	6,921	6,920	1	-18,877	-18,882	5
Gains less losses from financial assets and liabilities designated at fair value through profit or loss	235	235	0	-3	-3	0
Fair value adjustments in hedge accounting	-3,239	-3,239	0	231	231	0
Foreign exchange translation gains less losses	1,158	1,626	-468	11,831	12,383	-552
Gains less losses on derecognition of assets	867	892	-25	-624	-622	-2
Other operating income	24,442	26,022	-1,580	27,329	27,432	-103
Other operating expenses	-33,204	-33,772	568	-26,824	-26,902	78
Administrative expenses	-261,160	-262,070	910	-265,984	-267,232	1,248
Depreciation and amortization	-28,345	-28,344	-1	-31,856	-31,870	14
Provisions for other liabilities and charges	-4,357	-4,488	131	696	247	449
Impairment charge	-56,288	-51,416	-4,872	-83,801	-87,867	4,066
Gains less losses from capital investments in subsidiaries, associates, and joint ventures	5,006	5,282	-276	4,312	1,145	3,167
Net losses from non-current assets held for sale	-432	-432	0	-690	-690	0
<b>Profit or loss before income tax</b>	<b>130,600</b>	<b>134,244</b>	<b>-3,644</b>	<b>106,758</b>	<b>98,902</b>	<b>7,856</b>
Income tax	-14,975	-14,975	0	-11,380	-11,964	584
<b>Profit or loss for the year</b>	<b>115,625</b>	<b>119,269</b>	<b>-3,644</b>	<b>95,378</b>	<b>86,938</b>	<b>8,440</b>
<b>Attributable to owners of the parent</b>	<b>110,017</b>	<b>113,673</b>	<b>-3,656</b>	<b>91,914</b>	<b>83,480</b>	<b>8,434</b>
Attributable to non-controlling interests	5,608	5,596	12	3,464	3,458	6

In NLB Group, there are no substantial practical or legal impediments to the prompt transfer of capital or repayment of liabilities between the parent undertaking and its subsidiaries.

In the case of a capital transfer, it is necessary to follow the provisions regarding the minimum capital. Also, for subsidiary banks, provisions regarding liquidity, capital adequacy, and the level of capital to cover all risks are taken into account, all in accordance with the local legislature.

In an asset management company (NLB Skladi), provisions regarding capital adequacy and level of capital to cover arise from the Law on Investment Funds and Management Companies, while in pension company (Nov penziski fond) provisions regarding capital adequacy and the level of capital to cover arise from the Law on Pension Insurance.

For several non-core leasing companies that are in the liquidation process there is a restriction according to a local Companies Law stipulating that over the duration of the liquidation process dividends are not paid out, nor are assets disbursed to stakeholders until all claims are paid. The liquidation process cannot be concluded until all the court disputes are brought to an end.

There are also contractual restrictions that are to be taken into account and arise from subordinated loans that NLB d.d. granted to two of the subsidiary banks, namely NLB Banka, Skopje and NLB Banka, Podgorica. According to the nature of the subordinated loan, in the event of a bankruptcy or liquidation procedure of the above mentioned subsidiary banks, such a loan cannot be repaid on the due date but only after claims arising from all unsubordinated obligations are settled, and to the extent permitted by the rest of the bank's assets in the bankruptcy or liquidation procedure.

All subsidiaries of the NLB Group not included in the prudential consolidation met the minimum capital requirements as at 31 December 2016. The total amount of capital deficit was EUR 0.

### 3. Capital

#### 3.1. Capital adequacy

Pursuant to Regulation (EU) No 575/2013, banks and banking groups must within the scope of regulatory calculations (Pillar 1) monitor three different capital adequacy ratios. The capital is divided into three subcategories that differ according to their quality in terms of their ability to cover risks. The system of three minimum ratios ensures an appropriate qualitative structure of these elements, i.e. their mutual proportions. The minimum ratios banks must achieve within the scope of Basel Pillar 1 (regulatory requirements) are the following:

- Common Equity Tier 1 (CET1) capital ratio: 4.5%,
- Tier 1 capital ratio: 6%, and
- Total capital ratio: 8%.

The needed level of capital ratios is also influenced by other requirements and recommendations that are being imposed to each bank by the supervisory institutions or by the legislation:

- Pillar 2 Requirements (SREP requirement): bank/group specific, set by supervisory authority, obligatory;
- Capital buffers: some are prescribed by law for all banks and some are bank-specific; not obligatory, but their breaching triggers limitations in payment of dividends and other distributions from capital (more details in Chapter 4);
- Pillar 2 Guidance: set by the supervisory authority for the individual bank/group, not obligatory, and not affecting dividends or other distributions from capital.

According to SREP decision, **at the end of 2016**, NLB was obliged to maintain a CET1 ratio on a consolidated basis on the level of 12.75% (covering Pillar 1 and Pillar 2 requirement and also capital conservation buffer).

**From 1 January 2017**, the new SREP decision applies, prescribing NLB to maintain a total capital ratio on a consolidated basis on the level of 11.5% (Pillar 1 + Pillar 2 requirement; before capital buffers).

In 2016, the capital adequacy ratios of NLB Group remained at a level which exceeded all current and announced regulatory capital requirements, including capital buffers and Pillar 2 Guidance.

NLB Group calculates capital and capital ratios fully in line with the EU legislation, which also includes discretionary measures prescribed by the Bank of Slovenia.

In 2016, the capital of NLB d.d. and NLB Group consists merely of the components of top-quality CET1 capital (no subordinated instruments that would rank in lower capital categories), which is why all three capital ratios are the same.

At the end of 2016, the three capital adequacy ratios for NLB Group stood at 17.0% (or 0.8 percentage point higher than at the end of 2015), and for NLB d.d. at 23.4% (or 0.8 percentage point higher than at the end of 2015). The improvement of NLB Group's capital adequacy derives mainly from retained earnings, and to a lesser degree from a drop in risk-weighted assets.

## Capital adequacy of NLB Group:

	in EUR thousand	
	31.12.2016	31.12.2015
Paid up capital instruments	200,000	200,000
Share premium	871,378	871,378
Retained earnings - from previous years	246,656	207,004
Current result	49,890	39,599
Accumulated other comprehensive income	-6,053	-4,090
Other reserves	13,522	13,522
Minority interest	0	0
Prudential filters: Cash flow hedge reserve	0	897
Prudential filters: Additional Valuation Adjustments (AVA)	-2,213	-3,134
(-) Goodwill	-3,529	-3,529
(-) Other intangible assets	-30,397	-35,745
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-3,013	-2,755
<b>Common Equity Tier 1 Capital (CET1)</b>	<b>1,336,241</b>	<b>1,283,147</b>
Additional Tier 1 capital	0	0
<b>Tier 1 capital</b>	<b>1,336,241</b>	<b>1,283,147</b>
Tier 2 capital	0	0
<b>Total capital</b>	<b>1,336,241</b>	<b>1,283,147</b>
Risk exposure amount for credit risk	6,864,737	6,849,633
Risk exposure amount for market risks	104,175	137,351
Risk exposure amount for CVA	463	9,313
Risk exposure amount for operational risk	892,753	930,688
<b>Total risk exposure amount (RWA)</b>	<b>7,862,128</b>	<b>7,926,985</b>
Common Equity Tier 1 Ratio	17.0%	16.2%
Tier 1 Ratio	17.0%	16.2%
<b>Total Capital Ratio</b>	<b>17.0%</b>	<b>16.2%</b>

### 3.2. Reconciliation of items with financial statements

(Articles 437 a and f, and 447 e of Regulation (EU) No 575/2013)

Calculations of the capital and capital ratios are based on the financial statements of NLB Group prepared according to prudential consolidation as described in Part One, Title II, Chapter 2 of Regulation (EU) No 575/2013. Essentially, the capital of NLB Group consists of the elements of equity of the balance sheet (not all elements and not fully) and, in addition, it is reduced by deduction items and prudential filters.

The table below shows to what extent individual balance sheet items are included in the calculation of capital and capital adequacy. In addition to the amounts actually included in the capital calculation for the end of the year (second column), the amounts of these items in their full extent are also presented, i.e. the amounts that would have been taken into account in the calculation of capital adequacy had there been no transitional period arrangements (third column).

Because of the gradual introduction of certain provisions, the capital actually taken into account in the calculation of capital adequacy for the end of 2016 is EUR 25,940 thousands lower than it would have been had all the requirements fully entered into force. The difference primarily arises from accumulated comprehensive income, where temporarily we excluded more unrealised gains than losses, and also partially from the deduction item for deferred taxes.

## Mapping of the balance sheet items (statement of financial position items) and capital for the purpose of capital adequacy of NLB Group

in EUR thousand

	31.12.2016			31.12.2015			
	Prudential consolidation	Included in capital (CAR) as reported	Fully-loaded capital (transitional agreements not applied)	Prudential consolidation	Included in capital (CAR) as reported	Fully-loaded capital (transitional agreements not applied)	
Cash, cash balances at central banks and other demand deposits at banks	1,299,313			1,162,931			
Trading assets	87,699	-88	-88	267,413	-267	-267	Prudential filter; Article 34 - AVA, 0.1% of book value
Financial assets designated at fair value through profit or loss	6,694	-7	-7	7,595	-8	-8	Prudential filter; Article 34 - AVA, 0.1% of book value
Available for sale financial assets	2,068,470	-2,068	-2,068	1,734,636	-1,735	-1,735	Prudential filter; Article 34 - AVA, 0.1% of book value
Derivatives - hedge accounting	217			1,083			
Loans and advances	7,489,784			7,598,650			
Held to maturity financial assets	611,449			565,535			
Fair value changes of hedged items in portfolio hedge of interest rate risk	678			741			
Non-current assets classified as held for sale	4,263			4,629			
Property and equipment	196,869			207,801			
Investment property	84,206			94,205			
Intangible assets	33,926	-33,926	-33,926	39,274	-39,274	-39,274	
Goodwill	3,529	-3,529	-3,529	3,529	-3,529	-3,529	Deduction item, Article 36.b - total amount
Other intangible assets	30,397	-30,397	-30,397	35,745	-35,745	-35,745	Deduction item, Article 36.b - total amount
Investments in associates and joint ventures	16,024			14,988			
Current income tax assets	3,942			1,602			
Deferred income tax assets	7,740	-3,013	-5,021	9,543	-2,755	-6,888	
That do not rely on future profitability	0			0			
That rely on future profitability and do not arise from temporary differences	5,021	-3,013	-5,021	6,888	-2,755	-6,888	Deduction item, Article 36.c - 60% of the amount in 2016 (40% in 2015) (transitional period)
That rely on future profitability and arise from temporary differences	2,719			2,655			
Other assets	94,438			95,159			
<b>Total assets</b>	<b>12,005,712</b>			<b>11,805,785</b>			
Trading liabilities	18,791	-30	-30	29,920	-30	-30	Prudential filter; Article 34 - AVA, 0.1% of book value
Financial liabilities designated at fair value through profit or loss	2,011	-5	-5	4,912	-5	-5	Prudential filter; Article 34 - AVA, 0.1% of book value
Derivatives - hedge accounting	29,024			33,842			
Financial liabilities measured at amortized cost	10,358,105			10,197,456			
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0			0			
Provisions	89,716			98,784			
Current income tax liabilities	3,117			7,534			
Deferred income tax liabilities	711			289			
Other liabilities	8,764			14,602			
<b>Total liabilities</b>	<b>10,510,239</b>			<b>10,387,339</b>			

in EUR thousand

	31.12.2016			31.12.2015			
	Prudential consolidation	Included in capital (CAR) as reported	Fully-loaded capital (transitional agreements not applied)	Prudential consolidation	Included in capital (CAR) as reported	Fully-loaded capital (transitional agreements not applied)	
Share capital	200,000	200,000	200,000	200,000	200,000	200,000	Included in total amount, Article 26
Share premium	871,378	871,378	871,378	871,378	871,378	871,378	Included in total amount, Article 26
Accumulated other comprehensive income	20,102	-6,053	21,895	15,693	-4,090	15,693	
From debt securities	32,063	1,124	33,856	29,065	1,259	29,065	
AFS exposures to central governments - positive effectss	30,190	0	30,190	29,070	0	29,070	Not included in capital according to BoS discretion, Article 467 (in transitional period)
AFS exposures to central governments - negative effectss	-1,793	-1,076	-1,793	-3,152	0	-3,152	In 2016 only 60% of book value is included (0% in 2015), Article 467 (transitional period)
Other exposures	3,666	2,200	3,666	3,147	1,259	3,147	In 2016 only 60% of book value is included (40% in 2015), Articles 467 and 468 (transitional period)
From equity securities	11,017	6,610	11,017	11,342	4,537	11,342	In 2016 only 60% of book value is included (40% in 2015), Articles 467 and 468 (transitional period)
From consolidation capital adjustment	0	0	0	0	0	0	In 2016 only 60% of book value is included (40% in 2015), Articles 467 and 468 (transitional period)
From cashflow hedges	0	0	0	-2,243	-897	-2,243	60% of value is included in 2016 (40% in 2015) (Article 467) and then excluded as deduction item (Article 33 a)
From hedge of net investment in foreign operation	754	452	754	754	302	754	In 2016 only 60% of book value is included (40% in 2015), Articles 467 and 468 (transitional period)
Other	-23,732	-14,239	-23,732	-23,225	-9,290	-23,225	In 2016 only 60% of book value is included (40% in 2015), Articles 467 and 468 (transitional period)
Profit reserves	13,522	13,522	13,522	13,522	13,522	13,522	Included in total amount, Article 26
Retained earnings	360,329	296,546	296,546	290,484	246,603	246,603	Included in total amount, Article 26
Retained earnings - from previous years	246,656	246,656	246,656	207,004	207,004	207,004	
Retained earnings - current results	113,673	49,890	49,890	83,480	39,599	39,599	Included only remaining sum after dividends, Article 26
Treasury shares	0	0	0	0	0	0	
Non-controlling interests	30,142	0	0	27,369	0	0	Not eligible for inclusion in capital (Articles 81 to 84)
<b>Total equity</b>	<b>1,495,473</b>			<b>1,418,446</b>			
<b>Total liabilities and equity</b>	<b>12,005,712</b>			<b>11,805,785</b>			
		1,336,270	1,362,210		1,283,339	1,298,990	Sum of balance sheet items
		-29	-29		-1,090	-1,090	Prudential filter; Article 34 - AVA for off-balance items, 0.1% of book value
		1,336,241	1,362,181		1,283,147	1,300,143	Capital

## Differences between the accounting capital and the capital for the calculation of capital adequacy of NLB Group as at 31 December 2016

in EUR thousand

31.12.2016	Equity in balance sheet (prudential consolidation)	Dividends	Exclusion of minority interests not eligible according to CRR requirements	Exclusion of 100% of unrealised profits from exposures to central governments (in transitional period)	Exclusion of 40% of unrealised losses from exposures to central governments (in transitional period)	Exclusion of 40% of unrealised losses from exposures to central governments (in transitional period)	Prudential filters and deduction items from capital	Capital (included in calculation of capital adequacy)	Capital item (in capital adequacy calculation)
Share capital	200,000							200,000	Paid in capital instruments
Share premium	871,378							871,378	Share premium
Accumulated other comprehensive income	20,102			-30,190	717	3,318		-6,053	Accumulated other comprehensive income
Profit reserves	13,522							13,522	Other reserves
Retained earnings - from previous years	246,656							246,656	Retained earnings - from previous years
Rretained earnings - current results	113,673	-63,783						49,890	Current results
Non-controlling interests	30,142		-30,142					0	Minority interest
							0	0	Prudential filter: Cash flow hedges reserve (Article 33.a)
							-2,213	-2,213	Prudential filter: Additional valuation adjustment (AVA) (Article 34)
							-3,529	-3,529	Deduction item: Goodwill (Article 36.b)
							-30,397	-30,397	Deduction item: Other intangible assets (Article 36.b)
							-3,013	-3,013	Deduction item: Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated liabilities (Article 36.c)
<b>Total equity</b>	<b>1,495,473</b>	<b>-63,783</b>	<b>-30,142</b>	<b>-30,190</b>	<b>717</b>	<b>3,318</b>	<b>-39,152</b>	<b>1,336,241</b>	<b>Common Equity Tier 1 (CET1) capital</b>
								0	Additional Tier 1 capital
								<b>1,336,241</b>	<b>Tier 1 capital</b>
								0	Tier 2 capital
								<b>1,336,241</b>	<b>Total capital</b>

## Differences between the accounting capital and the capital for the calculation of capital adequacy of NLB Group as at 31 December 2015

in EUR thousand

31.12.2015	Equity in balance sheet (prudential consolidation)	Dividends	Exclusion of minority interests not eligible according to CRR requirements	Exclusion of 100% of unrealised profits from exposures to central governments (in transitional period)	Exclusion of 60% of unrealised losses from exposures to central governments (in transitional period)	Prudential filters and deduction items from capital	Capital (included in calculation of capital adequacy)	Capital item (in capital adequacy calculation)
Share capital	200,000						200,000	Paid in capital instruments
Share premium	871,378						871,378	Share premium
Accumulated other comprehensive income	15,693			-25,918	6,135		-4,090	Accumulated other comprehensive income
Profit reserves	13,522						13,522	Other reserves
Retained earnings - from previous years	207,004						207,004	Retained earnings - from previous years
Retained earnings - current results	83,480	-43,881					39,599	Current results
Non-controlling interests	27,369		-27,369				0	Minority interest
						897	897	Prudential filter: Cash flow hedges reserve (Article 33.a)
						-3,134	-3,134	Prudential filter: Additional valuation adjustment (AVA) (Article 34)
						-3,529	-3,529	Deduction item: Goodwill (Article 36.b)
						-35,745	-35,745	Deduction item: Other intangible assets (Article 36.b)
						-2,755	-2,755	Deduction item: Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated liabilities (Article 36.c)
<b>Total equity</b>	<b>1,418,446</b>	<b>-43,881</b>	<b>-27,369</b>	<b>-25,918</b>	<b>6,135</b>	<b>-44,266</b>	<b>1,283,147</b>	<b>Common Equity Tier 1 (CET1) capital</b>
							0	Additional Tier 1 capital
							<b>1,283,147</b>	<b>Tier 1 capital</b>
							0	Tier 2 capital
							<b>1,283,147</b>	<b>Total capital</b>

### 3.3. Capital instruments included in the capital

(Article 437 b and c of Regulation (EU) No 575/2013)

In 2016 the capital of NLB Group solely consisted of Common Equity Tier 1 capital; the only instruments included in Common Equity Tier 1 capital were the ordinary shares of the parent company NLB d.d.

In 2016 NLB Group had no capital instruments issued that would be eligible for inclusion in Additional Tier 1 capital or Tier 2 capital. Some subsidiary banks in NLB Group do have subordinated instruments which they themselves use as a capital component, but because of the non-comparability of the legislation these instruments do not meet the conditions for inclusion in the capital of NLB Group.

## The main characteristics of the ordinary shares of NLB Group:

1	Issuer	NOVA LJUBLJANSKA BANKA d.d., Ljubljana
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	SI0021116502
3	Governing law(s) of the instrument	Slovene
<b>Regulatory treatment</b>		
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary share
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	Paid up capital and related share premium: 1.071.377
9	Nominal amount of instrument	N/A – No par value shares (20,000,000 shares)
9a	Issue price	EUR 77.55
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	18.12.2013
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
<b>Coupons / dividends</b>		
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	First loss absorbent instrument subordinated to all instruments
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

N/A – not relevant for this instrument

The ordinary shares are fully included in the Common Equity Tier 1 capital of NLB Group as the only source. The shares meet all the conditions for inclusion in the capital as stated under the relevant provisions of Regulation (EU) No 575/2013.

### 3.4. Detailed presentation of capital elements

(Article 437 d and e, and 492.3 of Regulation (EU) No 575/2013)

The table below shows in detail the elements of the calculation of the capital of NLB Group at the end of the years 2016 and 2015 in the form prescribed by the EBA implementing technical standards, published as Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2014 (Annex VI – presentation of items in the transitional period). A summarised substantive presentation of the elements relevant for NLB Group is given in Chapter 3.1.

In line with the instructions, the second column includes amounts that are temporarily excluded from the calculation of capital adequacy according to the provisions on the transitional period (residual amounts). Had the provisions applied fully, i.e. without the transitional period, the calculation would include the amount from the first column added by the difference in the second column.

NLB Group does not have any capital instruments that would no longer be eligible for inclusion and that would be subject to pre-Regulation treatment.

## Transitional own funds (capital) template for NLB Group

		31.12.2016		31.12.2015	
		Amount at disclosure date (transitional arrangements as prescribed for this date)	Amounts subject to pre-Regulation (EU) No 575/2013 or prescribed residual amount of Regulation (EU) No 575/2013	Amount at disclosure date (transitional arrangements as prescribed for this date)	Amounts subject to pre-Regulation (EU) No 575/2013 or prescribed residual amount of Regulation (EU) No 575/2013
<b>Common equity Tier 1 (CET1) capital: instruments and reserves</b>					
1	Capital instruments and the related share premium accounts	1,071,378	0	1,071,378	0
	of which: ordinary shares	1,071,378	0	1,071,378	0
2	Retained earnings	246,656	0	207,004	0
3	Accumulated other comprehensive income (and other reserves)	33,624	26,155	29,215	19,783
3a	Funds for general banking risk	0	0	0	0
5	Minority interest (amount allowed in consolidated CET1)	0	0	0	0
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	49,890	0	39,599	0
<b>6</b>	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>1,401,548</b>	<b>26,155</b>	<b>1,347,196</b>	<b>19,783</b>
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>					
7	Additional value adjustments (negative amount)	-2,213	0	-3,134	0
8	Intangible assets (net of related tax liability) (negative amount)	-33,926	-13,570	-39,274	-23,564
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38(3) are met) (negative amount)	-5,021	-2,008	-6,888	-4,133
11	Fair value reserves related to gains or losses on cash flow hedges	0	0	2,243	1,346
12	Negative amounts resulting from the calculation of expected loss amounts	0	0	0	0
13	Any increase in equity that results from securitised assets (negative amount)	0	0	0	0
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	0	0	0
15	Defined-benefit pension fund assets (negative amount)	0	0	0	0
16	Direct and indirect holdings by an institution of own CET1 Instruments (negative amount)	0	0	0	0
17	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	0	0	0
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	0	0	0
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	0	0	0
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	0	0	0
20b	of which: qualifying holdings outside the financial sector (negative amount)	0	0	0	0
20c	of which: securitisation positions (negative amount)	0	0	0	0
20d	of which: free deliveries (negative amount)	0	0	0	0
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38(3) are met) (negative amount)	0	0	0	0
22	Amount exceeding the 15% threshold (negative amount)	0	0	0	0
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0	0	0	0

		31.12.2016		31.12.2015	
		Amount at disclosure date (transitional arrangements as prescribed for this date)	Amounts subject to pre-Regulation (EU) No 575/2013 or prescribed residual amount of Regulation (EU) No 575/2013	Amount at disclosure date (transitional arrangements as prescribed for this date)	Amounts subject to pre-Regulation (EU) No 575/2013 or prescribed residual amount of Regulation (EU) No 575/2013
25	of which: deferred tax assets arising from temporary differences	0	0	0	0
25a	Losses for the current financial year (negative amount)	0	0	0	0
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0	0	0	0
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0	0	0	0
26a	Regulatory adjustments related to unrealised gains and losses pursuant to Articles 467 and 468	-26,155	0	-21,129	0
	of which: filter for unrealised loss - exposures to central governments	717	0	3,152	0
	of which: filter for unrealised loss - other exposures	9,788	0	14,399	0
	of which: filter for unrealised gains - exposures to central governments	-30,190	0	-29,070	0
	of which: filter for unrealised gains - other exposures	-6,470	0	-9,610	0
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	15,578	0	27,697	0
	of which: intangible assets (including goodwill)	13,570	0	23,564	0
	of which: deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	2,008	0	4,133	0
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-13,570	0	-23,564	0
<b>28</b>	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>-65,307</b>	<b>-15,578</b>	<b>-64,049</b>	<b>-26,351</b>
<b>29</b>	<b>Common Equity Tier 1 (CET1) capital</b>	<b>1,336,241</b>	<b>10,577</b>	<b>1,283,147</b>	<b>-6,568</b>
<b>Additional Tier 1 (AT1) capital: instruments</b>					
30	Capital instruments and the related share premium accounts	0	0	0	0
33	Amount of qualifying items referred to in Article 484(3) and the related share premium account subject to phase out from AT1	0	0	0	0
	Public sector capital injections grandfathered until 1 January 2018	0	0	0	0
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	0	0	0	0
<b>36</b>	<b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Additional Tier 1 (AT1) capital: regulatory adjustments</b>					
37	Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)	0	0	0	0
38	Direct, indirect, and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	0	0	0
39	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	0	0	0
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	0	0	0
41	Regulatory adjustments applied to Additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) no 575/2013 (i.e. CRR residual amounts)	0	0	0	0
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) no 575/2013	13,570	13,570	23,564	23,564
	of which: intangible assets (including goodwill)	13,570	13,570	23,564	23,564
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of Regulation (EU) no 575/2013	0	0	0	0

	31.12.2016		31.12.2015	
	Amount at disclosure date (transitional arrangements as prescribed for this date)	Amounts subject to pre-Regulation (EU) No 575/2013 or prescribed residual amount of Regulation (EU) No 575/2013	Amount at disclosure date (transitional arrangements as prescribed for this date)	Amounts subject to pre-Regulation (EU) No 575/2013 or prescribed residual amount of Regulation (EU) No 575/2013
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	0	0	0
42	Qualifying T2 deductions that exceeded the T2 capital of the institution	-13,570	0	-23,564
<b>43</b>	<b>Total regulatory adjustments to Additional Tier 1 (AT1)</b>	<b>0</b>	<b>13,570</b>	<b>0</b>
<b>44</b>	<b>Additional Tier 1 (AT1) capital</b>	<b>0</b>	<b>13,570</b>	<b>0</b>
<b>45</b>	<b>Tier 1 capital (T1= CET1 + AT1)</b>	<b>1,336,241</b>	<b>24,147</b>	<b>1,283,147</b>
<b>Tier 2 (T2) capital: instruments and provisions</b>				
46	Capital instruments and the related share premium accounts	0	0	0
47	Account of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase out from T2	0	0	0
	Public sector capital injections grandfathered until 1 January 2018	0	0	0
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	0	0	0
50	Credit risk adjustment	0	0	0
<b>51</b>	<b>Tier 2 (T2) capital before regulatory adjustments</b>	<b>0</b>	<b>0</b>	<b>0</b>
52	Direct and indirect holdings by an institution of own T2 Instruments and subordinated loans (negative amount)	0	0	0
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	0	0
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	0	0
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	0	0
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) no 575/2013 (i.e. CRR residual amounts)	0	0	0
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) no 575/2013	0	0	0
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) no 575/2013	0	0	0
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR	0	0	0
<b>57</b>	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>58</b>	<b>Tier 2 (T2) capital</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>59</b>	<b>Total capital (TC = T1 + T2)</b>	<b>1,336,241</b>	<b>24,147</b>	<b>1,283,147</b>
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. residual amounts)	0	0	0
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of non-significant investments in the capital of other financial sector entities, etc.)	0	0	0

		31.12.2016		31.12.2015	
		Amount at disclosure date (transitional arrangements as prescribed for this date)	Amounts subject to pre-Regulation (EU) No 575/2013 or prescribed residual amount of Regulation (EU) No 575/2013	Amount at disclosure date (transitional arrangements as prescribed for this date)	Amounts subject to pre-Regulation (EU) No 575/2013 or prescribed residual amount of Regulation (EU) No 575/2013
60	Total risk weighted assets	7,862,128	-21,002	7,926,985	-22,031
<b>Capital ratios and buffers</b>					
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	17.0%		16.2%	
62	Tier 1 (as a percentage of total risk exposure amount)	17.0%		16.2%	
63	Total capital (as a percentage of total risk exposure amount)	17.0%		16.2%	
64	Institution specific buffer requirement (CET1 Requirement in accordance with Article 92(1)(a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	5.125%		N/A	
65	of which: capital conservation buffer requirement	0.625%		N/A	
66	of which: countercyclical buffer requirement	0.0%		N/A	
67	of which: systemic risk buffer requirement	0.0%		N/A	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	N/A		N/A	
68	Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure amount)	9.0%		N/A	
<b>Amounts below the threshold for deduction (before risk weighting)</b>					
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	2,138	0	2,215	0
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	16,236	0	15,243	0
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38(3) are met)	2,719	0	2,655	0
<b>Applicable caps on the inclusion of provisions in Tier 2</b>					
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0	0	0	0
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	N/A	N/A	N/A	N/A
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0	0	0	0
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	N/A	N/A	0	0
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)</b>					
80	Current cap on CET1 instruments subject to phase out arrangements	N/A	N/A	N/A	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	0	0	0
82	Current cap on AT1 instruments subject to phase out arrangements	N/A	N/A	N/A	N/A
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	0	0	0
84	Current cap on T2 instruments subject to phase out arrangements	N/A	N/A	N/A	N/A
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	0	0	0

N/A – not relevant

#### 4. Capital buffers

##### (Article 440 of Regulation (EU) No 575/2013)

In 2016, the European capital legislation introduced a system of capital buffers in order to provide the adequate capital accumulation from a bank's operational results. Next to the Pillar 1 and Pillar 2 requirements, banks must cover with their highest quality capital (CET1) also the requirements arising from capital buffers. However, these requirements are less binding as their breaching will result at most in restrictions on distributions of the operational result with the aim of strengthening the capital base.

The combined buffer requirement is a combination of the following elements:

- Capital conservation buffer
- Countercyclical buffer
- Global systemically important institutions (G-SII) buffer – not relevant for NLB Group
- Other systemically important institutions (O-SII) buffer
- Systemic risk buffer (SRB) – not anticipated at the moment.

In 2016, following capital buffer requirements were relevant for NLB:

- **Capital conservation buffer:** in 2016 prescribed at the level of 0.625% of RWA, but according to an ECB decision part of the Pillar 2 (SREP) requirement and therefore not again part of the combined buffer requirement
- **Countercyclical buffer:** in 2016 requirement for NLB d.d. and NLB Group amounted to 0% RWA; in more details described below.

NLB Group was identified by the Bank of Slovenia decision from 17 December 2015 as »Other systemically important institution«, so the following buffer is also relevant:

**Other systemically important institutions (O-SII) buffer:** in line with the Bank of Slovenia's decision, the NLB on the consolidated level must provide CET1 capital in the amount of 1% of RWA on top of the Pillar 1 and Pillar 2 requirements from 1 January 2019 on.

##### Countercyclical buffer

On 1 January 2016 the Bank of Slovenia introduced a macro-prudential measure: a countercyclical capital buffer intended to protect the banking sector from losses potentially caused by cyclical risks in the economy. The purpose of the countercyclical capital buffer is to ensure that the bank has a sufficient capital base in periods of credit growth, to be used in stress periods or when the conditions for lending are less favourable, i.e. to absorb losses. When the defined buffer rate is more than 0%, or when the already established rate is increased, the new buffer rate applies 12 months after publication (except for extraordinary cases). The buffer value may fluctuate between 0% and 2.5% of the amount of total risk exposure (in exceptional cases also more) and depends on the amount of risk in the system.

The buffer value for exposures in Slovenia, in force from 1 January 2016, is 0%. To define the buffer rate, the Bank of Slovenia followed the methodology of the BCBS, ESRB, and the credit cycle assessment for Slovenia. The buffer rates applicable to exposures in other countries of the European Economic Area are those defined on the ESRB website, refreshed quarterly, while the buffer rate applying to credit exposures to countries not listed on that page nor prescribed by the Bank of Slovenia or a competent authority of that country are 0%. Countercyclical capital rates have generally been set at 0%, except for Sweden and Norway, which have as at 31 December 2016 a countercyclical capital rate of 1.5%.

The obligation to disclose information with regard to the geographic distribution of credit exposures, appropriate to calculate the countercyclical capital buffer, capital requirements, and the rates of the bank-specific countercyclical capital buffer is quarterly, or must be made public at least once a year, depending on the date of publication of financial statements, and applies from 1 January 2016.

A calculation of the bank-specific countercyclical capital buffer is made on an individual, as well as consolidated level. The bank defines the geographic distribution of exposures which are subject to the calculation of capital requirement for credit risk using the standardised approach and the special risk or risk of non-payment, and migrations for exposures from the trading book and capital requirements from securitisation. If the bank's exposures represent less than 2% of its total risk-weighted exposures, these exposures may be presented at the geographic location of the bank and additionally explained.

The rate of the bank-specific countercyclical capital buffer is composed of the weighted average of countercyclical capital buffer rates used in those countries where the relevant credit exposures of this institution are located. According to transitional regime granted by the Bank of Slovenia, for the period from 1 January 2016 until 31 December 2016, the bank-specific countercyclical buffer should have been no more than 0.625% of the total risk-weighted exposure amounts of the bank.

#### Amount of bank-specific countercyclical capital buffer for NLB Group:

	in EUR thousand	
	NLB d.d.	NLB Group
Total risk exposure amount	269,837	409,213
Bank-specific countercyclical buffer rate	0%	0%
Bank-specific countercyclical buffer requirement	0	0

## 5. Capital requirements

### 5.1. Summary of the approach to assessing the internal capital needed for current and planned activities

(Article 438 a of Regulation (EU) No 575/2013)

The internal capital adequacy assessment process (ICAAP) of NLB Group meets the requirements of the Regulation (EU) No 575/2013, the recommendations of the Bank of Slovenia and the European Central Bank, the European Banking Authority, and follows good banking practices. The main purpose of implementation of the ICAAP and ILAAP processes is to provide following:

- an assurance of adequate identification and measurement of risks,
- adequate capital, funding, and liquidity of the Group in connection with the risk appetite,
- an assured robust risk management process (from the organisational and methodological point of view) on an on-going basis.

The ICAAP process in NLB Group is integrated into the decision-making process at the strategic and operating levels, including the budgeting process. With the active role of the Management and Supervisory Boards of NLB d.d., it represents one of the key components of the Group's proactive management, with the aim to ensure stable, long-time operations. Pursuant to the EBA guidelines, NLB Group is constantly upgrading the ICAAP and ILAAP processes (Internal Liquidity Adequacy Assessment Process). The ILAAP process involves a comprehensive assessment of liquidity risk control including qualitative and quantitative elements of assessment.

NLB Group plans a prudent risk appetite and optimally profitable operations in the long run, considering the risks assumed, while at the same time meeting all regulatory requirements. The strategy of NLB Group, the risk appetite, the risk strategy, and the key internal risk policies of NLB Group approved by the Management Board and the Supervisory Board of NLB d.d. specify the strategic objectives and guidelines concerning risk assumption, and the approaches and methodologies of monitoring, measuring, mitigating and managing all types of risk.

The Group is regularly monitoring its target risk appetite profile, representing the key component of the risk mitigation process. A risk profile enables detailed monitoring and proactive management. The usage of risk profile limits and potential deviations from limits and target values are reported regularly to the respective committees and/or the Management Board of the Bank, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank. Additionally, NLB Group has set up early warning systems in different risk areas with the intention to strengthen the existing internal controls, as well as the ability to respond in a timely manner when necessary.

When considering the ICAAP process, risk identification and assessment are carried out on the basis of internal methodologies. They take into account the complexity of the structure of NLB Group's operations with a tendency to upgrade in terms of advanced approaches to risk management. The ICAAP process includes at least regular quarterly monitoring and reporting at the level of the Management and Supervisory Boards of NLB d.d., and defines a set of corrective measures for managing and mitigating risks.

The internal assessment of NLB Group's capital requirements consists of the following steps:

- the identification of all risks, the definition of materially significant risks, and their treatment in the context of the ICAAP process,
- selection of the approach to the calculation of regulatory capital requirements (Pillar 1),
- definition of the internal methodology for the identification, measurement, and calculation of capital requirements for risks not covered within the scope of Pillar 1 (Pillar 2),

- implementing stress scenarios for key material risks,
- methodology for preparation of an aggregate assessment of capital requirements for all material risks using the baseline and adverse scenarios,
- definition of ICAAP limits from the aspect of capital consumption for materially significant risks,
- planning the volume of available capital, defining the target capital adequacy ratio, and
- regular monitoring and definition of the measures to manage and mitigate risks.

In the scope of regulatory (Pillar 1) risks, which include credit risk, operational risk, and market risk, NLB Group uses the standardised approach for credit and market risks, while the calculation of the capital requirement for operational risks is made according to the basic indicator approach. The same approaches are used for calculating the capital requirements for NLB d.d. on a standalone basis, except for calculation of the capital requirement for operational risks, where the standardised approach is used.

In the preparation of the internal capital adequacy assessment, NLB Group identifies risks not included in the calculation under the regulatory approach (Pillar 1) which have a significant impact on its operation. The scope of additional credit risks also includes concentration risk – to individual clients and groups of related parties, at the level of activity – and collateral concentration risk. NLB Group calculates the capital requirement for non-financial risks (which include capital risk, profitability risk, strategic risk, divestment risk, and reputation risk) if it assesses that an individual risk is crucial for NLB Group. In addition, non-regulatory risks include the effects of stress scenarios for credit (deterioration of the credit rating structure, decrease in real-estate market prices), currency, liquidity risk, interest rate risk in the banking book, credit spread risk, and market risk arising from securities.

The comprehensive performance of the ICAAP and ILAAP processes in NLB Group is defined in an internal document in line with the EBA guidelines which are described in detail in the document “Guidelines on ICAAP and ILAAP information collected for SREP purposes.” Besides, bank members of NLB Group have set up their own ICAAP process in line with the common Group’s guidelines, including the specifics of their operations, the investment portfolio structure, strategic guidelines, regulatory framework, and the relevant macroeconomic environment.

## 5.2. Capital requirements

(Article 438 c, e and f and 445 of Regulation (EU) No 575/2013)

NLB Group uses the following approaches to calculate the regulatory capital requirements on a consolidated basis:

- credit risk – standardised approach,
- market risk – standardised approach, and
- operational risk – simple approach.

In the calculation of capital ratios, risk is expressed as a risk exposure amount or a capital requirement. The capital requirement for an individual risk amounts to 8% of the total exposure to the individual risk. The table below shows the detailed composition of the capital requirements and risk exposure amounts of NLB Group at the end of 2016 and at the end of the previous year.

## Capital requirements and risk exposure amounts of NLB Group

in EUR thousand

	31.12.2016		31.12.2015	
	Risk exposure amount (RWA)	Capital requirement (8% RWA)	Risk exposure amount (RWA)	Capital requirement (8% RWA)
Central governments or central banks	864,356	69,148	856,959	68,557
Regional governments or local authorities	58,175	4,654	65,507	5,241
Public sector entities	54,385	4,351	62,390	4,991
Multilateral Development Banks	0	0	0	0
International Organisations	0	0	0	0
Institutions	540,002	43,200	507,900	40,632
Corporates	1,745,284	139,623	1,642,243	131,379
Retail	2,328,862	186,309	2,163,645	173,092
Secured by mortgages on immovable property	214,583	17,167	205,434	16,435
Exposures in default	566,336	45,307	853,645	68,292
Items associated with particular high risk	9,061	725	9,191	735
Covered bonds	7,416	593	8,989	719
Claims on institutions and corporates with a short-term credit assessment	0	0	0	0
Collective investments undertakings (CIU)	5,794	464	2,671	214
Equity	75,829	6,066	57,517	4,601
Other items	394,654	31,572	413,542	33,083
<b>Credit risk</b>	<b>6,864,737</b>	<b>549,179</b>	<b>6,849,633</b>	<b>547,971</b>
Position risk - Traded debt instruments	27,975	2,238	69,013	5,521
Position risk - Equity	0	0	25	2
Large exposures exceeding the limit	0	0	0	0
Foreign exchange risk	76,200	6,096	68,313	5,465
Settlement / delivery risk	0	0	0	0
Commodities risk	0	0	0	0
Specific interest rate risk of securitisation positions	0	0	0	0
<b>Market risks</b>	<b>104,175</b>	<b>8,334</b>	<b>137,351</b>	<b>10,988</b>
<b>Credit valuation adjustment (CVA)</b>	<b>463</b>	<b>37</b>	<b>9,313</b>	<b>745</b>
<b>Operational risk</b>	<b>892,753</b>	<b>71,420</b>	<b>930,688</b>	<b>74,455</b>
<b>Total risk exposure amount / capital requirements</b>	<b>7,862,128</b>	<b>628,970</b>	<b>7,926,985</b>	<b>634,159</b>

For NLB Group there were no materially important methodological changes in the calculation of the capital requirements within the year 2016. The differences come from the Group's regular business operations.

## 6. Exposure to counterparty credit risk

### 6.1. The methodology used to assign internal capital and credit limits for counterparty credit exposures, and the measures for exposure value under the method used

(Article 439 a and f of Regulation (EU) No 575/2013)

NLB Group monitors counterparty credit risk exposure by using the method of current exposure in compliance with Regulation (EU) No 575/2013. Credit replacement value (CRV) is the sum of current and potential exposure. For repo transactions, the exposure equals the current value of the investment (comprising the nominal value and accrued interest) less the current value of collateral (market price of the security) where the highest exposure may equal the agreed amount not being transferred within the margin call.

The credit exposure is monitored by applying a limit to individual clients (according to the principle of sustainable debt). The limit is set within the scope of credit advice (opinion regarding risk assumption, taking the principle of co-decision into account). It is carried out in line with the Criteria and Procedures for Granting Loans, and the currently applicable regulations in the area.

The calculation of internal capital for the above-mentioned financial instruments is analogous to that made for other types of investments by using a standardised approach for credit risks. The consumption of capital is relatively low owing to relatively small transaction volumes and the low exposure arising from these financial instruments as a share of all transactions. In accordance with the Directive 2013/36/EU, the Bank transferred the settlement of some transactions to the so-called 'suitable central counterparty.' Therefore, there is no material effect on the consumption of capital.

The new legislation on capital requirements brought changes concerning exposure to counterparty credit risk and the related capital requirements. In the valuation of these financial instruments, the fair value calculation must be adjusted by including counterparty credit risk (CVA – credit valuation adjustment) unless the settlement is made via a central counterparty or clearing house.

### 6.2. Policies for collateralisation and the establishment of credit reserves, and impact of the amount of collateral the institution would have to provide in case of a downgrading of its credit rating

(Article 439 b and d of Regulation (EU) No 575/2013)

The conclusion of financial derivatives transactions in NLB Group is defined in detail in its internal documents (policies, strategies). The conclusion of transactions involving derivatives at NLB d.d. is limited to the servicing of clients and hedging of its own open positions against risk. In accordance with the provisions of the Strategy on trading in financial instruments in NLB Group, the trading activities in other NLB Group members are very restricted. These documents represent the framework within which the Bank may trade in derivatives, including the level of acceptable risk. Thus, NLB d.d. is the only member of the Group with a trading book in accordance with the requirements of Regulation (EU) No 575/2013. For operations on the interbank market, NLB d.d. has signed ISDA agreements with the relevant annexes, such as CSA, which regulates the exchange of collateral to cover for market exposure for all transactions under an ISDA agreement.

If NLB d.d. was downgraded, the counterparties, financial institutions in particular, with whom the Bank had or has entered into transactions could ask the Bank to increase the collateral or decide to terminate the transactions early. In accordance with the EU directive, the Bank transferred the monitoring and settlement of some transactions to a suitable central counterparty (CCP – qualifying central counterparty), thus avoiding the risk of negative effects from the early termination of a transaction or the necessary provision of additional collateral.

NLB has signed CSA annex with the most of the banks with a threshold at 0 EUR. The total minimum transfer amount for an open position is EUR 4 million, but in most cases there is no contractual provision to decrease the amount in the case of a bank's downgrade.

### 6.3. Discussion of policies with respect to wrong-way risk exposures

(Article 439 c of Regulation (EU) No 575/2013)

If a counterparty which has been asked to provide additional prime collateral necessary due to adverse changes in financial markets fails to do so, the Bank may close synthetic forward deals and liquidate the existing collateral in accordance with the applicable Master agreement for trading in derivatives or through clearing at the daily level. On the interbank market, the Bank performs derivatives transactions in accordance

with the signed ISDA agreement and pertaining annexes (CSA). The Bank transferred the monitoring and settlement of the majority of these transactions made with financial institutions to the suitable CCP.

#### **6.4. Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held, and net derivatives credit exposure**

(Article 439 e of Regulation (EU) No 575/2013)

NLB Group uses contractual offsets (such as a CSA Agreement and Margin call) to a very limited extent and only for internal needs of monitoring. NLB Group does not use the contractual offset provisions in regulatory reporting (exposure and credit risk capital requirement calculation). In accordance with Article 432 of Regulation (EU) No 575/2013, the Bank does not disclose details considering the low volume of transactions and their effect on the Bank's business performance, it is not material information which, if omitted or misstated, would alter or affect the assessment or decision of the person using the information to take economic decisions.

### **7. Credit risk adjustments**

For calculating the capital requirement for credit risk, NLB Group uses the standardised approach as prescribed by Regulation (EU) No 575/2013. Calculation of the capital requirement takes into account the effect of loan collaterals as a secondary source of receivable repayment; NLB uses the simple calculation method for collaterals. According to this methodology, the capital requirement is calculated depending on the segment and credit quality of clients (as determined by external credit rating), and the quality of collaterals which must be adequately evaluated and at the same time satisfy the prescribed minimum requirements.

#### **7.1. Breakdown of exposures and loan collaterals by exposure category**

(Article 442 c, 444 e and 453 d, f and g of Regulation (EU) No 575/2013)

Distribution of exposures, credit collaterals, risk-weighted assets, and capital requirement of NLB Group based on exposure categories:

- as at 31 December 2016:

Category of exposure	Credit risk mitigation techniques (CRM)				
	Original exposure			Unfunded credit protection: adjusted values (GA)	
	pre-conversion factor	Share of each category	Net value of exposure	Guarantees	Credit derivatives
	1	2=1/sum(1)	3	4	5
Central governments or central banks	2,907,905	19.71%	2,907,773	0	0
Regional governments or local authorities	126,957	0.86%	117,800	0	0
Public sector entities	134,276	0.91%	128,420	59,296	0
Multilateral development banks	41,318	0.28%	41,318	0	0
International organisations	0	0.00%	0	0	0
Institutions	1,334,516	9.04%	1,333,779	60,030	0
Corporates	3,453,647	23.40%	3,375,387	770,062	0
Retail	3,905,429	26.47%	3,852,314	660	0
Secured by mortgages on immovable property	598,932	4.06%	593,010	0	0
Exposures in default	1,442,729	9.78%	541,761	520	0
Items associated with particular high risk	7,129	0.05%	6,709	0	0
Covered bonds	50,418	0.34%	50,418	0	0
Collective investments undertakings (CIU)*	44,570	0.30%	44,570	0	0
Equity	49,547	0.34%	49,547	0	0
Other items	659,581	4.47%	654,396	0	0
<b>Total</b>	<b>14,756,954</b>	<b>100.00%</b>	<b>13,697,202</b>	<b>890,568</b>	<b>0</b>

\* The exposure from Collective investment undertakings also includes the exposure to the Bank Resolution Fund

in EUR thousand

Credit risk mitigation techniques (CRM)

Funded credit protection		Value of CRM / Net exposure	Net exposure after CRM substitution effects pre conversion factors	Exposure value	Risk weighted exposure amount	Capital requirement	Share of capital requirement
Financial collateral: simple method	Other funded credit protection						
6	7	8=(4+5+6+7)/3	9	10	11	12	13=12/sum(12)
4	0	0.00%	3,898,945	3,867,093	864,356	69,148	12.59%
0	0	0.00%	117,800	116,848	58,175	4,654	0.85%
169	0	46.31%	68,955	63,166	54,385	4,351	0.79%
0	0	0.00%	41,318	41,318	0	0	0.00%
0	0	0.00%	0	0	0	0	0.00%
745	0	4.56%	1,273,062	1,251,612	540,002	43,200	7.87%
25,687	0	23.58%	2,579,638	1,951,898	1,745,284	139,623	25.42%
64,335	0	1.69%	3,787,319	3,243,648	2,328,861	186,309	33.92%
0	0	0.00%	593,010	584,136	214,583	17,167	3.13%
9,387	0	1.83%	531,854	470,679	566,336	45,307	8.25%
338	0	5.04%	6,371	6,040	9,060	725	0.13%
0	0	0.00%	50,418	50,418	7,416	593	0.11%
0	0	0.00%	44,570	44,570	5,794	464	0.08%
0	0	0.00%	49,547	49,547	75,829	6,066	1.10%
0	0	0.00%	654,396	654,386	394,655	31,572	5.75%
<b>100,665</b>	<b>0</b>	<b>7.24%</b>	<b>13,697,203</b>	<b>11,904,514</b>	<b>6,864,736</b>	<b>549,179</b>	<b>100.00%</b>

- as at 31 December 2015:

Category of exposure	Credit risk mitigation techniques (CRM)				
	Original exposure			Unfunded credit protection: adjusted values (GA)	
	pre-conversion factor	Share of each category	Net value of exposure	Guarantees	Credit derivatives
	1	2=1/sum(1)	3	4	5
Central governments or central banks	2,543,630	17.14%	2,543,135	0	0
Regional governments or local authorities	140,785	0.95%	129,780	0	0
Public sector entities	131,121	0.88%	127,239	61,112	0
Multilateral development banks	58,347	0.39%	58,347	0	0
International organisations	23,883	0.16%	23,883	0	0
Institutions	1,331,157	8.97%	1,330,174	82,212	0
Corporates	3,505,014	23.62%	3,402,453	929,867	0
Retail	3,666,417	24.71%	3,610,945	137	0
Secured by mortgages on immovable property	576,060	3.88%	568,162	0	0
Exposures in default	2,077,082	14.00%	788,663	2,764	0
Items associated with particular high risk	7,624	0.05%	7,048	0	0
Covered bonds	49,183	0.33%	49,183	0	0
Collective investments undertakings (CIU)*	44,519	0.30%	44,519	0	0
Equity	33,276	0.22%	33,276	0	0
Other items	648,118	4.37%	640,671	0	0
<b>Total</b>	<b>14,836,216</b>	<b>100.00%</b>	<b>13,357,478</b>	<b>1,076,092</b>	<b>0</b>

\* The exposure from Collective investment undertakings also includes the exposure to the Bank Resolution Fund

At the end of 2016, none of the net exposures entered the calculation of capital requirements as a deduction from capital; they entered the calculation of capital requirements in their total amount.

In 2016, the original value of exposure fell by EUR 79.3 million, while the net exposure increased by EUR 339.7 million and the risk-adjusted exposure increased by EUR 15.1 million. Lower original exposure value is primarily a result of the Bank's efforts to decrease exposures in default (the value in this segment was reduced by EUR 634.4 million). In contrast, the exposure value increased in the Retail segment (by EUR 239.0 million) and in the segment of Central government and central bank (by EUR 364.3 million). The impact of reduced exposures in default on the net exposure value only amounts to EUR 246.9 million, as the exposure was highly covered by provisions.

The highest exposure values are in the segments of Retail and Corporate (26.5% and 23.4% compared to the total original exposure). If the categories of exposures secured by real-estate mortgages, items associated with particularly high risk and exposures in default, which are also related to corporate and retail clients, are added to the above, all five categories of exposures account for 63.8% of the total original exposure (2.5 p.p. less than at the end of 2015), and 70.9% of the total capital requirement for credit risks (71.1% at the end of 2015). The categories of exposure to governments and institutions considerably contribute to the total exposure; the total capital requirement in these two categories is 20.5% of the total capital requirement (in 2015 only 19.9%).

To reduce the risk exposure, the Bank accepts loan collaterals, of these personal guarantees prevail; almost the entire amount of personal guarantees are guarantees of the Republic of Slovenia.

in EUR thousand

Credit risk mitigation techniques (CRM)

Funded credit protection		Value of CRM / Net exposure	Net exposure after CRM substitution effects pre conversion factors	Exposure value	Risk weighted exposure amount	Capital requirement	Share of capital requirement
Financial collateral: simple method	Other funded credit protection						
6	7	8=(4+5+6+7)/3	9	10	11	12	13=12/sum(12)
1	0	0.00%	3,732,066	3,692,711	856,959	68,557	12.51%
0	0	0.00%	129,780	127,702	65,507	5,241	0.96%
187	0	48.18%	65,940	62,764	62,390	4,991	0.91%
0	0	0.00%	58,347	58,347	0	0	0.00%
0	0	0.00%	23,883	23,883	0	0	0.00%
0	0	6.18%	1,248,681	1,165,439	507,900	40,632	7.41%
30,672	0	28.23%	2,441,914	1,841,199	1,642,243	131,379	23.98%
70,491	0	1.96%	3,540,317	3,015,997	2,163,645	173,092	31.59%
0	0	0.00%	568,162	558,861	205,434	16,435	3.00%
11,802	0	1.85%	774,097	712,518	853,645	68,292	12.46%
407	0	5.77%	6,641	6,129	9,191	735	0.13%
0	0	0.00%	49,183	49,183	8,989	719	0.13%
0	0	0.00%	44,519	44,519	2,671	214	0.04%
0	0	0.00%	33,276	33,276	57,517	4,601	0.84%
0	0	0.00%	640,671	640,669	413,542	33,083	6.04%
<b>113,560</b>	<b>0</b>	<b>8.91%</b>	<b>13,357,477</b>	<b>11,904,514</b>	<b>6,849,633</b>	<b>547,971</b>	<b>100.00%</b>

## 7.2. Geographical distribution of exposures broken down in significant areas by material exposure classes

(Article 442 d of Regulation (EU) No 575/2013)

The distribution of exposures by significant geographical area, broken down by material category of exposure

• as at 31 December 2016:

in EUR thousand

Country	Category of exposure						Total
	Exposures to central governments and central banks	Exposures to institutions	Exposures to corporates	Retail exposures	Past due items	Other	
Slovenia	1,473,044	58,499	2,528,949	2,252,457	515,382	1,132,396	7,960,727
Macedonia	238,003	11,255	332,268	589,045	63,530	121,063	1,355,165
Bosnia and Herzegovina	278,922	6,034	212,164	462,651	225,560	139,882	1,325,212
Montenegro	137,876	22	52,311	200,940	200,025	95,022	686,196
Republic of Kosovo	107,895	899	180,249	233,148	17,101	32,508	571,800
Serbia	83,179	6,064	46,364	163,187	168,483	57,212	524,489
Germany	82,655	350,557	241	169	183	13,917	447,721
France	94,623	201,689	0	70	0	4,422	300,804
Austria	59,793	156,506	7,306	247	3,756	4,784	232,392
Croatia	248	7,033	10,793	1,280	168,383	29,673	217,410
Netherlands	65,976	54,283	0	36	22,408	20,172	162,874
Great Britain	0	103,967	26,712	487	443	1,219	132,828
Belgium	61,542	53,891	10,516	7	1,541	1,103	128,601
Italy	20,854	58,334	107	200	6,153	0	85,647
Switzerland	0	69,279	18	426	14,544	501	84,768
Luxemburg	35,891	7,781	7,643	13	0	30,493	81,822
Denmark	0	71,837	0	22	0	0	71,860
United States of America	7	22,844	37,372	97	2	8,296	68,617
Other countries	167,397	93,743	635	946	35,235	20,067	318,023
<b>Total</b>	<b>2,907,905</b>	<b>1,334,516</b>	<b>3,453,647</b>	<b>3,905,429</b>	<b>1,442,729</b>	<b>1,712,729</b>	<b>14,756,956</b>

- as at 31 December 2015:

in EUR thousand

Country	Category of exposure						Total
	Exposures to central governments and central banks	Exposures to institutions	Exposures to corporates	Retail exposures	Past due items	Other	
Slovenia	1,199,977	65,794	2,620,104	2,164,602	840,478	1,128,541	8,019,496
Macedonia	241,123	6,690	329,009	551,905	96,309	107,551	1,332,587
Bosnia and Herzegovina	247,694	14,227	202,839	431,270	231,591	144,371	1,271,991
Montenegro	131,177	21	58,178	192,045	241,663	83,740	706,824
Serbia	113,342	4,020	34,481	103,920	263,106	49,451	568,320
Germany	86,396	431,665	987	400	12,638	24,025	556,111
Republic of Kosovo	107,252	1,267	164,134	204,077	16,569	23,108	516,407
Croatia	741	9,207	41,916	12,975	257,665	32,273	354,776
Austria	80,932	254,219	7,532	254	3,973	574	347,484
France	60,912	85,248	0	870	0	4,381	151,412
Netherlands	70,820	38,869	0	113	23,376	16,087	149,264
Luxembourg	14,858	63,293	0	1	337	66,656	145,145
Belgium	61,581	52,657	10,015	91	6,789	1,062	132,195
Great Britain	0	76,504	28,307	752	444	6,947	112,954
Italy	22,449	55,605	480	852	16,816	20	96,223
Switzerland	0	56,681	297	143	14,582	575	72,277
United States of America	4,575	45,110	5,787	143	1	11,701	67,317
Finland	38,012	300	0	1	0	4,190	42,503
Other countries	61,788	69,782	949	2,001	50,745	7,664	192,929
<b>Total</b>	<b>2,543,630</b>	<b>1,331,157</b>	<b>3,505,014</b>	<b>3,666,417</b>	<b>2,077,082</b>	<b>1,712,916</b>	<b>14,836,216</b>

The above tables show the geographical distribution of material categories of exposures, which represented 88.4% of total exposure as at 31 December 2016 (88.5% at the end of 2015).

The exposure of NLB Group is geographically concentrated in the markets where bank members of the Group are based (core markets – in addition to Slovenia also Bosnia and Herzegovina, Macedonia, Serbia, Montenegro, and the Republic of Kosovo). The exposure in Slovenia accounts for 53.9% of the total exposure (54.1% at the end of 2015), whereas 84.2% of the total exposure (83.7% at the end of 2015) is concentrated in the said core markets of NLB Group. In other markets, material exposure is only in the segment of governments and central banks and institutions (arising from liquidity reserves), whereas exposure to corporate and retail clients is smaller.

### 7.3. Distribution of exposures by counterparty type or industry broken down by exposure classes

(Article 442 e of Regulation (EU) No 575/2013)

Exposures by category of exposure and counterparty type

• as at 31 December 2016:

Category of exposure	in EUR thousand								
	CG	NP	IN	PS	CO LARGE	CO SME	MDB	RG	Other
Central governments or central banks	2,907,378	0	183	330	0	12	0	0	2
Regional governments or local authorities	0	0	0	0	0	0	0	126,957	0
Public sector entities	0	0	0	134,276	0	0	0	0	0
Multilateral development banks	0	0	0	0	0	0	41,318	0	0
International organisations	0	0	0	0	0	0	0	0	0
Institutions	0	0	1,334,516	0	0	0	0	0	0
Corporates	0	0	0	0	2,183,759	1,269,888	0	0	0
Retail	0	3,124,069	0	0	0	781,360	0	0	0
Secured by mortgages on immovable property	0	454,497	0	0	60,727	83,709	0	0	0
Exposures in default	32	115,391	461	12,162	442,754	868,847	0	3,083	0
Items associated with particular high risk	0	94	85	23	2,385	4,543	0	0	0
Covered bonds	0	0	50,418	0	0	0	0	0	0
Collective investments undertakings (CIU)*	44,570	0	0	0	0	0	0	0	0
Equity	0	0	23	2,135	27,748	19,642	0	0	0
Other items	248	21,740	166,068	52	1,092	171,183	0	11	299,187
<b>Total</b>	<b>2,952,229</b>	<b>3,715,792</b>	<b>1,551,752</b>	<b>148,977</b>	<b>2,718,464</b>	<b>3,199,184</b>	<b>41,318</b>	<b>130,051</b>	<b>299,189</b>

\* The exposure from Collective investment undertakings also includes the exposure to the Bank Resolution Fund

- as at 31 December 2015:

in EUR thousand

Category of exposure	CG	NP	IN	PS	CO LARGE	CO SME	MDB	RG	Other
Central governments or central banks	2,543,165	0	245	0	0	13	0	208	0
Regional governments or local authorities	0	0	0	0	0	0	0	140,785	0
Public sector entities	0	0	0	131,121	0	0	0	0	0
Multilateral development banks	0	0	0	0	0	0	58,347	0	0
International organisations	0	0	0	0	0	0	0	0	23,883
Institutions	0	0	1,331,156	0	0	0	0	0	0
Corporates	0	0	0	0	2,130,309	1,374,073	0	0	632
Retail	0	2,919,205	0	0	0	747,212	0	0	0
Secured by mortgages on immovable property	0	436,401	0	0	59,617	80,042	0	0	0
Exposures in default	243	194,097	536	14,281	585,467	1,279,901	0	2,556	0
Items associated with particular high risk	0	556	0	9	2,898	4,161	0	0	0
Covered bonds	0	0	49,183	0	0	0	0	0	0
Collective investments undertakings (CIU)*	44,519	0	0	0	0	0	0	0	0
Equity	0	0	52	2,135	23,551	7,539	0	0	0
Other items	306	20,593	136,974	8	1,521	139,966	0	19	348,730
<b>Total</b>	<b>2,588,233</b>	<b>3,570,852</b>	<b>1,518,147</b>	<b>147,554</b>	<b>2,803,362</b>	<b>3,632,907</b>	<b>58,347</b>	<b>143,568</b>	<b>373,244</b>

\* The exposure from Collective investment undertakings also includes the exposure to the Bank Resolution Fund

**LEGEND:**

CG – central government

NP – natural persons

IN – institutions

PS – public sector

CO LARGE – large companies (pursuant to the Companies Act)

CO SME – small- and medium-sized enterprises (pursuant to the Companies Act)

MDB – multilateral development banks

RG – regional government

The distribution of exposure categories by type of client reveals that exposures in default mainly included corporates (90.9%, at the end of 2015: 89.8%), of which SMEs accounted for 60.2% and large companies 30.7%, followed by natural persons (8.0%). A material reduction of exposure value in this segment is evident in all aforementioned types of counterparties.

Retail exposure includes receivables from natural persons (80.0%, at the end of 2015: 79.6%) and SMEs (20.0%, at the end of 2015: 20.4%).

Exposures by category of exposure and industry:

• as at 31 December 2016:

in EUR thousand

Category of exposure	Individuals	Public sector (including state)	Heavy industry	Trade	Finance	Transport and storage	Other business activities	Construction	Other	Total
Central governments or central banks	0	2,907,378	0	0	513	0	0	0	14	2,907,905
Regional governments or local authorities	0	0	0	0	0	0	41	0	126,917	126,957
Public sector entities	0	0	4,746	27	61,548	6,938	10	8	60,998	134,276
Multilateral development banks	0	0	0	0	41,318	0	0	0	0	41,318
International organisations	0	0	0	0	0	0	0	0	0	0
Institutions	0	0	0	0	1,334,516	0	0	0	0	1,334,516
Corporates	0	0	759,281	543,805	93,267	644,611	387,868	201,075	823,740	3,453,647
Retail	3,124,069	0	165,092	238,891	5,082	73,862	26,142	85,326	186,965	3,905,429
Secured by mortgages on immovable property	454,497	0	46,587	29,636	1,380	19,490	1,062	6,874	39,405	598,932
Exposures in default	115,391	32	229,546	435,831	44,234	47,237	9,773	233,843	326,841	1,442,729
Items associated with particular high risk	94	0	639	2,385	552	221	12	395	2,831	7,129
Covered bonds	0	0	0	0	50,418	0	0	0	0	50,418
Collective investments undertakings (CIU)*	0	44,570	0	0	0	0	0	0	0	44,570
Equity	0	0	75	20,534	15,776	283	0	0	12,879	49,547
Other items	21,740	248	34,591	1,780	195,194	475	47	6	405,501	659,581
<b>Total</b>	<b>3,715,792</b>	<b>2,952,229</b>	<b>1,240,556</b>	<b>1,272,890</b>	<b>1,843,799</b>	<b>793,118</b>	<b>424,955</b>	<b>527,526</b>	<b>1,986,091</b>	<b>14,756,956</b>

\* The exposure from Collective investment undertakings also includes the exposure to the Bank Resolution Fund

- as at 31 December 2015:

in EUR thousand

Category of exposure	Individuals	Public sector (including state)	Heavy industry	Trade	Finance	Transport and storage	Other business activities	Construction	Other	Total
Central governments or central banks	0	2,543,165	0	0	453	0	0	0	12	2,543,630
Regional governments or local authorities	0	0	0	0	35	0	125	0	140,626	140,785
Public sector entities	0	0	2,581	40	68,003	13,647	63	9	46,778	131,121
Multilateral development banks	0	0	0	0	58,347	0	0	0	0	58,347
International organisations	0	0	0	0	7,508	0	0	0	16,374	23,883
Institutions	0	0	0	0	1,331,156	0	0	0	0	1,331,156
Corporates	0	0	744,347	627,265	151,166	680,258	528,071	160,320	613,587	3,505,015
Retail	2,919,205	0	164,171	236,653	4,390	63,168	22,444	82,594	173,792	3,666,417
Secured by mortgages on immovable property	436,401	0	51,431	23,645	3,725	18,137	906	2,888	38,927	576,060
Exposures in default	194,097	243	407,629	475,283	67,049	62,845	20,056	323,206	526,673	2,077,081
Items associated with particular high risk	556	0	239	2,039	1,084	182	26	1,095	2,403	7,624
Covered bonds	0	0	0	0	49,183	0	0	0	0	49,183
Collective investments undertakings (CIU)*	0	44,519	0	0	0	0	0	0	0	44,519
Equity	0	0	78	16,162	0	127	0	0	16,908	33,276
Other items	20,593	306	3,042	873	162,994	450	2,167	7	457,687	648,118
<b>Total</b>	<b>3,570,852</b>	<b>2,588,233</b>	<b>1,373,517</b>	<b>1,381,960</b>	<b>1,905,094</b>	<b>838,815</b>	<b>573,858</b>	<b>570,120</b>	<b>2,033,767</b>	<b>14,836,216</b>

\* The exposure from Collective investment undertakings also includes the exposure to the Bank Resolution Fund

Significant in terms of exposure are individuals (25.2 %, at the end of 2015: 24.1%) and the public sector (including state) (20.0%, at the end of 2015: also 17.5%), whereas in industries the largest concentration is that in heavy industry, trade, and finance.

The major portion of exposures in default is accounted for by Construction (44.3%, reduced by 12.4 p.p. compared to the end of 2015), followed by trade with 34.2 % (0.2 % less than at the end of 2015). In 2016, the volume of exposures in default decreased by EUR 634.4 million (by 30.5% compared to the end of the 2015 value).

#### 7.4. Residual maturity breakdown of all exposures broken down by exposure classes

(Article 442 f of Regulation (EU) No 575/2013)

Overview of exposures, the amount in default for more than 90 days and the amount of provisions by category of exposure:

in EUR thousand

Category of exposure	Remaining maturity	31.12.2016			31.12.2015		
		Exposure value	Amount in delay over 90 days	Amount of established impairments and provisions	Exposure value	Amount in delay over 90 days	Amount of established impairments and provisions
Central governments or central banks	up to 1 year	1,313,763	1	131	883,566	12	175
	from 1 to 5 years	952,516	0	0	1,122,077	0	318
	over 5 years	641,626	0	1	537,987	0	1
Regional governments or local authorities	up to 1 year	736	0	35	3,469	1	98
	from 1 to 5 years	25,488	0	2,349	22,236	0	2,418
	over 5 years	100,733	0	6,773	115,080	0	8,488
Public sector entities	up to 1 year	72,740	1	492	35,508	12	882
	from 1 to 5 years	33,936	0	3,997	72,017	0	1,328
	over 5 years	27,599	0	1,366	23,596	0	1,672
Multilateral development banks	up to 1 year	3,822	0	0	23,347	0	0
	from 1 to 5 years	26,258	0	0	27,187	0	0
	over 5 years	11,238	0	0	7,814	0	0
International organisations	up to 1 year	0	0	0	0	0	0
	from 1 to 5 years	0	0	0	5,174	0	0
	over 5 years	0	0	0	18,709	0	0
Institutions	up to 1 year	1,050,210	41	590	1,097,757	189	729
	from 1 to 5 years	244,777	0	147	178,112	0	254
	over 5 years	39,529	0	0	55,288	0	0
Corporates	up to 1 year	1,124,838	45	19,018	1,273,231	719	32,978
	from 1 to 5 years	1,245,903	0	34,723	1,065,486	4	31,934
	over 5 years	1,082,906	0	24,519	1,166,297	0	37,649
Retail	up to 1 year	915,564	189	15,293	924,569	323	16,497
	from 1 to 5 years	1,138,519	35	17,847	1,055,413	37	18,324
	over 5 years	1,851,346	16	19,975	1,686,435	14	20,652
Secured by mortgages on immovable property	up to 1 year	24,023	0	432	25,485	0	903
	from 1 to 5 years	83,144	0	2,299	76,202	0	2,781
	over 5 years	491,765	0	3,191	474,373	0	4,212
Exposures in default	up to 1 year	682,703	596,241	501,980	1,146,767	1,045,350	816,268
	from 1 to 5 years	388,327	48,682	182,977	457,693	58,858	227,920
	over 5 years	371,700	57,253	216,012	472,621	55,809	244,231
Items associated with particular high risk	up to 1 year	3,074	20	244	2,140	30	201
	from 1 to 5 years	3,788	5	166	2,848	0	255
	over 5 years	268	0	10	2,636	0	121
Covered bonds	up to 1 year	21,639	0	0	20,561	0	0
	from 1 to 5 years	28,779	0	0	28,136	0	0
	over 5 years	0	0	0	486	0	0
Collective investments undertakings (CIU)*	up to 1 year	44,570	0	0	44,519	0	0
	from 1 to 5 years	0	0	0	0	0	0
	over 5 years	0	0	0	0	0	0
Equity	up to 1 year	47,412	0	0	30,661	0	0
	from 1 to 5 years	0	0	0	0	0	0
	over 5 years	2,135	0	0	2,615	0	0
Other items	up to 1 year	637,391	4,467	5,140	616,677	5,696	7,424
	from 1 to 5 years	40	17	18	21	0	1
	over 5 years	22,150	0	28	31,420	0	22
<b>Total</b>		<b>14,756,956</b>	<b>707,012</b>	<b>1,059,755</b>	<b>14,836,216</b>	<b>1,167,053</b>	<b>1,478,735</b>

\* The exposure from Collective investment undertakings also includes the exposure to the Bank Resolution Fund

Due to a material decrease of exposures in default in 2016, the amount of defaults for over 90 days decreased by EUR 460.0 million and the volume of provisions by EUR 419.0 million. As evident from the above table, receivables more than 90 days in default are practically entirely classified as exposures in default. In this category, defaults are recorded in both short- and long-term exposures. Further, 85.0% of all impairments and provisions are created for this category (at the end of 2015: 87.1%).

In 2016 the largest increase of exposure was recognised in the retail segment with mid- and long-term maturity, and in the segment of central government and central banks with short-term maturity.

## 7.5. Past due exposures and the volume of impairments for significant industries and significant geographical areas

(Article 442 g and h of Regulation (EU) No 575/2013)

The tables below present the amount of exposures with the amount of past due exposures for significant industries/significant geographical areas and, in this scope, the amount of value adjustment to impairments and provisions. All value adjustments belong to the group of special adjustments. NLB Group does not establish general value adjustments.

An overview of exposures, the amount in default for more than 90 days, and the amount of provisions by industry:

Institutional sector	31.12.2016			31.12.2015		
	Exposure value	Amount in delay over 90 days	Amount of established impairments and provisions	Exposure value	Amount in delay over 90 days	Amount of established impairments and provisions
Individuals	3,715,792	60,089	104,019	3,570,852	126,151	156,023
Public sector (including state)	2,952,229	1	132	2,588,233	70	695
Finance	1,843,799	9,026	47,980	1,902,214	21,790	70,265
Trade	1,272,890	198,154	299,238	1,381,960	263,798	355,248
Heavy industry	1,240,556	99,104	195,290	1,373,517	196,973	283,281
Transport and storage	793,118	20,219	36,541	838,815	29,927	44,876
Construction	527,526	171,572	136,916	570,120	246,352	200,144
Other business activities	424,955	9,028	10,142	573,858	20,729	16,900
Unclassified*	351,130	73	117	399,285	72	116
Professional, scientific and technical activities	272,745	30,561	42,908	264,342	44,209	58,655
Real-estate operations	269,175	50,396	86,432	312,465	113,018	135,430
Electricity, gas and water	247,867	4,937	13,239	242,742	14,850	26,808
Information and communication services	237,011	2,750	9,544	172,745	16,495	16,696
General government and defence, compulsory social security	162,071	447	12,597	162,686	633	13,626
Services - accommodation and food	117,496	21,925	19,162	157,539	39,482	37,883
Agriculture, forestry and fishing	80,137	13,112	14,161	77,329	10,774	24,591
Services	53,869	652	2,712	42,989	1,746	3,052
Cultural, entertainment and recreation activities	52,054	4,798	7,390	33,678	5,679	9,049
Water supply	46,484	6,232	8,580	51,741	7,122	8,131
Mining	44,533	1,127	6,951	57,078	2,109	7,321
Health care and social security	34,008	2,304	4,950	39,473	3,522	8,526
Education	17,425	505	753	22,509	1,549	1,416
Activities of households with employees	85	0	0	0	0	0
Activities of extraterritorial organisations and bodies	2	0	0	45	2	2
<b>Total</b>	<b>14,756,956</b>	<b>707,012</b>	<b>1,059,755</b>	<b>14,836,216</b>	<b>1,167,053</b>	<b>1,478,735</b>

\* In addition to other industries, "Unclassified" includes the category "Other exposure categories" and offsets

At the end of 2016, the amount in delay for over 90 days was the highest in trade, construction, and heavy industry, and consequently the biggest impairments and provisions were made for those sectors. The amount of delays over 90 days decreased by EUR 460 million, most in

the industries mentioned above and in the segment of private individuals. Compared to the previous year, the volume of impairments and provisions went down by EUR 419 million, largely the result of the write-off and other approaches to NPL reduction.

An overview of exposures, the amount in default for more than 90 days and the amount of provisions by country:

in EUR thousand

Country	31.12.2016			31.12.2015		
	Exposure value	Amount in delay over 90 days	Amount of established impairments and provisions	Exposure value	Amount in delay over 90 days	Amount of established impairments and provisions
Slovenia	7.960.727	89.628	288.634	8.019.496	338.959	494.265
Macedonia	1,355,165	35,350	96,939	1,332,587	64,652	127,571
Bosnia and Herzegovina	1,325,212	110,049	213,021	1,271,991	110,498	211,294
Montenegro	686,196	135,425	119,233	706,824	154,756	140,256
Republic of Kosovo	571,800	4,899	29,135	516,407	2,486	25,290
Serbia	524,489	92,968	113,555	568,320	144,855	173,600
Germany	447,721	7	153	556,111	14,022	12,350
France	300,804	0	0	151,412	0	5
Austria	232,392	905	3,787	347,484	1,025	3,278
Croatia	217,410	195,632	123,247	354,776	261,588	196,399
Netherlands	162,874	2	22,407	149,264	0	23,375
Great Britain	132,828	443	413	112,954	444	140
Belgium	128,601	0	1,585	132,195	0	3,090
Italy	85,647	4,283	5,039	96,223	12,581	14,155
Switzerland	84,768	36	13,051	72,277	10,063	10,333
Luxemburg	81,822	0	0	145,145	162	337
Denmark	71,860	0	0	9,961	0	0
United States of America	68,617	2	219	67,317	1	45
Sweden	67,277	0	0	40,270	0	0
Finland	42,483	0	0	42,503	0	0
Czech Republic	37,718	18,955	17,506	33,246	21,181	19,539
Ireland	36,511	0	0	12,717	0	0
Spain	26,073	0	0	15,031	0	0
Slovakia	22,285	2,651	1,172	19,564	2,378	1,171
Canada	19,259	0	2	7,129	0	1
<b>Other countries</b>	<b>66,416</b>	<b>15,774</b>	<b>10,656</b>	<b>55,012</b>	<b>27,398</b>	<b>22,241</b>
<b>Total</b>	<b>14,756,956</b>	<b>707,012</b>	<b>1,059,755</b>	<b>14,836,216</b>	<b>1,167,053</b>	<b>1,478,735</b>

At the end of 2016, the amount of receivables over 90 days past due accounted for 4.8% of total exposure (7.9% at the end of 2015), and the exposure is 7.2% covered by provisions (a decrease by 2.8 p.p. compared to the end of 2015). In terms of delays over 90 days, the highest amount is in Croatia (EUR 195.6 million), followed by Montenegro (EUR 135.0 million). Accordingly, the coverage of exposure by provisions is high in these areas (Croatia 56.7%, Montenegro 17.4%). In comparison to the previous year, the balance of receivables in delay for more than 90 days decreased the most in Slovenia (by EUR 249.3 million), followed by Croatia (EUR 66.0 million).

## 8. Use of ratings by external rating institutions (ECAI)

(Article 444 a, b, c and d of Regulation (EU) No 575/2013)

For the calculation of the capital requirement for credit risk, NLB Group appointed the Fitch Ratings credit rating agency, which is considered an eligible external credit assessment institution, and applied the credit quality steps according to the prescribed mapping. The credit assessments of this agency are used for the categories of exposure to:

- the central government or central bank, and
- institutions, including the exposure to institutions with a short-term credit assessment.

The weight for each category of exposure is determined based on Article 136 of Regulation (EU) No 575/2013, while the selection of eligible institutions is performed in accordance with Article 138 of the same regulation.

In exposure categories for which a credit assessment institution was designated, the weight is assigned based on the financial instrument's rating. If such a rating is not available, the higher of the weights applying to the long-term credit rating of the debtor or other financial instruments of the same debtor or country is used. Weights are assigned to non-assessed financial instruments based on the prescribed increase in weight linked to the weight of other short-term instruments of the same debtor.

For categories of exposure for which a credit assessment institution was not appointed, the risk weight is assigned according to the prescribed legislation, meaning it is assigned based on the rating of the debtor's country or specific rules applying to the respective exposure category.

## 9. Leverage

(Article 451 of Regulation (EU) No 575/2013)

The leverage ratio is calculated after January 2014 in line with the enforcement of provisions from the Regulation (EU) No 575/2013 and Directive 2013/36/EU, or as of January 2015 pursuant to the amendments in relation to the calculation published in Commission Delegated Regulation (EU) 2015/62. As of 1 January 2015, the additional requirement to disclose information concerning the leverage is in force. In February 2016 Regulation (EU) 2016/200 was adopted, laying down implementing technical guidance with regard to disclosure of the leverage ratio. In March 2016 the Implementing Regulation (EU) 2016/428 was adopted, setting out guidelines for supervisory reporting of the leverage ratio.

The purpose of the leverage ratio is to limit the size of bank balance sheets with a special emphasis on exposures which are not weighted within the framework of the existing capital requirement calculations. So the leverage calculation uses Tier 1 as the numerator, and the denominator is the total exposure of all active balance sheet and off-balance-sheet items after the adjustments are made, in the context of which the exposures from individual derivatives, exposures from transactions of security funding and other off-balance sheet items are especially pointed out. According to the discretionary right of the Bank of Slovenia and the changes to the calculation brought about by Commission Delegated Regulation (EU) 2015/62, the leverage ratio in the transition period is calculated quarterly and not based on the simple arithmetic mean of monthly leverage ratios for the quarter.

The leverage ratio of NLB Group, amounted to 9.68% (transitional) or 9.86% (fully phased in) and is above the 3% threshold defined by the Basel Committee on Banking Supervision (BCBS). In the so-called transitional period from 1 January 2014 to end of 2017, the leverage ratio is monitored together with its constituent parts and its interaction. As of 1 January 2018, the leverage ratio is expected to become one of the binding minimum capital requirements.

Since the minimum requirement was exceeded so significantly, the risk of excessive leverage is not material. Leverage risk is assessed and monitored quarterly as part of the internal assessment of capital requirements process (ICAAP) and monitored in the context of the system of early warning regarding risk indicators. In this monitoring system, the leverage ratio has certain limits, or as well in the case of any exceeding of defined triggers and defined notification system. The leverage ratio is regularly, quarterly reported to the Management and Supervisory boards of NLB Group. The monitoring of excess leverage is also included in stress tests and recovery plan measures if and whenever a bank would be required to maintain an adequate capital level. The testing for any case of extraordinary circumstances is especially important as it is future-oriented: if the leverage ratio also remains stable in extraordinary, stress conditions, the risk of a forced decrease in the Bank's assets is low.

Leverage ratio calculated according to the transitional definition as at 31 December 2016 amounted to 9.68%, and decreased by 0.8 percentage points compared to the previous year. The decrease occurred primarily due to the higher value of the total leverage exposure calculated in accordance with Article 111 of the Regulation (EU) No 575/2013. The impact of capital increase on the leverage ratio was relatively minor.

#### Leverage ratio of NLB Group

	31.12.2016		31.12.2015	
	Transitional definition	Fully phased in definition	Transitional definition	Fully phased in definition
Tier 1 capital	1,336,241	1,360,388	1,283,147	1,300,143
Total leverage exposures	13,804,603	13,802,595	12,192,660	12,192,660
<b>Leverage ratio</b>	<b>9.68%</b>	<b>9.86%</b>	<b>10.52%</b>	<b>10.66%</b>

in EUR thousand

## Leverage ratio common disclosure

in EUR thousand

		31.12.2016	31.12.2016	31.12.2015	31.12.2015
		CRR leverage ratio exposures			
<b>Table LRCom: Leverage ratio common disclosure</b>					
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>					
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	13,284,338	13,284,338	11,583,686	11,583,686
2	(Asset amounts deducted in determining Tier 1 capital)	-39,152	-41,160	-6,888	-6,888
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	13,245,186	13,243,178	11,576,798	11,576,798
<b>Derivative exposures</b>					
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	19,153	19,153	31,591	31,591
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	11,755	11,755	13,461	13,461
EU-5a	Exposure determined under Original Exposure Method				
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework				
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)			-3,342	-3,342
8	(Exempted CCP leg of client-cleared trade exposures)				
9	Adjusted effective notional amount of written credit derivatives				
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)				
11	Total derivative exposures (sum of lines 4 to 10)	27,985	27,985	41,710	41,710
<b>Securities financing transaction exposures</b>					
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions				
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)				
14	Counterparty credit risk exposure for SFT assets				
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013				
15	Agent transaction exposures				
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)				
16	Total securities financing transaction exposures (sum of lines 12 to 15a)				
<b>Other off-balance sheet exposures</b>					
17	Off-balance sheet exposures at gross notional amount	1,851,195	1,851,195	1,919,195	1,919,195
18	(Adjustments for conversion to credit equivalent amounts)	-1,319,763	-1,319,763	-1,345,043	-1,345,043
19	Other off-balance sheet exposures (sum of lines 17 to 18)	531,432	531,432	574,152	574,152
<b>Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)</b>					
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))				
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))				
<b>Capital and total exposures</b>					
20	Tier 1 capital	1,336,241	1,360,388	1,283,147	1,300,143
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	13,804,603	13,802,595	12,192,660	12,192,660
<b>Leverage ratio</b>					
22	Leverage ratio	9.68%	9.86%	10.52%	10.66%
<b>Choice on transitional arrangements and amount of derecognised fiduciary items</b>					
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Fully phased in	Transitional	Fully phased in

## Summary reconciliation of accounting assets and leverage ratio exposures

in EUR thousand

		31.12.2016	31.12.2015
Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		Applicable amount	Applicable amount
1	Total assets as per published financial statements	12,005,712	11,821,615
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-33,299	-15,830
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0	0
4	Adjustments for derivative financial instruments	8,832	10,119
5	Adjustment for securities financing transactions (SFTs)	0	0
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	531,432	574,152
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0	0
7	Other adjustments	1,291,926	-197,396
8	Leverage ratio total exposure measure	13,804,603	12,192,660

## Split-up of on balance sheet exposures

in EUR thousand

		31.12.2016	31.12.2015
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	13,284,338	11,583,686
EU-2	Trading book exposures	68,756	237,371
EU-3	Banking book exposures, of which:	13,215,582	11,346,315
EU-4	Covered bonds	50,418	49,183
EU-5	Exposures treated as sovereigns	2,906,237	2,541,649
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	276,523	306,712
EU-7	Institutions	1,299,266	1,226,722
EU-8	Secured by mortgages of immovable properties	579,765	554,792
EU-9	Retail exposures	3,121,571	2,900,536
EU-10	Corporate	2,419,208	2,465,089
EU-11	Exposures in default	450,108	681,901
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	2,112,486	619,731

## 10. Remuneration policy

### 10.1. Information on the decision-making process used for determining the Remuneration Policy

(Article 450 a of Regulation (EU) No 575/2013)

The decision-making process concerning amendments and supplements to the Remuneration Policy involves the expert organisation units, Management Board of the Bank, the Appointment and Remuneration Committee, and the Supervisory Board, which also approve the Remuneration Policy. No outsourced staff participated in formulating the policy.

The Policy of Remuneration for Employees Performing Special Work (hereinafter: the Remuneration Policy) entered into force on 1 January 2012. The adequacy of the Remuneration Policy is annually checked and updated. In 2016 the proposed amendments to the Remuneration Policy for employees performing special work arise from the amended Banking Act (ZBan-2) and the orientations of the Supervisory Board. The amendments includes implementation of financial instruments, public announcement of the requirements in the Policy, and changes in decision regarding the variable payments. In addition, the Remuneration Policy also includes guidelines concerning the application of the principle of proportionality in the implementation of Remuneration Policy issued on 22 November 2016 by the Bank of Slovenia.

The Remuneration Committee met three times in 2016. The members of the Remuneration Committee changed throughout 2016 and were:

#### Until 10 February 2016

Tit A. Erker (Chairman),  
Gorazd Podbevšek (Deputy Chairman) and  
Miha Košak (member)

#### From 19 February 2016 until 15 April 2016

Janko Gedrih (Chairman),  
Tit A. Erker (Deputy Chairman from 4 March 2016) and  
Anton Ribnikar (member)

#### From 15 April 2016 until 26 August 2016

Uroš Ivanc (Chairman),  
Tit A. Erker (Deputy Chairman) and  
Primož Karpe (member)

#### From 26 August 2016

Uroš Ivanc (Chairman),  
Matjaž Titan (Deputy Chairman),  
David Kastelic (member) and  
David E. Simon (member)

Pursuant to Article 52 of ZBan-2, the Remuneration Committee has the following tasks:

- preparing proposals of general principles of remuneration policies, including the formulating of opinions on individual aspects of remuneration policies;
- assessing the adequacy of established methodologies, based on which the remuneration system promotes adequate risk, capital, and liquidity management;
- preparing recommendations for the Supervisory Board on implementation of remuneration policies;
- preparing draft decisions about remuneration of employees, including those affecting the Bank's risks and their management;
- assessing the appropriateness of the outsourced adviser whose services the Supervisory Board commissioned to determine the remuneration policy of the Bank;
- examining the adequacy of general principles of the remuneration policies and their implementation;
- examining the compliance of remuneration policies with the business policy of the Bank over a long period;
- direct supervision over remuneration of the categories of employees performing special work within the internal control system and other control functions.

## 10.2. Information on the link between pay and performance

(Article 450 b of Regulation (EU) No 575/2013)

In accordance to the Banking Act, the Regulation on Risk Management and Implementation of the Internal Capital Adequacy Assessment Process for Banks and Savings Banks, the Regulation on Diligence of Members of Management and Supervisory Boards of Banks and Savings Banks, the Regulation on Disclosures by Banks and Savings Banks, and the Regulation on Reporting on the Facts and Circumstances by Banks and Savings Banks, the Bank is obliged to establish a Remuneration Policy on the group level. The Remuneration Policy entered into force on 1 January 2012 and is annually updated. In 2016, the policy was changed once; the new version became active on 2 December 2016.

The Policy provides clear orientations for prudent remuneration of employees performing special work in accordance with the above regulations, and with the aim of ensuring prudent and efficient risk management.

The Remuneration Policy supports the business strategy of the Bank as well as its goals, organisational culture, and long-term interests. The Remuneration Policy does not stimulate the employees performing special work to assume non-proportionally high risks or risks that exceed the ability of the Bank to assume risks. The Bank ensures that the Remuneration Policy is compatible with adequate and efficient risk management, and that it stimulates such management.

In terms of payment of the variable part of the salary, the Remuneration Policy takes into account the fulfilment of obligations or achievement of goals referring to capital or liquidity.

The Remuneration Policy applies to the Management Board of the Bank<sup>1</sup>, the senior management, and other employees performing special work in NLB d.d.

The following financial and non-financial performance criteria shall be defined for assessing the performance of employees carrying out special work. A financial criterion consists of NLB d.d. goals, which are confirmed by the Supervisory Board and are valid for all employees performing special jobs. The performance criteria for employees performing special work who are included in the supervisory function are established on the basis of the goals of the supervisory function, and are independent from the efficiency of the organisational work they supervise.

The table below shows the variations in payment of the variable part which depend on the achievement of targets by the employees performing special work, and the amount of the variable part to which employees carrying out special work are entitled in case the following are achieved:

- the targets of NLB d.d. (or NLB Group),
- the targets of the organisational unit, or
- personal targets of the employee performing special work.

<sup>1</sup> Remunerations of president and other members of the Management Board are set in line with provisions of Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD) in the period when this law is still in force.

Presentation of possible variants for payment of the variable part

Performance criterion	Achieved or exceeded targets	Achieved or exceeded targets	Achieved or exceeded targets	Achieved or exceeded targets	Achieved or exceeded targets
1. Targets of NLB Group (for the Management Board) and targets of NLB d.d.	Yes	No	Yes	No	Yes / No
2. Targets of the organisational units	Yes	Yes	No	No	Yes / No
3. Personal targets	Yes	Yes	Yes	Yes	No
Entitlement to the variable part of salary	Yes	Yes	Yes	Yes	No
Amount of the variable part of salary related to: - Targets of NLB Group /NLB d.d. - Targets of the organisational units - Personal targets	For the Management Board and the business function  up to 2 salaries + up to 2 salaries + up to 1 salary = up to 5 salaries in total	For the Management Board and the business function  up to 2 salaries + up to 1 salary = up to 3 salaries in total	For the Management Board and the business function  up to 2 salaries + up to 1 salary = up to 3 salaries in total	For the Management Board and the business function  up to 1 salary = up to 1 salary in total	No payment of the variable part
Amount of the variable part of salary related to: - Targets of NLB Group /NLB d.d. - Targets of the organisational units - Personal targets	For other employees  up to 1 salary + up to 1 salary+ up to 1 salary = up to 3 salaries in total	For other employees  up to 1 salary+ up to 1 salary = up to 2 salaries in total	For other employees  up to 1 salary+ up to 1 salary = up to 2 salaries in total	For other employees  up to 1 salary = up to 1 salary in total	No payment of the variable part

The table below defines the maximum possible remuneration of an employee based on an assessment of the achievement of individual targets.

Definition of the amount of remuneration

Assessment of performance grade	Business function	Other than business function	Business function and other
	Targets of NLB d.d. and organisational units	Targets of NLB d.d. and organisational units	Personal targets
5 – all targets exceeded	up to 2 salaries	up to 1 salary	up to 1 salary
4 – targets mostly exceeded	up to 1.5 salaries	up to 0.75 salary	up to 0.75 salary
3 – targets achieved	up to 1 salary	up to 0.5 salary	up to 0.5 salary
2 – targets partly not achieved	0	0	0
1 – targets not achieved	0	0	0

The Remuneration Policy stipulates that a decision on whether the performance criteria have been achieved and the decision to pay the annual variable part of salary to Management Board members are adopted by the Supervisory Board, whereas for other employees performing special work they are adopted by the Bank’s Management Board. An employee is not entitled to the annual variable part of salary if they failed to achieve their personal targets, regardless of whether the targets of NLB d.d. and the targets of the organisational unit have been achieved or not.

In amendments of the Remuneration Policy has been added a provision when assessing the performance of the Management Board the Supervisory Board also takes into account the interim situation on the local, regional, as well as global banking and economic market, and the achievement of the Management Board’s goals, taking into account their activities in pursuing the Bank’s best interest.

For 2015, employees performing special work received the annual variable part of their salary based on their assessed achievement of the financial and non-financial performance criteria, and taking into account the duration of their mandate.

### 10.3. The essential components of the policy of remuneration for employees performing special work

(Article 450 c of Regulation (EU) No 575/2013)

Pursuant to the Remuneration Policy, the salary of an employee performing special work consists of:

- a fixed part of the salary, and
- a variable part of the salary which depends on:
  - performance of NLB Group (for the Management Board) and NLB d.d. (for other employees performing special work)
  - performance of the organisational unit of the employee performing special work
  - individual performance of the employee performing special work.

The financial and non-financial criteria are applied to measuring the performance of employees carrying out special work, and have to be implemented in at least one of these goals. On an annual assessment goals are set for each employees performing special work based on the Bank's strategy, Bank's goals, and project goals.

#### 1. Targets of NLB d.d. and NLB Group:

The Management Board sets the targets for NLB d.d. and NLB Group for each business year and the Supervisory Board approves them. The targets defined for NLB Group apply to the Management Board. For other employees performing special work, the targets set for NLB d.d. shall apply.

The maximum possible amount of the variable part of salary, subject to achievement of the NLB d.d. or NLB Group targets, shall be two salaries for the Management Board and employees performing special work who are included in the business function, and one salary for other employees performing special work.

NLB Group targets consist of financial and non-financial criteria. For the year 2016, these criteria were:

- Financial performance indicators (achievement of planned levels):
  - Net profit after tax
  - Return on equity (ROE) after tax
  - Total income
  - Total costs
  - Cost-to-income (CIR) ratio
  - Net cost of risk<sup>2</sup>
- Non-financial indicators:
  - Achievement of planned level of share of non-performing loans (NPL ratio)
  - Reduction in volume of non-performing loans
  - Compliance with EC commitments
  - Preparation of Business and IT strategies (approval at Supervisory board)
  - Implementation of activities regarding privatisation (according to plan)

#### 2. Targets of the organisational unit of the employee performing special work:

From the objectives of the NLB Group and NLB d.d. derive objectives of organisational units, determined for the employees performing special work by a competent member of the Management Board, including both financial and non-financial criteria (mainly in the non-business organisational unit). In determining the objectives of the organisational unit, objectives related to different organisational units are taken into account (cross-functional goals), participation in projects, etc.

The maximum amount of the variable part of salary, subject to achievement of the organisational unit's targets, shall be two salaries for the Management Board and the employees performing special work who are included in a business function, and one salary for other employees performing special work.

2 Net cost of risk = net established credit impairments and provisions in a period / average net loans no non-banking sector without BAMC bond

### 3. Personal targets of an employee performing special work (development, project, and other targets)

Personal targets of the employee mainly represent non-financial criteria and include personal development which can be measured with the organisational climate and improvement of personal competencies (measured by 360°).

The maximum amount of the variable part of salary shall be one salary for other employees performing special work.

#### Deferred payment of the variable part

In line with the European Commission's decision on the state aid procedure, in the restructuring period until the end of December 2017, the variable part of salary of employees performing special work shall be paid according to the following model:

- 50% is payable upon confirmation of business results at the Bank's General Meeting, and
- 50% is payable three years later.

The deferred part of the variable part of the salary is aligned with growth in the consumer price index during the period of deferment.

After the period of deferment, the payment is made within three months of confirmation of the performance results at the Bank's General Meeting.

Prior to payment of the deferred variable part of salary, NLB d.d. must check if all conditions for payment of the deferred variable part of salary have been met. The Management Board of the Bank may adopt a unilateral decision on the amount of payment of the deferred variable part of salary, namely:

- An employee performing special work is paid 100% of the deferred variable part of their salary in the case there are no negative trends in the Bank's operations during the deferment period that result from decisions made by the employee performing special work and in the case there were no serious violations of the regulations and the Bank's internal regulations, abuses, and inefficient acts by the employee performing special work during their work. When assessing these acts, NLB will act according to a zero-tolerance principle and consider as a serious violation of the regulations acts showing signs of: criminal offences, violations, breach of obligations arising from employment, and/or those acts that constitute a conflict of interest with the Bank's business interests, as well as corruptive acts that constitute or reinforce non-transparency in adopting business decisions while performing functions in the Bank. All acts that are committed intentionally or from gross negligence and cause damage to the Bank are considered as inefficient conduct;
- An employee performing special work is not paid the deferred variable part of salary in case the Bank's performance in the period of the deferred payment shows material negative trends that result from decisions adopted by the employee performing special work.

#### Amount of payment of the variable part of remuneration for 2015

Pursuant to Item 7 of Article 170 of the ZBan-2, the Bank's remuneration policy must stipulate that at least 50% of the variable part of the remuneration of each individual who performs special work should be composed of ordinary or preference shares of the Bank, or of instruments related to shares or equal non-cash instruments when the Bank's shares are not listed on the regulated market; the person obtaining the shares or instruments may only transfer them upon the Bank's approval, which may only be issued after at least two years of the obtaining. Pursuant to the second paragraph of the above Article, like the other principles of the remuneration policy, this principle must be also followed by the Bank in a way and to the extent compliant with its size, internal organisation, and nature, as well as the volume and complexity of the activities it carries out. As the NLB shares are not listed on the stock exchange a proportion of the variable part of the salary should be paid out in financial instruments.

With the resolution from 29 July 2016 the Management Board confirmed that the employees performing special work are paid the pertaining variable part based on actual assessments of the employees entitled to variable part, so that of 50%, which is paid immediately, 25% of the variable part is paid in cash after the business results for 2015 are approved at the General Meeting of the Bank, and 25% after the relevant financial instrument is constructed. The 50% of the variable part which is deferred and will be paid after three years is also paid 25% in cash and 25% in the relevant financial instrument. For the employees whose employment contracts in 2015 defined trial employment, 50% of the pertaining variable part is calculated, according to the provisions of the Remuneration Policy.

Due to the changed method of payment of the variable part, the expert organisational unit prepared a statement to be submitted for signing to all employees performing special work who are entitled to variable part for 2015, saying that they agree that 25% of the pertaining variable part and 25% of the pertaining deferred variable part is paid in financial instruments.

According to new Bank of Slovenia Guidelines (issued on 22 November 2016), the second variable part of remuneration was also paid in cash in December 2016.

### Defining the targets of employees performing special work in 2016

The planning of targets and assessment of employees performing special work are conducted once a year; the planning of targets is carried out by the end of January and performance assessments by the end of March or until the results of operations are known.

In 2016, the targets of NLB d.d. were approved by the Supervisory Board and included in the forms for monitoring the performance of all employees carrying out special work. The targets for individual organisational units were defined top-down, meaning that each member of the Management Board set targets for their directly subordinate employees performing special work and in turn they set targets down the line of management. The targets of the organisational unit can be financial or non-financial and must be defined according to the SMART method, which means they have to be clear (specific), measurable (or verifiable), real, defined in terms of time and be worth the effort (acceptable).

Development targets for all employees performing special work were set on an individual basis for each employee, depending on the assessment of the superior director or member of the Management Board regarding which field covered by the employee performing special work needs developing and depending on the DNLA test results, results of organisational climate measurement, and personal development orientations.

### 10.4. The ratio between fixed and variable remuneration

(Article 450 d of Regulation (EU) No 575/2013)

The ratio between the variable and fixed parts of salary depends on the function performed by each individual, namely:

- for employees performing special work who are included in a business function, the ratio between the fixed and variable parts of the salary can be 60%:40% at a maximum; and
- for employees performing special work who are included in a joint and supervisory function, the ratio between the fixed and variable parts of the salary can be 80% : 20% at a maximum.

An employment contract can stipulate a predetermined variable part of the salary of an employee performing special work only for the first year of their employment.

The Supervisory Board may request from a member of the Management Board, and the Management Board can request from other employees performing special work to return the already paid variable part of salary or its proportionate part (the third paragraph of Article 270 of the Companies Act (ZGD-1)):

- if the nullity of the annual report is established with a binding effect and the grounds for nullity are connected to the items or facts serving as a basis for the performance bonus, or
- based on a special auditor's report establishing that the criteria for defining remuneration were applied incorrectly or that the critical accounting, financial, and other data and indicators were incorrectly established or applied.

The maximum amount of the variable part of salary for the annual distribution of the variable part of salary is defined as follows:

- for employees performing special work who are included in a business function, the maximum amount of the variable part of the salary can be five (5) salaries of the employee performing special work; and
- for other employees performing special work, the maximum amount of the variable part of the salary can be three (3) salaries of the employee performing special work.

	Targets of NLB d.d. (or NLB Group for Core Group Steering)	Targets of organisational unit	Development (personal) targets of employee performing special work	Maximum amount of the variable part of salary
Business function	up to 2 salaries	up to 2 salaries	up to 1 salary	up to 5 salaries
Common and supervisory function	up to 1 salary	up to 1 salary	up to 1 salary	up to 3 salaries

During the period when NLB is using the redeemable extraordinary aid granted by the Republic of Slovenia to overcome the extraordinary financial situation, the maximum amount of the variable part of salary may be lower than that defined in the Remuneration Policy (which is 5 salaries for the business part and 3 salaries for the non-business part), in accordance with the rules defined by the Bank of Slovenia in its secondary legislation.

Pursuant to the European Commission's decision in relation to the state aid procedure<sup>3</sup>, the maximum possible amount of the total income of an employee performing special work is limited to 15-times the average gross salary of employees in the Republic of Slovenia or 10-times the average gross salary of employees in NLB d.d. for the period of the Bank's restructuring, i.e. until the end of December 2017. The maximum amount of income is limited to the higher of the two indicated amounts.

The last known data of the Statistical Office of the Republic of Slovenia in the month of payment of the variable part of the salary to an employee performing special work is used to calculate the maximum amount of payment.

To calculate the maximum amount of the variable part in 2016, we used the following data:

MAX 15 average gross salaries<sup>4</sup> in the RS: EUR 1,584.66 x 12 months x 15 = **EUR 285,238.80**

MAX 10 average gross salaries<sup>5</sup> in NLB d.d.: EUR 2,258.98 x 12 months x 10 = **EUR 271,077.60**

#### **10.5. Information on the performance criteria on which the entitlement to shares, options, or variable components of remuneration are based**

(Article 450 e of Regulation (EU) No 575/2013)

In accordance with the new Guidelines of the Bank of Slovenia regarding the application of the principle of proportionality in the implementation of remuneration policy issued on 22 November 2016, it sets the amount of EUR 50,000 as a amount of variable part which shall not be used for the purpose of point 7 of paragraph 1 Article 170 of the ZBan-2.

The same amount is determined on the Group level, taking into account the proportionality principle. Accordingly, the Bank does not pay a variable part of salary in financial instruments.

#### **10.6. Main parameters and rationale for any variable component scheme and any other non-cash benefits**

(Article 450 f of Regulation (EU) No 575/2013)

The main parameters of variable components are specified in the employment contract according to the Act Governing the Remuneration of Managers of Companies with Majority Ownership Held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD) and ZBan-2.

Variable pay is limited by ZPPOGD. Pursuant to the Remuneration Policy, the amount of variable pay is limited to 5 salaries for the Management Board and the business line, and 3 salaries for the non-business sphere.

Pursuant to the European Commission's decision in relation to the state aid procedure, the maximum possible amount of the total income of an employee performing special work is limited to 15-times the average gross salary of employees in the Republic of Slovenia, or 10-times the average gross salary of employees in NLB d.d. for the period of the Bank's restructuring, i.e. until the end of December 2017. The maximum amount of income is limited to the higher of the two indicated amounts.

Other non-cash benefits are determined in the Rules on determining other rights under management employment contracts and other acts of the Bank.

<sup>3</sup> Commission Decision on State Aid SA.33229(2012/C) (ex 2011/N) – Restructuring of NLB Slovenia

<sup>4</sup> Data for period January – December 2016

<sup>5</sup> Data for period January – December 2016

The Rules regulate the list and limitations of any other rights of managers, which can be defined in the employment contract, while in accordance with the provisions of ZPPOGD such rights are regulated with special documents or rules of the Bank's Supervisory Board. The list of other rights encompasses:

- a company car for both business and private purposes
- a company car with a driver
- a company mobile phone
- air travel
- residence in Ljubljana
- family separation allowance
- reimbursement of educational cost of minors of the members of the Management Board.
- an NLB MasterCard business card
- entertainment allowance
- accident insurance
- health insurances
- voluntary collective supplementary pension insurance
- managers' medical examination
- training
- membership fees
- parking space
- accommodation while on a business trip
- third-party liability insurance
- holiday allowance.

**10.7. Quantitative information on remuneration**

(Article 450 g, h and i of Regulation (EU) No 575/2013)

The table below shows the remuneration for 2016, combined with operating segment

	MB Supervisory function	MB Management function	Investment banking	Retail banking	Asset management	Corporate functions	Independent control functions	All other
Members (Headcount)	36	48						
Number of identified staff in FTE			6.00	174.00	12.92	38.09	30.36	409.94
Number of identified staff in senior management positions			6	174	13	39	32	421
Total fixed remuneration (in EUR)	368,307	4,298,684	298,164	4,078,815	467,699	800,813	1,064,994	9,389,126
Of which: fixed in cash	368,307	4,298,684	298,164	4,078,815	467,699	800,813	1,064,994	9,389,126
Of which: fixed in shares and share-linked instruments								
Of which: fixed in other types instruments								
Total variable remuneration (in EUR)	0.00	823,467.00	47,215.00	646,185.00	75,132.00	150,505.00	141,981.00	882,040.00
Of which: variable in cash	0.00	746,445.00	47,215.00	646,185.00	75,132.00	150,505.00	141,981.00	882,040.00
Of which: variable in shares and share-linked instruments		25,674						
Of which: variable in other types instruments		51,348						
Total amount of variable remuneration awarded in year N which has been deferred (in EUR)	0	380,689	23,226	300,633	34,366	42,810	68,564	372,398
Of which: deferred variable in cash in year N	0	358,524	23,226	298,955	32,327	40,481	65,514	353,871
Of which: deferred variable in shares and share-linked instruments in year N								
Of which: deferred variable in other types of instruments in year N		22,165	0	1,678	2,039	2,329	3,050	18,527
<b>Additional information regarding the amount of total variable remuneration</b>								
Total amount of outstanding deferred variable remuneration awarded in previous periods and not in year N (in EUR); Art 450 h(iii)CRR;	0	267,553	21,176	247,626	31,029	25,509	70,817	264,859
Total amount of explicit ex post performance adjustment applied in Year N for previously awarded remuneration (in EUR); Art 450 h(iv)CRR;								
Number of beneficiaries of guaranteed variable remuneration (new sign on payments); Art 450 h(iv)CRR;								
Total amount of guaranteed variable remuneration (new sign on payments) (in EUR); Art 450 h(v)CRR;								
Number of beneficiaries of severance payments; Art 450 h(vi)CRR								
Total amount of severance payments paid in year N (in EUR); Art 450 h(vi)CRR;								
Art 450 h(v) Highest severance payment to a single person (in EUR); Art 450 h(vi)CRR;								
Number of beneficiaries of contributions to discretionary pension benefits in year N								
Total amount of discretionary pension benefits (in EUR) in year N								
Total amount of variable remuneration awarded for multi-year periods under programmes which are not revoked annually (in EUR)								

No individual received more than EUR 1 million by way of remuneration.

## 11. Information regarding governance arrangements

### 11.1. The recruitment policy for the selection of members of the management body and their actual knowledge, skills, and expertise

(Article 435.2 b of Regulation (EU) No 575/2013)

According to the Slovenian Banking Act, the Supervisory Board sets the framework for the selection and appointment of suitable Management Board candidates. The framework is defined with the selection process policy, with the goal of the Management Board as a whole to possess the whole spectrum of relevant knowledge, skills, and experience required for the in-depth understanding of the Bank's activities and the risks to which it is exposed. The Management Board selection policy determines the professional standards of the selection process, as well as the professionally-run candidate selection, which gives the Supervisory Board a solid ground for their selection as well as fulfills their duty of care in line with the highest ethical standards and diligence in the selection process. By this approach it is ensured the Management Board will consist of individuals with a different base of knowledge and experience, so the Management Board will dispose of a balanced set of skills, relevant knowledge, and experience in regard to the Bank's size, complexity, and risk-profile. Professionally-led operations are not only in best interest of the Bank, but also in the best interest of the selected candidates by deterring all possible doubts with regard to their expertise, references, and the appropriateness of their selection.

Beside all legal and statutory set conditions, the Management Board member candidates need to have adequate experience, skills, expertise, and competences, including their individual personal integrity and ability to dedicate adequate time to carry out their duties in view of possible other candidate's activities outside the Bank. By this the candidates are able to carry out their duties diligently, responsibly, effectively, as well as define and determine the values of the Bank and strategy of its operations in the way of following the objectives of its long-term success and coherent with the Bank's best interests and highest ethical standards of its management. Management Board candidates need to demonstrate the ability of constructively-critical cooperation when addressing the most important issues of the Bank with the objective of the continuous pursuit of the Bank's best interest, and with this the ability of active involvement in Bank's operations and its risk management. Management Board candidates must subordinate their personal interests, partial interest of third parties, as well as the interests which could arise from the candidate's past functions or other activities, economic, professional, and private relationships (including the Management Board and Supervisory Board members), which could by any mean influence the decision-making in the Bank's best interest.

In case of any circumstances, which could lead to conflict of interest and consequently jeopardise the adopting of independent decisions in best interest of the Bank, such conflicts should be disclosed in the selection process, and a member should accept full responsibility to take timely measures to eliminate such conflicts of interest. At the Management Board member selection process the recommendation of both genders being appropriately represented is followed.

The selection of the Management Board Members should strive for Management Board as a whole to have all necessary expertise, knowledge, skills, and experience at their disposal for successfully managing the Bank. Besides meeting all conditions for their work, Members of the Management Board need to act complementarily in line with the Bank's objectives, strategies, and policies in order to follow the Bank's best interest.

The Management Board comprises of 4 (four) members; namely the Chairman of the Board (CEO) – who is also responsible for the Large Corporates area, Retail banking and Private banking; CRO; CFO; and COO – who is besides the IT area, also responsible for the Procurement and CREM area, as well the Back office area.

With regard to the wide range of relevant knowledge, skills, and experience from international environment, as well as a number of successfully completed projects, the Management Board as a whole has the appropriate expertise, skills, and experience to effectively and successfully lead the Bank.

### 11.2. The policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved

(Article 435.2 c of Regulation (EU) No 575/2013)

The Bank has accepted the Policy of Supervisory Board diversity on 8 August 2016 and published it on its internet page.

With the policy of assuring diversity of the Supervisory Board, based on Article 34 of Slovenian Banking Act (ZBan-2), Nova Ljubljanska banka, d.d. sets the framework which enables the composition of the Supervisory Board in a way it, as a whole, possesses the relevant knowledge, skills, and experience that are required for the in-depth understanding of the Bank's operations and the risks to which it is exposed, as well as the realisation of the objectives of its strategy. The policy is focused on the selection of the Supervisory Board members, who primarily fulfill the requirements of the highest ethical and professional standards, exercise the highest level of diligence, as well as form the most competent governing body as a whole.

Taking into account the policy, the Supervisory Board shall be composed in a way that it, as a whole, possesses the relevant knowledge, skills, and experience that are required with regard to the size, complexity, and risk-profile of the Bank. Diversity of the Supervisory board is recognised as one of the key business advantages of the Bank.

A member of the Supervisory Board can only be a person who fulfills all set of the conditions for the Supervisory Board member in the Bank, according to the Banking Act and other grounds, as covered by the Policy.

Beside these qualifications, the Supervisory Board Members need to possess adequate experience, skills, knowledge, and competences, including personal integrity and the possibility of dedication of the adequate time to perform the Supervisory Board member functions, regardless their possible external activities. All listed requirements need to enable the Supervisory Board Members to monitor the Bank's operations diligently, responsibly and effectively with which, together with Management Board, the values and the strategy of the Bank are defined in the way they assure the Bank's long-term success, and are coherent with its best interests and general ethical standards of the Bank's governance. Supervisory Board members need to demonstrate the ability of constructively-critical cooperation when addressing the most important issues of the Bank, with the objective of the continuous pursuit of the Bank's best interest, and with this the ability of active involvement in the monitoring of the Bank's management.

Supervisory Board members must subordinate their personal interests, partial interest of third parties, as well as the interests which could arise from the candidate's past functions or other activities, and economic, professional and private relationships (including Management Board and Supervisory Board members), which could by any means influence their decisions in monitoring the Bank. At the composition of the Supervisory Board the recommendation of both genders being appropriately represented is followed.

The Supervisory Board annually assesses its structure, activities, potential conflict of interests of individual members, as well the operations of individual members, and the Supervisory Board as a whole. In addition, the efficiency and performance of the Supervisory Board's cooperation with the Management Board is assessed.

If the Supervisory Board establishes that: (1) the number of members is not appropriate, (2) it is necessary to add an additional member, (3) the members of the Supervisory Board are no longer qualified for performing the function due to non-compliance with the prescribed conditions, (4) if due to inappropriateness of a single or more Supervisory Board member(s) in the aspect of duties of an individual member, the current structure doesn't assure the diversity of qualifications, knowledge, and experience for monitoring the Bank, the Supervisory Board notifies Slovenian Sovereign Holding (SDH) – as a single Bank's shareholder – for the general shareholder's meeting to appoint new member(s).

The Supervisory Board is comprised of 9 (nine) members, of which there is one female, and as a whole fulfills the objective of representation of both genders. The diversity of expertise, experience, and skills is ensured in the following areas: strategy and development, privatisation, finance, financial investments, investment banking, accounting and auditing, corporate banking, risk control and risk management, retail banking, banking legislation, general legislation, and HRM.

The goals of the diversity policy and the policy for selection of appropriate candidates for Supervisory Board members and Management Board members are: (1) to establish a transparent process of searching and nominating, (2) to ensure adequate knowledge and skills, as well as (3) to ensure the appropriate representation of both genders under, (4) the assumption of fulfilling the set requirements for the membership. The Supervisory and Management Boards as a whole have a broad range of knowledge, skills, and experience from Slovenian and international banking environments, and the recommendation for the representation of both genders in governing bodies is taken into account as well.

## 12. List of all disclosures required under Part 8 of Regulation (EU) No 575/2013

Article	Requirement	Section of Annual Report	Chapter
<b>435</b>	<b>Risk management objectives and policies</b>		
<b>1</b>	<b>Objectives and policies regarding the relevant risks</b>		
	(a) the strategies and processes to manage those risks;	AFS	7.a
	(b) the structure and organisation of the relevant risk management function, including information on its authority and statute, or other appropriate arrangements;	AFS	7.b
	(c) the scope and nature of risk reporting and measurement systems;	AFS	7.c
	(d) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants;	AFS	7.a
	(e) a declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy;	RP	Statement on management, point 3
	(f) a concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. This statement shall include key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body.	RP	Statement on management, point 3
<b>2</b>	<b>Information, including regular, at least annual updates, regarding governance arrangements</b>		
	(a) the number of directorships held by members of the management body;	BR	Corporate governance, Management Board
	(b) the recruitment policy for the selection of members of the management body and their actual knowledge, skills, and expertise;	RCM	11.1
	(c) the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved;	RCM	11.2
	(d) whether or not the institution has set up a separate risk committee and the number of times the risk committee has met;	BR	Corporate governance, Supervisory Board
	(e) the description of the information flow on risk to the management body.	AFS	7.a
<b>436</b>	<b>Scope of application</b>		
	(a) the name of the institution to which the requirements of this Regulation apply;	RCM	2
	(b) an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are: fully consolidated, proportionally consolidated, deducted from own funds, neither consolidated nor deducted;	RCM	2
	(c) any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries;	RCM	2
	(d) the aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries;	RCM	2
	(e) if applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9.	/	/
<b>437</b>	<b>Capital (Own funds)</b>		
	(a) a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	RCM	3.2
	(b) a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;	RCM	3.3
	(c) the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;	RCM	3.3
	(d) separate disclosure of the nature and amounts of the following: <ul style="list-style-type: none"> <li>(i) each prudential filter applied pursuant to Articles 32 to 35;</li> <li>(ii) each deduction made pursuant to Articles 36, 56 and 66;</li> <li>(iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79;</li> </ul>	RCM	3.4
	(e) a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	RCM	3.4
	(f) where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios is calculated.	RCM	3.1
<b>438</b>	<b>Capital requirements</b>		
	(a) a summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities;	RCM	5.1
	(b) upon demand of the relevant competent authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU;	/	/
	(c) (SA approach:) for institutions calculating the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112 (= SA categories);	RCM	5.2

Article	Requirement	Section of Annual Report	Chapter
	(d) (IRB approach:) for institutions calculating risk-weighted exposure amounts in accordance with Chapter 3 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 147. The institutions calculating the risk-weighted exposure amounts in accordance with Article 153(5) or Article 155(2) shall disclose the exposures assigned to each category in Table 1 of Article 153(5), or to each risk weight mentioned in Article 155(2);	/	/
	(e) (market risks:) own funds requirements calculated in accordance with points (b) and (c) of Article 92(3); (1) position risk; (2) large exposures exceeding the limits specified in Articles 395 to 401, to the extent an institution is permitted to exceed those limits; (3) foreign-exchange risk; (4) settlement risk; (5) commodities risk;	RCM	5.2
	(f) (operational risk:) own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately.	RCM	5.2
<b>439</b>	<b>Exposure to counterparty credit risk</b>		
	(a) a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures;	RCM	6.1
	(b) a discussion of policies for securing collateral and establishing credit reserves;	RCM	6.2
	(c) a discussion of policies with respect to wrong-way risk exposures;	RCM	6.3
	(d) a discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating;	RCM	6.2
	(e) gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held, and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements;	RCM	6.4
	(f) measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6, whichever method is applicable;	RCM	6.1
	(g) the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure;	/	/
	(h) the notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group;	/	/
	(i) the estimate of $\alpha$ if the institution has received the permission of the competent authorities to estimate $\alpha$ .	/	/
	<b>Capital buffers</b>		
<b>440</b>	1. Countercyclical capital buffer: (a) the geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer;	RCM	4
	(b) the amount of its institution specific countercyclical capital buffer.	RCM	4
<b>441</b>	2. G-SII buffer: 1. Institutions identified as G-SIIs in accordance with Article 131 of Directive 2013/36/EU shall disclose, on an annual basis, the values of the indicators used for determining the score of the institutions in accordance with the identification methodology referred to in that Article.	RCM	4
<b>442</b>	<b>Credit risk adjustments</b>		
	(a) the definitions for accounting purposes of 'past due' and 'impaired';	AFS	2.13.a
	(b) a description of the approaches and methods adopted for determining specific and general credit risk adjustments;	AFS	2.13.a
	(c) the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes;	RCM	7.1
	(d) the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate;	RCM	7.2
	(e) the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate;	RCM	7.3
	(f) the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;	RCM	7.4
	(g) by significant industry or counterparty type, the amount of: (i) impaired exposures and past due exposures, provided separately; (ii) specific and general credit risk adjustments; (iii) charges for specific and general credit risk adjustments during the reporting period;	RCM	7.5
	(h) the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area;	RCM	7.5
	(i) the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately. The information shall comprise: (i) a description of the type of specific and general credit risk adjustments; (ii) the opening balances; (iii) the amounts taken against the credit risk adjustments during the reporting period; (iv) the amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments; (v) the closing balances.	AFS	5.14
	Specific credit risk adjustments and recoveries recorded directly to the income statement shall be disclosed separately.	AFS	7.1 j,k,l, 5.14
<b>443</b>	<b>Unencumbered assets</b>		
	EBA shall issue guidelines specifying the disclosure of unencumbered assets by 30 June 2014. EBA shall develop draft regulatory technical standards to specify disclosure of the balance sheet value per exposure class broken down by asset quality and the total amount of the balance sheet value that is unencumbered.	AFS	7.3

Article	Requirement	Section of Annual Report	Chapter
<b>444</b>	<b>Use of ECAIs</b>		
	(a) the names of the nominated ECAIs and ECAs and the reasons for any changes;	RCM	8
	(b) the exposure classes for which each ECAI or ECA is used;	RCM	8
	(c) a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;	RCM	8
	(d) the association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part Three, Title II, Chapter 2, taking into account that this information needs not be disclosed if the institution complies with the standard association published by EBA;	RCM	8
	(e) the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter 2 as well as those deducted from own funds.	RCM	7.1
<b>445</b>	<b>Exposure to market risk</b>		
	Separately for each risk + the own funds requirement for specific interest rate risk of securitisation positions.	RCM	5.2
<b>446</b>	<b>Operational risk</b>		
	Institutions shall disclose the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for; a description of the methodology set out in Article 312(2), if used by the institution, including a discussion of relevant internal and external factors considered in the institution's measurement approach, and in the case of partial use, the scope and coverage of the different methodologies used.	AFS	7.5.a
<b>447</b>	<b>Exposures in equities not included in the trading book</b>		
	(a) the differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices;	AFS	5.4.b, 2.12.b, 7.6.
	(b) the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value;	AFS	2.12.b, 5.4.
	(c) the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;	AFS	5.4.a
	(d) the cumulative realised gains or losses arising from sales and liquidations in the period; and	AFS	5.4.b, 5.8.
	(e) the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds.	RCM	3.2
<b>448</b>	<b>Exposure to interest rate risk on positions not included in the trading book</b>		
	(a) the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk;	AFS	7.2.3
	(b) the variation in earnings, economic value, or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.	AFS	7.2.3
<b>449</b>	<b>Exposure to securitisation positions</b>	/	/
<b>450</b>	<b>Remuneration policy</b>		
<b>1</b>	<b>For those categories of staff whose professional activities have a material impact on its risk profile:</b>	RCM	10,1
	(a) information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;	RCM	10,2
	(b) information on link between pay and performance;		
	(c) the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;	RCM	10,3
	(d) the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU;	RCM	10,4
	(e) information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based;	RCM	10,5
	(f) the main parameters and rationale for any variable component scheme and any other non-cash benefits;	RCM	10,6
	(g) aggregate quantitative information on remuneration, broken down by business area;	RCM	10,7
	(h) aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following:		
	(i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;		
	(ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments, and other types;		
	(iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions;		
	(iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments;	RCM	10,7
	(v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments;		
	(vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person;		

Article	Requirement	Section of Annual Report	Chapter
	(i) the number of individuals being remunerated with EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500,000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;	RCM	10,7
	(j) upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management.	AFS	8.2.
<b>451</b>	<b>Leverage</b>		
	(a) the leverage ratio and how the institution applies Article 499(2) and (3);	RCM	9
	(b) a breakdown of the total exposure measure, as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements;	RCM	9
	(c) where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11);	/	/
	(d) a description of the processes used to manage the risk of excessive leverage;	RCM	9
	(e) a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.	RCM	9
<b>452</b>	Use of the IRB Approach to credit risk	/	/
<b>453</b>	Use of credit risk mitigation techniques		
	(a) the policies and processes for, and an indication of the extent to which the entity makes use of, on- and off- balance sheet netting;	/	/
	(b) the policies and processes for collateral valuation and management;	AFS	7.1. f, g
	(c) a description of the main types of collateral taken by the institution;	AFS	7.1. h
	(d) the main types of guarantor and credit derivative counterparty and their creditworthiness;	RCM	7.1
	(e) information about market or credit risk concentrations within the credit mitigation taken;	AFS	7.1. i
	(f) for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered — after the application of volatility adjustments — by eligible financial collateral, and other eligible collateral;	RCM	7.1
	(g) for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches provided in Article 155.	RCM	7.1
<b>454</b>	<b>Use of the Advanced Measurement Approaches to operational risk</b>	/	/
<b>455</b>	<b>Use of Internal Market Risk Models</b>	/	/
<b>492</b>	<b>Transitional provisions for disclosure of own funds</b>		
<b>3</b>	<b>During the period from 1 January 2014 to 31 December 2017, institutions shall disclose the following additional information about their own funds:</b> (a) the nature and effect on Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and own funds of the individual filters and deductions applied in accordance with Articles 467 to 470, 474, 476 and 479; (b) the amounts of minority interests and Additional Tier 1 and Tier 2 instruments, and related retained earnings and share premium accounts, issued by subsidiaries that are included in consolidated Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and own funds in accordance with Section 4 of Chapter 1; (c) the effect on Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and own funds of the individual filters and deductions applied in accordance with Article 481; (d) the nature and amount of items that qualify as Common Equity Tier 1 items, Tier 1 items and Tier 2 items by virtue of applying the derogations specified in Section 2 of Chapter 2.	RCM	3.4
<b>4</b>	During the period from 1 January 2014 to 31 December 2021, institutions shall disclose the amount of instruments that qualify as Common Equity Tier 1 instruments, Additional Tier 1 instruments and Tier 2 instruments by virtue of applying Article 484 (capital instruments that are not eligible under new legislation, but can be gradually excluded).	/	/

## Section of the Annual Report

AFS = Audited Financial Statements

RCM = Risk and Capital Management

RP = Regulatory Part

BR = Business Report

# GRI<sup>6</sup> Standards Disclosure for NLB

Report for 2016

Economic

GRI Topic	GRI Disclosure	Value
	<b>201-1: Direct economic value generated and distributed</b>	See the section Support to Entrepreneurship in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	a. Direct economic value generated and distributed (EVG&D) on an accruals basis, including the basic components for the organisation's global operations as listed below. If data are presented on a cash basis, report the justification for this decision in addition to reporting the following basic components:	See the section Support to Entrepreneurship in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
SRS 201 - Economic Performance	i. Direct economic value generated: revenues;	EUR 475,744,000 (included: net interest income, net fee and commission income, effects from financial result, foreign exchange translation gains less losses, gains less losses on derecognition of assets, other operating income and expenses, and Net gains or losses from non-current assets from held sale) See the section Support to Entrepreneurship in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	ii. Economic value distributed: operating costs, employee wages and benefits, payments to providers of capital, payments to government by country, and community investments;	EUR -261,160,000 (included only Employee costs and other administrative expenses) See the section Support to Entrepreneurship in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	iii. Economic value retained: 'direct economic value generated' less 'economic value distributed'.	EUR 214,584,000 See the section Support to Entrepreneurship in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	<b>202-2: Proportion of senior management hired from the local community</b>	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
SRS 202 - Market Presence	a. Percentage of senior management at significant locations of operation that are hired from the local community.	7.1% See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	b. The definition used for 'senior management.'	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	c. The organisation's geographical definition of 'local.'	Republic of Slovenia (NLB d.d.) See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	d. The definition used for 'significant locations of operation.'	Slovenia and locations of Group Members See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	<b>205-2: Communication and training about anti-corruption policies and procedures</b>	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
SRS 205 - Anti-corruption	a. Total number and percentage of governance body members that the organisation's anti-corruption policies and procedures have been communicated to, broken down by region.	Management board: 4 members (100%), supervisory board: n/a See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	b. Total number and percentage of employees that the organisation's anti-corruption policies and procedures have been communicated to, broken down by employee category and region.	2.882 (100%) See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	d. Total number and percentage of governance body members that have received training on anti-corruption, broken down by region.	Management board: 5 members (100%), supervisory board: n/a. See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	e. Total number and percentage of employees that have received training on anti-corruption, broken down by employee category and region.	2.272 (79%) including long term absence. See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
		<b>205-3: Confirmed incidents of corruption and actions taken</b>
	a. Total number and nature of confirmed incidents of corruption.	10 employees: fraud (including the violation of internal acts). Two cases are not included, because they fall under statute of limitation. See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	b. Total number of confirmed incidents in which employees were dismissed or disciplined for corruption.	8 employees: 1 employee has been dismissed, 7 employees received written/verbal warning. See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	d. Public legal cases regarding corruption brought against the organisation or its employees during the reporting period and the outcomes of such cases	none See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).

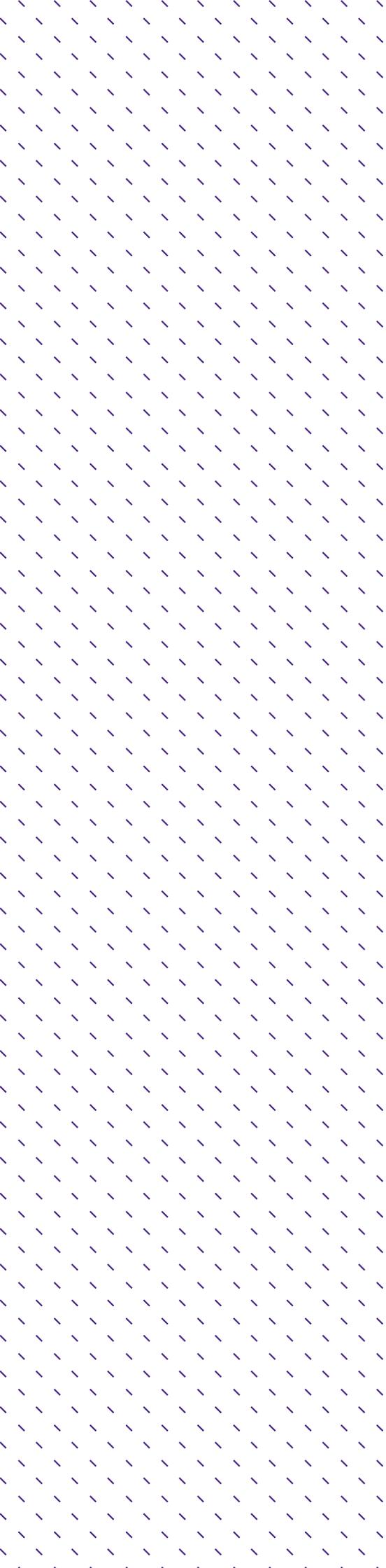
## Environmental

GRI Topic	GRI Disclosure	Value
SRS 301 - Materials	<b>301-1: Materials used by weight or volume</b>	See the section Environment in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	a. Total weight or volume of materials that are used to produce and package the organisation's primary products and services during the reporting period, by:	n/a
	i. non-renewable materials used;	n/a
	ii. renewable materials used.	39.62 (data is related to used A4 paper per employee) See the section Environment in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
SRS 302 - Energy	<b>302-1: Energy consumption within the organisation</b>	See the section Environment in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	i. electricity consumption in kWh	13,620,000 See the section Environment in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
SRS 306 - Effluents and Waste	<b>306-2: Waste by type and disposal method</b>	432,925 kg of municipal waste, 42,514 kg of cardboard and paper, 1,660 kg of wood, 45,672 kg of electronic equipment, 500 kg of textile lining, 200 kg of hydrofluorids, 1,400 kg of grease oil, 243 kg of batteries See the section Environment in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
SRS 307 - Environmental Compliance	<b>307-1: Non-compliance with environmental laws and regulations</b>	See the section Environment in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).

Social

GRI Topic	GRI Disclosure	Value
SRS 401 - Employment	<b>401-1: New employee hires and employee turnover</b>	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	a. Total number and rate of new employee hires during the reporting period, by age group, gender, and region.	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	b. Total number and rate of employee turnover during the reporting period, by age group, gender, and region.	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	<b>401-2: Benefits provided to full-time employees that are not provided to temporary or part-time employees</b>	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	<b>401-3: Parental leave</b>	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	a. Total number of employees that were entitled to parental leave, by gender.	2.17% male; 3.04% female See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	b. Total number of employees that took parental leave, by gender.	2.17% male; 3.04% female See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	c. Total number of employees that returned to work in the reporting period after parental leave ended, by gender.	2.17% male; 3.04% female See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	e. Return to work and retention rates of employees that took parental leave, by gender.	2.17% male; 3.04% female See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	SRS 402 - Labour/ Management Relations	<b>402-1: Minimum notice periods regarding operational changes</b>
<b>403-1: Workers representation in formal joint management - worker health and safety committees</b>		See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
b. For organisations with collective bargaining agreements, report whether the notice period and provisions for consultation and negotiation are specified in collective agreements.		Same as 402-1 b. See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
<b>403-2: Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities</b>		See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
SRS 403 - Occupational Health and Safety	a. Types of injury, injury rate (IR), occupational disease rate (ODR), lost day rate (LDR), absentee rate (AR), and work-related fatalities, for all employees, with a breakdown by:	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	ii. gender.	Number of injuries at work: 2 males, 8 females. See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	<b>403-3: Workers with high incidence or high risk of diseases related to their occupation</b>	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	a. Whether there are workers whose work, or workplace, is controlled by the organisation, involved in occupational activities who have a high incidence or high risk of specific diseases.	1% See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	<b>403-4: Health and safety topics covered in formal agreements with trade unions</b>	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
SRS 404 - Training and Education	b. If so, the extent, as a percentage, to which various health and safety topics are covered by these agreements.	100% See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	<b>404-1: Average hours of training per year per employee</b>	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	a. Average hours of training that the organisation's employees have undertaken during the reporting period, by:	40 hours See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	i. gender;	41 hours female/37 hours male employee See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	<b>404-2: Programmes for upgrading employee skills and transition assistance programmes</b>	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
a. Type and scope of programmes implemented and assistance provided to upgrade employee skills.	1,028 training programmes (597 programmes in-house, 431 programmes in the market) See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).	

GRI Topic	GRI Disclosure	Value
SRS 405 - Diversity and Equal Opportunity	<b>405-1: Diversity of governance bodies and employees</b>	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	a. Percentage of individuals within the organisation's governance bodies in each of the following diversity categories:	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	i. Gender;	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	ii. Age group: under 30 years old, 30-50 years old, over 50 years old;	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	iii. Other indicators of diversity where relevant (such as minority or vulnerable groups).	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	b. Percentage of employees per employee category in each of the following diversity categories:	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	i. Gender;	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	ii. Age group: under 30 years old, 30-50 years old, over 50 years old;	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	iii. Other indicators of diversity where relevant (such as minority or vulnerable groups).	See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
		<b>405-2: Ratio of basic salary and remuneration of women to men</b>
	a. Ratio of the basic salary and remuneration of women to men for each employee category, by significant locations of operation.	Male by age group: under 30 years old (ratio 12.87%), 30-50 years old (ratio 7.44%), over 50 years old (ratio 3.39%); Female by age group: under 30 years old (ratio 12.41%), 30-50 years old (ratio 7.03%), over 50 years old (ratio 4.37%). (Data for employees with Collective Agreement only.) See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
	b. The definition used for 'significant locations of operation.'	Republic of Slovenia (NLB d.d.) See the section Employees in CSR Annual Report 2016 ( <a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a> ).
SRS 411 - Indigenous Rights	<b>411-1: Incidents of violations involving rights of indigenous peoples</b>	<b>See the section Employees in CSR Annual Report 2016 (<a href="https://www.nlb.si/corporate-social-responsibility-report-2016">https://www.nlb.si/corporate-social-responsibility-report-2016</a>).</b>



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Archibald Kremser, Member  
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László Pelle, Member  
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Lidija Žigić, Executive Director

as at 1 January 2017

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