NLB Group

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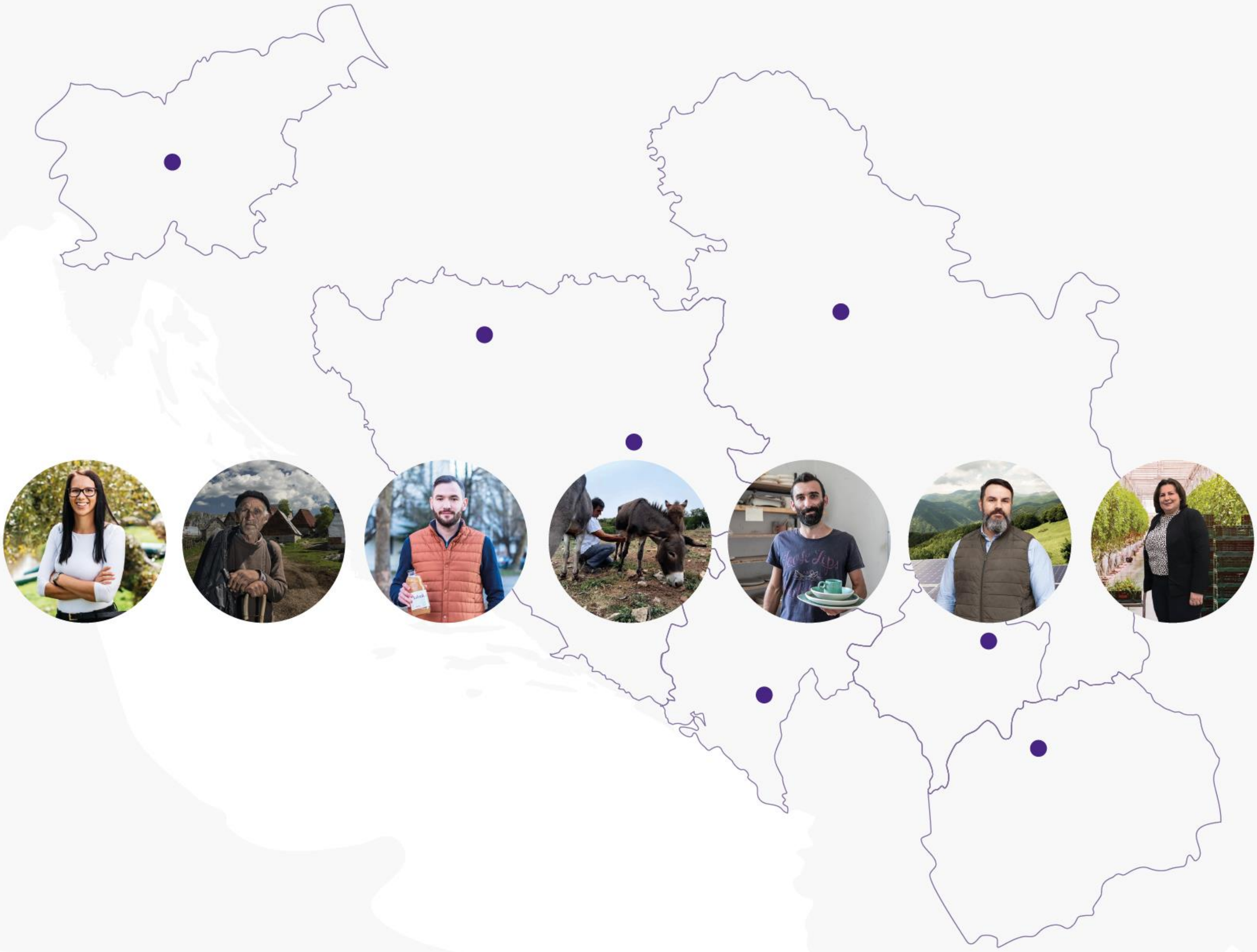
Pillar 3 Disclosures | 2020



Abbreviations

ABS	Asset-backed securities
AE	Asset Encumbrance
ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
AML	Anti-Money Laundering
AMLTF	Anti-Money Laundering Task Force
AT1	Additional Tier 1 capital
AVA	Additional Valuation Adjustments
BCBS	Basel Committee on Banking Supervision
BPV	Basis point value
BoS	Bank of Slovenia
CBR	Combined buffer requirement
CCF	Credit conversion factor
CCP	Central Counterparty
CCR	Counterparty credit risk
CEO	Chief Executive Officer
CET1	Common equity tier 1 capital
CFO	Chief Finance Officer
CISO	Chief Information Security Officer
CMO	Chief Marketing Officer
COBIT	Control Objectives for Information Technologies
COO	Chief Operating Officer
COSO	Committee of Sponsoring Organisations of the Treadway Commission
COVID-19	Coronavirus Disease 2019
CRD	Capital Requirements Directive
CRD IV or **CRD V**	Capital Requirements Directive and Regulation
CREM	Corporate real estate management
CRM	Credit Risk Mitigation
CRO	Chief risk officer
CRR	Capital Requirements Regulation
CRR QF	Capital Requirements Regulation Quich Fix
CSA	Credit Support Annex
CSR	Corporate social responsibility
CTF	Combating the Financing of Terrorism
CVA	Credit valuation adjustment
CVaR	Conditional Value at Risk
DPO	Data Protection Officer
DSTI	Debt service-to-income
DVA	Debit Valuation Adjustments
DWH	Data Warehouse
EAD	Exposure at default
EaR	Earnings at Risk
EBA	European Banking Authority
ECA	External Credit Assessment
ECAI	External Credit Assessment Institutions
ECB	European Central Bank
ECL	Expected Credit Losses
ECRA	Enterprise compliance and integrity risk assessment
EEA	European Economic Area
EHQLA	Extremely High-quality Liquid Assets
EMIR	European Market Infrastructure Regulation
ESG	Environmental, social and governance
ESRB	European Systemic Risk Board
EU	European Union
EVE	Economic Value of Equity
EVS	European Valuation Standards
EWS	Early Warning System
FV	Fair value
FTE	Full-time equivalent
FX	Foreign Exchange
GDP	Gross Domestic Product
GLTDF	Gross Loans to Deposit Flows ratio
GMRA	Global Master Repurchase Agreement
G-SII	Global systemically important institutions
HHI	Herfindahl-Hirschman Index
HQLA	High-quality liquid assets
HR	Human resources
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IR	Interest rate
IRB	Internal ratings-based approach
IRRBB	Interest rate risk in the banking book
ISDA	International Swaps and Derivatives Association
IT	Information Technology
IVS	International Valuation Standards
JST	Joint Supervisory Team
KB	Komercijalna banka, Beograd
KPI	Key Performance Indicator
KRI	Key Risk Indicator
LCP	Liquidity Contingency Plan
LCR	Liquidity coverage ratio
LGD	Loss given default
LTD	Loan-to-deposit
LTI	Loan-to-income
LTV	Loan-to-value
MB	Management Board
MDA	Maximum Distributable Amount
MDB	Multilateral Development Bank
MIGA	Multilateral Investment Guarantee Agency
MPE	Multiple Point of Entry
MREL	Minimum Requirement for own funds and Eligible Liabilities
MRSA	Market Risk Standardised Approach
MS	Mid-swap
MTF	Multilateral trading facility
NCI	Non-controling interest
NII	Net interest income
NPE	Non Performing Exposures
NPL	Non Performing Loans
NPL CR	Non-performing Loans Coverage Ratio
NPV	Net Present Value
NSFR	Net Stable Funding Ratio
OCI	Other comprehensive income
OCR	Overall capital requirement
OpRC	Operational Risk Committee
O-SII	Other systemically important institutions
OTC	Over-the-counter
OU	Organisational unit
PD	Probability of default
P2G	Pillar 2 Guidance
P&L	Profit and Loss
P1R	Pillar 2 Requirement
P2R	Pillar 2 Requirement
PFE	Potential Future Exposure
PP&E	Property, plant and equipment
PSE	Public Sector Entity
QCCP	Qualifying Central Counterparty
RAF	Risk Appetite Framework
RICO	Risk Committee
RICS	Royal Institution of Chartered Surveyors
ROE	Return on Equity
RP	Recovery plan
RWA	Risk-weighted assets
SA	Standardised Approach
SB	Supervisory Board
SEE	Southeast Europe
SFT	Securities Financing Transactions
SME	Small Medium Enterprise
S&P	Standard & Poor's
SREP	Supervisory Review and Evaluation Process
SSM	Single Supervisory Mechanism
ST	Stress test
T1	Tier 1 (capital)
T2	Tier 2 (capital)
TC	Total Capital
TCR	Total Capital ratio
TLOF	Total Liabilities and Own Funds
TREA	Total risk exposure amount
TSCR	Total SREP capital requirement
VaR	Value at risk
ZBan-2	Banking Act
ZGD-1	Companies Act
ZOSRB	Bank Authority and Fund Act
ZRPPB	Law on Rescue and Forced Cessation of Banks
ZUKD	Zavod za upravljanje kulturne dediščine - NLB Cultural Heritage Management institute

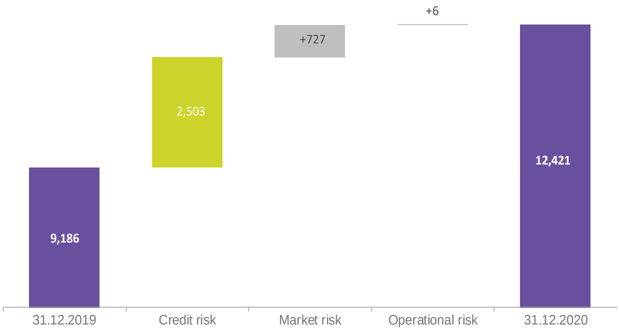
Key highlights

Table 1 – Key metrics

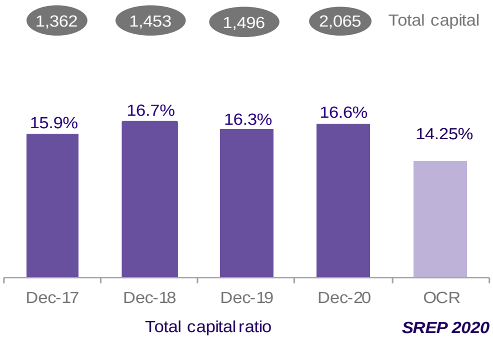
NLB Group	31.12.2020	31.12.2019
Available capital		
Common equity tier 1 (CET1)	1,753,448	1,451,176
Additional Tier 1 capital	14,614	-
Tier 1	1,768,062	1,451,176
Tier 2	297,401	44,595
Total capital	2,065,463	1,495,771
Risk weighted assets		
Total RWA	12,421,028	9,185,539
Capital ratios		
Common equity tier 1 ratio (%)	14.1%	15.8%
Tier 1 ratio (%)	14.2%	15.8%
Total capital ratio (%)	16.6%	16.3%
Additional CET1 buffer requirements as a % of RWA		
Capital conservation buffer requirement	2.5%	2.5%
Countercyclical buffer requirement	0.0%	0.0%
Bank G-SII and / or O-SII additional requirements	1.0%	1.0%
Combined buffer requirement	3.5%	3.5%
Leverage ratio		
Total leverage ratio exposure measure	22,603,903	16,671,280
Leverage ratio (%)	7.82%	8.70%
Liquidity Coverage Ratio		
Total HQLA	5,003,026	3,985,017
Total net cash outflow	1,943,104	1,226,351
LCR ratio	257%	325%
NSFR ratio	166%	160%

Key ratios and figures are reflected throughout the Pillar 3 disclosures, while summary is reflected in Table 1.

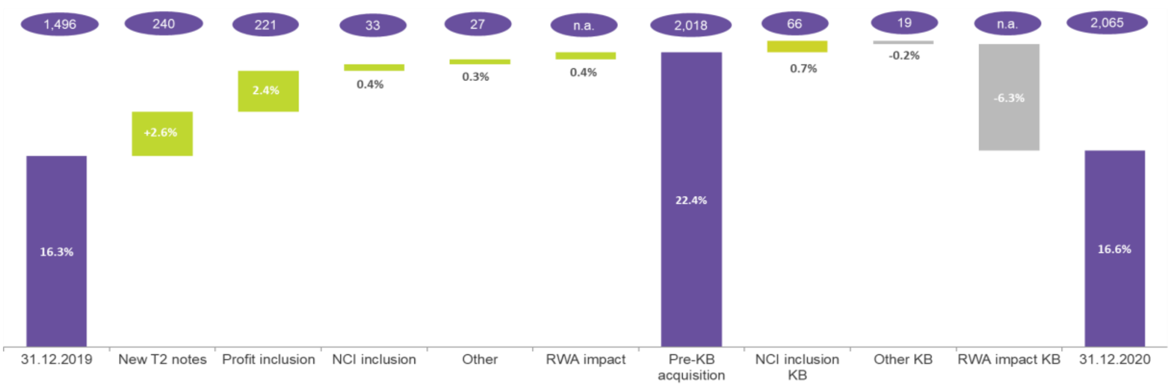
Picture 1: Changes in RWA



Picture 2: Total capital movement



Picture 3: Total capital ratio changes



Statement of Management of Risk

(Article 435 e and f of CRR)

NLB's Management Board and Supervisory Board provide herewith a concise statement of the Risk Management according to Article 17 of the Regulation on Internal Governance Arrangements, the Management body and the Internal Capital Adequacy Assessment Process for Banks and Savings banks (*Official Gazette of the RoS*, no. 73/15, 49/16, 68/17, 33/18 and 81/18) and Regulation (EU) 575/2013 (date of publication 21 December 2015), article 435 (Risk management objectives and policies), points (e) and (f), and related amendments to the Capital Requirements Regulation and Second Capital Requirements Regulation (Regulation (EU) 2020/873), as well as the EBA Guidelines on Disclosure requirements (EBA GL/2016/11).

Risk Management in the Group, representing an important element of the Group's overall corporate governance, is implemented in accordance with the set strategic guidelines, established internal policies, and procedures which take into account the European banking regulations, the regulations adopted by the BoS, the current EBA guidelines, and the relevant good banking practices. EU regulations are followed by the Group, where the Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators. The Group gives high importance to the risk culture and awareness of all relevant risks within the entire Group. Maintaining risk awareness is engrained in the business strategy of the Group. The business and operating environment relevant for the Group's operations, is changing with trends such as changing customer behaviour, emerging new technologies and competitors, sustainable financing, and increasing new regulatory requirements. Respectively, Risk Management is continuously adapting with aim to detect and manage new potential emerging risks.

The overall slow-down of the economy, caused by the COVID-19 pandemic, had some negative impacts on the loan portfolio quality and new loan generation. From the beginning of the COVID-19 pandemic the Group complies with EBA guidelines on payment moratoria regarding forborne exposures, namely by frequently performing the assessment of borrowers and ensuring effective early warning systems. All relevant information was available to management bodies with higher frequency than before crises to assure adequate and timely oversight over the critical elements of credit risk management and executing mitigation measures if needed. In contrast, the Group faced growing excess liquidity, and the impacts of the pandemic did not cause any material liquidity outflows.

The Group uses the 'three lines of defence framework' as an important element of its internal governance, whereby the Risk Management function acts as a second line of defence. The Group's enhanced overall corporate governance reflects in the lowering of the SREP requirement in the past years. A robust and comprehensive Risk Management framework is defined and organised with regard to the Group's business and risk profile, based on a forward-looking perspective to meet internally set strategic objectives and all external requirements. A proactive Risk Management and control system is primarily based on Risk appetite and Risk strategy, which are consistent with the Group's Business strategy, and focused on early risk identification and efficient Risk Management. Set governance and different Risk Management tools enable adequate oversight of the Group's risk profile, proactively support its business operations and its management by incorporating escalation procedures, and use different mitigation measures when necessary. In this respect, the Group is constantly enhancing and complementing the existing methods and processes in all Risk Management segments. Additionally, the Group is engaged in contributing to sustainable finance by incorporating environmental, social and governance (ESG) risks into its business strategies, risk management framework and internal governance arrangements. Thus, the management of ESG risks follows ECB and EBA guidelines and will comprehensively integrated into all relevant processes.

The Group plans a prudent risk profile, optimal capital usage, and profitable operations in the long run, considering the risks assumed. The Business strategy, the Risk appetite, the Risk strategy, and the key internal risk policies of the Group that are approved by the Management Board and the Supervisory Board of NLB, specify the strategic objectives and guidelines concerning risk assumption, the approaches, and methodologies of monitoring, measuring, mitigating, and managing all types of risk at different relevant levels. Moreover, the main strategic risk guidelines are consistently integrated into regular business strategy review, the budgeting process, and other strategic decisions, whereby informed decision-making is assured. The Group is regularly monitoring its target risk appetite profile and internal capital allocation, representing the key component of proactive management. Risk limits usage and potential deviations from limits or target values are regularly reported to the respective committees and/or the Management Board of the Bank, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank.

Additionally, the Group established a comprehensive stress testing framework and other early warning systems in different risk areas, with the intention to contribute to setting and pursuing the Group's business strategy, to support decision-making on an ongoing basis, to strengthen the existing internal controls, and to enable a timely response when necessary. The stress- testing framework includes all material types of risk and different relevant stress scenarios or sensitivity analysis, according to the vulnerability of the Group's business model. Stress testing has an important role when assessing the Group's resilience to stressed circumstances, namely from profitability, capital adequacy, and liquidity with a forward-looking perspective. As such, it is embedded into Group's Risk Management system, namely Risk appetite, ICAAP, ILAAP, and the Recovery plan, as an important component of sound Risk Management. Besides internal stress testing, the Group as a systemically important bank also participates in the regulatory stress test exercises carried out by the ECB.

The Group is the largest Slovenian banking and financial group with important presence in the SEE region. As of 30 December 2020, the acquisition of Komercijalna Banka, Beograd was completed. The harmonisation in the area of the Group's risk management framework and uniform data flow, based on Group's Risk management standards, is ongoing.

The Group has a well-diversified business model. In accordance with its strategic orientations, the Group intends to be a sustainably profitable, predominantly working with clients on its core markets, providing innovative, but simple customer-oriented solutions. Efficient managing of risks and capital is crucial for the Group to sustain long-term profitable operations. Based on the Group's business strategy credit risk is the dominant risk category, followed by credit spread risk on banking book portfolio, interest rate risk in the banking book, operational risk, liquidity risk, market risk, and other non-financial risks. Regular risk identification and their assessment is performed within the ICAAP process with an aim to assure their overall control and effective Risk Management on an ongoing basis.

Managing risks and capital efficiently at all levels is crucial for the Group sustained long-term profitable operations. Management of credit risk, representing the Group's most important risk, focuses on the taking of moderate risks – diversified credit portfolio, adequate credit portfolio quality, sustainable cost of risk and ensuring an optimal return considering the risks assumed. The liquidity risk tolerance is low. The 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. The Group limited exposure to credit spread risk, arising from the valuation risk of debt securities portfolio servicing as liquidity reserves, to the moderate level. The Group's basic orientation in the management of interest rate risk is to limit unexpected negative effects on revenues and capital that would arise from changed market interest rates and, therefore, a moderate tolerance for this risk is stated. When assuming operational risk, the Group pursues the orientation that such risk must not significantly impact its operations. Risk appetite for operational risks is low to moderate, with a focus on mitigation actions for important risks and key risk indicators servicing as an early warning system. The conclusion of transactions in derivative financial instruments at NLB is primarily limited to servicing customers and hedging Bank's own positions. In the area of currency risk, the Group thus pursues the goals of low to moderate exposure. The tolerance for all other risk types, including non-financial risks, is low with a focus on minimising their possible impacts on the Group's operations. ESG risks do not represent a new risk category, but rather an aggravating factor for the types of risks already managed through the established risk management framework.

The main NLB Group Risk Appetite Statement objectives are following:

- preservation of regulatory capital adequacy,
- preservation of internal capital adequacy,
- fulfilment of the MREL requirement,
- maintenance of low leverage,
- improvement in the quality of the credit portfolio, sufficient NPL coverage, sustainable credit risk volatility, sustainable cost of risk across the economic cycle, sustainable industry concentration, sustainable exposure to project financing,
- maintenance of a solid liquidity position, maintaining stable customers' deposits as the main funding base,
- diversification of risk in exposures to banks and sovereigns,
- limited exposure to credit spread risk,
- limited exposure to interest rate risk,
- limited exposure to FX risk,
- sustainable tolerance to net losses from operational risk.

Values of the most important risk appetite indicators of the Group, also including the also acquired Komercijalna Banka group as at the end of year 2020, reflecting interconnection between strategic business orientations, risk strategy, and targeted risk appetite profile, were the following:

- Total capital ratio (TCR) 16.6%,
- Tier 1 capital ratio 14.2%,
- Common Equity Tier 1 ratio (CET1) 14.1%,
- Leverage ratio 7.8%,
- Cost of risk 62 bps[1],
- The share of non-performing exposure (NPE%) by EBA 2.3%,
- Non-performing loans coverage ratio (NPL CR) 57.3%[2],
- Loan-to-deposit ratio (LTD) 58.8%,
- LCR 257.5%,
- NSFR 165.7%,
- EVE sensitivity[3] (of 200 bps) -7.3% of capital,
- Transactional FX risk 1.2% of capital,
- Net losses from operational risk 8.0% of capital requirement for operational risk.

Consequently, the Group (including Komercijalna Banka group) concluded the year 2020 as self-funded, with strong liquidity and solid capital position, demonstrating the Group's financial resilience. The acquired KB Group has similar business model to the existing NLB Group, respectively its impact on the Group's risk profile was moderate. Beside the acquisition there were no other transactions of sufficiently material nature to impact on NLB Group's risk profile or distribution of the risks on the Group level.

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 at 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, 8 April 2021

Supervisory Board of NLB

Primož Karpe
Chairman

Management Board of NLB

Archibald Kremser	**Andreas Burkhardt**	**Petr Brunclík**	**Blaž Brodnjak**
CFO	CRO	COO	CEO & CMO

CEO & CMO

[1] Komercijalna Banka Group is excluded from the calculation.
[2] At initial recognition, the NPLs of Komercijalna Banka Group were recognised at fair value, without any additional credit loss allowances (in accordance with IFRS 3).
[3] An estimated value on consolidated level as per 31 December 2020.

1. Introduction

The purpose of this Report is to provide disclosures as required by the global regulatory framework for capital and liquidity, established by the Basel Committee on Banking Supervision. On the European level, these are implemented in the disclosure requirements as laid down in Part Eight of Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms' (Capital Requirements Regulation, or 'CRR') and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive IV, or 'CRD'). The CRR had a direct effect in EU member states, while the CRD was required to be implemented through national legislation in EU member states by 31 December 2013. Slovenia implemented these CRD requirements into national law with the Slovenian Banking Act (Zakon o bančništvu – ZBan-2). On 27 June 2019, an amendment of CRR was published (Regulation (EU) No. 2019/876) with some of its provisions already valid, as well as an amendment of CRD (Directive (EU) 2019/878 – CRD V) which is yet to be transposed in Slovenian national legislation. On 26 June 2020 another amendment to CRR was published (Regulation (EU) No. 2020/873) as response to the COVID-19 pandemic.

In the context of this document, the 'EU banking legislation' describes the package of CRR, CRD, and regulatory/implementing technical standards. It commonly refers as containing the following three Pillars:

- Pillar 1 contains mechanisms and requirements for the calculation by financial institutions of their minimum capital requirements for credit risk, market risk, and operational risk,
- Pillar 2 is intended to ensure that each financial institution has sound internal processes in place to assess the adequacy of its capital, based on a thorough evaluation of its risks. Supervisors are tasked with valuating how well financial institutions are assessing their capital adequacy needs relative to their risks. Risks not considered under Pillar 1 are considered under this Pillar,
- Pillar 3 is intended to complement Pillar 1 and Pillar 2. It requires that financial institutions disclose information on the scope of the application of the EU banking legislation requirements, particularly covering capital requirements/risk-weighted assets (RWA) and resources, risk exposures, and risk assessment processes.

For ease of reference, the requirements described under the last indent above are referred to as 'Pillar 3' in this Report. Pillar 3 contains both qualitative and quantitative disclosure requirements. In December 2016, the EBA published final guidelines on the Pillar 3 disclosure requirements aimed at improving and enhancing the consistency and comparability of institutions' disclosures. These guidelines apply from 31 December 2017 and NLB Group's disclosures have been prepared in accordance with these guidelines.

All disclosures are prepared on a consolidated basis (Prudential consolidation) and in EUR thousands, unless otherwise stated. Any discrepancies between data disclosed in this document are due to the effect of rounding.

Areas covered

In accordance with Pillar 3 requirements, the areas covered by NLB Group's Pillar 3 disclosures include the Group's CRD IV capital requirements and resources, credit risk, counterparty credit risk, market risk, operational risk, liquidity risk, encumbered and unencumbered assets, non-performing and forborne exposures, the leverage ratio, and the Group's remuneration disclosures.

NLB Group uses the following approaches for the calculation of capital requirements:

- Credit risk – standardised approach,
- Market risk – standardised approach, and
- Operational risk – a basic indicator approach.

Thus, the disclosures relating to other approaches, such as the IRB approach, securitisation, the advanced measurement approach for operational risk and disclosures related to internal models for the calculation of market risk capital requirements not used by NLB Group are not applicable. In addition, disclosures that relate to types of transactions that NLB Group is currently not involved in are also not applicable and therefore not disclosed in this report. Rows and columns in prescribed templates, related to transactions, not applicable to NLB Group are, in accordance with the EBA guidance, deleted.

Frequency of disclosures and media

CRD IV and EBA guidelines require NLB Group to disclose information at least on an annual basis. To ensure the effective communication of NLB Group's business and risk profile, NLB Group also pays particular attention to the possible need to provide information more frequently than annually. A separate Pillar 3 document is also published quarterly on the NLB's website https://www.nlb.si/financial-reports, following our Annual or Interim Reports for NLB Group disclosure.

Verifications and source of information

The Pillar 3 report is subject to a robust internal control and governance process, explained in the Policy of Disclosures on risk and capital management in NLB Group. The Policy was adopted by the Management Board of NLB d.d. (hereafter 'NLB') and acknowledged by the Risk Committee. The key elements of this policy are:

- identification of roles and responsibilities of the departments involved in the process of producing the disclosures,
- identification of the information to be published (in accordance with EBA GL/2014/14 and EBA GL 2016/11 and CRR Article 432 and 433),
- instructions for departments' contributions and related controls,
- consolidation of the disclosure contributions and related controls,
- approval of disclosures by the Management Board.

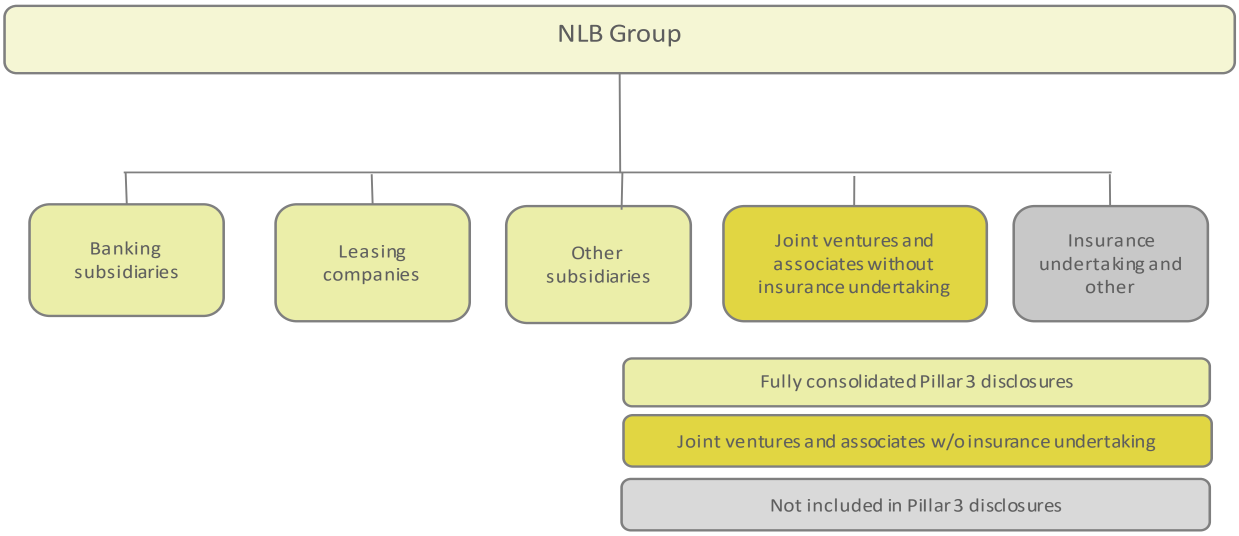
Verification of information included in the disclosures is subject to strict procedure of internal control and management. The persons in charge of individual contents are responsible for primary controls. Quantitative reports must be submitted in individual templates and precisely aligned with the information disclosed in the interim report or the reports prepared for the regulator (Corep and Finrep). The report is unaudited.

It should be noted that while some quantitative information in this document is based on financial data contained in the 2020 NLB Group Annual Report, other quantitative data is sourced from the regulatory reporting (Finrep and Corep) and is calculated according to regulatory requirements. Pillar 3 quantitative data is thus not always directly comparable with the quantitative data contained in the 2020 NLB Group Annual Report. Some details of the key differences between the Group's accounting and regulatory exposures are set out in Table 2 – EU LI1.

2. Scope of application

(Articles 436 a, b, c, and d of CRR)

In accordance with the capital legislation, NLB d.d. has the position of an 'EU parent bank' and so is a parent company of NLB Group. NLB is therefore obliged to disclose information on a consolidated basis. Consolidated financial statements for the purpose of Pillar 3 disclosures are based on CRR requirements (regulatory scopes of consolidation). A summarised representation of the regulatory consolidation group is below.



Significant subsidiaries of NLB Group that exceed 10% Group's RWA are Komercijalna banka a.d. Beograd (hereafter: Komercijalna Banka, Beograd) and NLB Banka a.d., Skopje. Detailed information is disclosed in their annual reports published on the websites: https://en.kombank.com/about-us and http://www.nlb.mk.

Table EU LI1 represents the main differences between the basis of consolidation and carrying values as reported in published financial statements in the 2020 NLB Group Annual Report, and under the scope of regulatory consolidation.

The differences between the scope of consolidation for regulatory and accounting purposes (pursuant to the IFRS) of NLB Group (entity by entity) as at 31 December 2020 are seen from Table EU LI3 (disclosed in Appendix 5). The consolidation for *accounting purposes* comprises all:

- subsidiaries (banking, leasing, and other subsidiaries) controlled by the Bank or the NLB Group,
- associated companies in which NLB Group directly or indirectly holds between 20% and 50% of the voting rights, and over which NLB Group exercises significant influence, but does not have control and
- jointly controlled companies (i.e., jointly controlled by NLB Group based on a contractual agreement).

In contrast to the accounting consolidation, the *regulatory consolidation* only includes (in accordance with the definitions under Article 4 of CRR) credit institutions, financial institutions, ancillary service undertakings and asset management companies. As regards NLB Group, this means that the regulatory consolidation does not include entity operating in the area of other activities (ZUKD – The NLB Cultural Heritage Management Institute). Also, entity operating in the area of insurance (NLB Vita), which was sold in May 2020, was not included into regulatory consolidation.

Concerning the consolidation method, there are no differences between the accounting and regulatory consolidation as at 31 December 2020, as companies from the Prvi Faktor Group (see table EU LI3) are excluded from the regulatory consolidation (that would otherwise require the proportional consolidation method, in accordance with CRD IV) due to immateriality in accordance with CRR. In the accounting consolidation, the net assets of the Prvi Faktor Group using the equity method amount to zero. More details are disclosed in the 2020 NLB Group Annual Report - note 5.12 c Analysis by type of investment in associates and joint ventures (page 131).

Table 2 – EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories of NLB Group

			Carrying values of items			
31.12.2020	**Carrying values as reported in published financial statements**	**Carrying values under scope of regulatory consolidation**	**Subject to the credit risk framework**	**Subject to the CCR framework**	**Subject to the market risk framework**	**Not subject to capital requirements or subject to deduction from capital**
Cash, cash balances at central banks, and other demand deposits at banks	3,961,812	3,961,812	3,961,812	-	-	-
Financial assets held for trading	84,855	84,855	-	16,049	84,855	-
Non-trading financial assets mandatorily at fair value through profit or loss	42,393	42,393	42,393	-	-	-
Financial assets measured at fair value through other comprehensive income	3,514,290	3,514,290	3,514,290	-	-	-
Financial assets measured at amortised cost						
- debt securities	1,503,087	1,503,087	1,488,905	-	-	14,182
- loans and advances to banks	197,005	197,005	197,005	-	-	-
- loans and advances to customers	9,619,860	9,619,860	9,619,695	-	-	165
- other financial assets	113,138	113,138	113,138	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	13,844	13,844	-	-	-	-
Investments in subsidiaries	-	10	10	-	-	-
Investments in associates and joint ventures	7,988	7,988	7,988	-	-	-
Tangible assets						
Property and equipment	249,117	249,107	249,107	-	-	-
Investment property	54,842	54,842	54,842	-	-	-
Intangible assets	61,668	61,668	24,940	-	-	36,751
Current income tax assets	4,369	4,369	4,369	-	-	-
Deferred income tax assets	31,789	31,789	31,789	-	-	-
Other assets	97,140	96,948	96,948	-	-	-
Non-current assets held for sale	8,658	8,658	8,658	-	-	-
Total assets	**19,565,855**	**19,565,663**	**19,415,889**	**16,049**	**84,855**	**51,098**
Financial liabilities held for trading	15,485	15,485	-	15,485	15,485	-
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	72,633	72,633	-	-	-	-
- borrowings from banks and central banks	158,225	158,225	-	-	-	-
- due to customers	16,397,167	16,397,355	-	-	-	-
- borrowings from other customers	91,560	91,560	-	-	-	-
- subordinated liabilities	288,321	288,321	-	-	-	-
- other financial liabilities	207,300	207,289	-	-	-	-
Derivatives - hedge accounting	61,161	61,161	-	61,161	-	-
Provisions	125,059	125,059	-	-	-	-
Current income tax liabilities	1,002	1,002	-	-	-	-
Deferred income tax liabilities	4,475	4,475	-	-	-	-
Other liabilities	20,427	20,426				
Total liabilities	**17,442,815**	**17,442,991**	**-**	**76,646**	**15,485**	**-**
Equity and reserves attributable to owners of the parent						
Share capital	200,000	200,000	-	-	-	-
Share premium	871,378	871,378	-	-	-	-
Other equity instruments issued	-	-	-	-	-	-
Accumulated other comprehensive income	21,127	21,588	-	-	-	-
Profit reserves	13,522	13,522	-	-	-	-
Retained earnings	846,762	845,933	-	-	-	-
	1,952,789	**1,952,421**	**-**	**-**	**-**	**-**
Non-controlling interests	170,251	170,251	-	-	-	-
Total equity	**2,123,040**	**2,122,672**	**-**	**-**	**-**	**-**
Total liabilities and equity	**19,565,855**	**19,565,663**	**-**	**76,646**	**15,485**	**-**

31.12.2019	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items			
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Cash, cash balances at central banks, and other demand deposits at banks	2,101,346	2,101,346	2,101,346	-	-	-
Financial assets held for trading	24,038	24,038	-	18,848	24,038	-
Non-trading financial assets mandatorily at fair value through profit or loss	25,359	25,359	25,359	-	-	-
Financial assets measured at fair value through other comprehensive income	2,141,428	2,141,428	2,141,428	-	-	-
Financial assets measured at amortised cost						
- debt securities	1,653,848	1,653,848	1,640,470	-	-	13,378
- loans and advances to banks	93,403	93,403	93,403	-	-	-
- loans and advances to customers	7,589,724	7,589,724	7,589,427	-	-	297
- other financial assets	97,415	97,415	97,415	-	-	-
Derivatives - hedge accounting	788	788	-	788	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	8,991	8,991	-	-	-	-
Investments in associates and joint ventures	7,499	7,499	7,499	-	-	-
Tangible assets						
Property and equipment	195,605	195,605	195,605	-	-	-
Investment property	52,316	52,316	52,316	-	-	-
Intangible assets	39,542	39,542	-	-	-	39,542
Current income tax assets	6,284	6,284	6,284	-	-	-
Deferred income tax assets	29,500	29,500	29,500	-	-	-
Other assets	63,811	63,811	63,811	-	-	-
Non-current assets and disposal group classified as held for sale	43,191	7,717	7,717	-	-	-
Total assets	**14,174,088**	**14,138,614**	**14,051,580**	**19,636**	**24,038**	**53,217**
Financial liabilities held for trading	17,903	17,903	-	17,903	17,903	-
Financial liabilities measured at fair value through profit or	7,998	7,998	-	-	-	-
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	42,840	42,840	-	-	-	-
- borrowings from banks and central banks	170,385	170,385	-	-	-	-
- due to customers	11,612,317	11,612,317	-	-	-	-
- borrowings from other customers	64,458	64,458	-	-	-	-
- subordinated liabilities	210,569	210,569	-	-	-	-
- other financial liabilities	158,484	158,484	-	-	-	-
Derivatives - hedge accounting	49,507	49,507	-	49,507	-	-
Provisions	88,414	88,414	-	-	-	-
Current income tax liabilities	2,271	2,271	-	-	-	-
Deferred income tax liabilities	2,833	2,833	-	-	-	-
Other liabilities	15,212	15,212	-	-	-	-
Total liabilities	**12,443,191**	**12,443,191**	**-**	**67,410**	**17,903**	**-**
Equity and reserves attributable to owners of the parent						
Share capital	200,000	200,000	-	-	-	-
Share premium	871,378	871,378	-	-	-	-
Accumulated other comprehensive income	26,493	14,364	-	-	-	-
Profit reserves	13,522	13,522	-	-	-	-
Retained earnings	574,489	551,144	-	-	-	-
	1,685,882	**1,650,408**	**-**	**-**	**-**	**-**
Non-controlling interests	45,015	45,015	-	-	-	-
Total equity	**1,730,897**	**1,695,423**	**-**	**-**	**-**	**-**
Total liabilities and equity	**14,174,088**	**14,138,614**	**-**	**67,410**	**17,903**	**-**

The difference between accounting consolidation and regulatory consolidation represents the company operating in the area of other activities ZUKD which is not included in regulatory consolidation in accordance with Article 4 of CRR.

Table 2 (EU LI 1) provides the reconciliation of the accounting consolidated financial statements (as presented in the 2020 NLB Group Annual Report (Audited Financial Statements of NLB Group Pursuant to the International Financial Reporting Standards as adopted by the European Union) to the regulatory consolidated financial statements. Certain assets can be subject to multiple RWA frameworks. The details of items not subject to capital requirement or subject to deduction from capital or explanation of differences with the comparative period are explained below:

- 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.
- In accordance with CRR article 36 (b), and Regulation (EU) 2020/2176 software assets are from December 2020 onwards partially a deduction item from capital and partially included in RWA calculation.

- Valuations of hedged items in fair value hedge relationships are excluded from positions, subject to credit risk.

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 are disclosed in Appendix 7.

Table 3 – EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements of NLB Group

			Items subject to		
	31.12.2020	**Total**	**Credit risk framework**	**CCR framework**	**Market risk framework**
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)**	**19,516,793**	**19,415,889**	**16,049**	**84,855**
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	(92,131)	-	(76,646)	(15,485)
3	Total net amount under the regulatory scope of consolidation	19,424,662	19,415,889	(60,597)	69,370
4	Off-balance-sheet amounts	3,271,186	3,271,186	-	-
5	*Differencies due to derivatives*	8,409	-	8,409	-
6	**Exposure amounts considered for regulatory purposes**	**22,704,257**	**22,687,075**	**(52,188)**	**69,370**

			Items subject to		
	31.12.2019	**Total**	**Credit risk framework**	**CCR framework**	**Market risk framework**
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)**	**14,095,254**	**14,051,580**	**19,636**	**24,038**
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	(85,313)	-	(67,410)	(17,903)
3	Total net amount under the regulatory scope of consolidation	14,009,941	14,051,580	(47,774)	6,135
4	Off-balance-sheet amounts	2,595,572	2,595,572	-	-
5	*Differencies due to derivatives*	10,222	-	10,222	-
6	**Exposure amounts considered for regulatory purposes**	**16,615,735**	**16,647,152**	**(37,552)**	**6,135**

Table 3 – EU LI2 presents carrying values of items, subject to credit risk, CRR and market risk framework (see Table 2 - EU LI1), and other items (potential liabilities from financial and non-financial guarantees, commitments to extend credit, and credit replacement value for derivative financial instruments), and adjustment of the derivative valuation, together presenting the total exposure considered for regulatory purposes.

3. Capital and capital requirements

3.1. Capital adequacy

European banking capital legislation – CRD IV, is based on the Basel III guidelines. The legislation defines three capital ratios reflecting a different quality of capital:

- Common Equity Tier 1 ratio (ratio between common or CET1 capital and risk-weighted exposure amount or RWA), which must be at least 4.5%,
- Tier 1 capital ratio (Tier 1 capital to RWA), which must be at least 6%, and
- Total capital ratio (total capital to RWA), which must be at least 8%.

In addition to the aforementioned ratios, which form the Pillar 1 Requirement, the Bank must meet other requirements and recommendations that are imposed by the supervisory institutions or by the legislation:

- Pillar 2 Requirement (SREP requirement): bank-specific, obligatory requirement set by the supervisory institution through the SREP process (together with the Pillar 1 Requirement it represents the minimum total SREP capital requirement – TSCR),
- The applicable combined buffer requirement (CBR): system of capital buffers to be added on top of TSCR – breaching of the CBR is not a breach of capital requirement, but triggers limitations in payment of dividends and other distributions from capital. Some of the buffers are prescribed by law for all banks and some of them are bank-specific, set by the supervisory institution (CBR and TSCR together form the overall capital requirement – OCR),
- Pillar 2 Capital Guidance: capital recommendation set by the supervisory institution through the SREP process. It is bank-specific and as recommendation not obligatory. Any non-compliance does not affect dividends or other distributions from capital; however, it might lead to intensified supervision and the imposition of measures to re-establish a prudent level of capital (including preparation of capital restoration plan).

Table 4 – Capital requirements and buffers of NLB Group

		2021	from 12 March 2020 onwards	as at 1 January till 11 March 2020	2019
Pillar 1 (P1R)	CET1	4.5%	4.5%	4.5%	4.5%
	AT1	1.5%	1.5%	1.5%	1.5%
	T2	2.0%	2.0%	2.0%	2.0%
Pillar 2 (P2R)	CET1	1.55%	1.55%	0.0%	0.0%
	Tier 1	2.06%	2.06%	0.0%	0.0%
	Total Capital	2.75%	2.75%	2.75%	3.25%
Total SREP Capital requirement (TSCR)	CET1	6.05%	6.05%	7.25%	7.75%
	Tier 1	8.06%	8.06%	8.75%	9.25%
	Total Capital	10.75%	10.75%	10.75%	11.25%
Combined buffer requirement (CBR)					
Conservation buffer	CET1	2.5%	2.5%	2.5%	2.5%
O-SII buffer	CET1	1.0%	1.0%	1.0%	1.0%
Countercyclical buffer	CET1	0.0%	0.0%	0.0%	0.0%
Overall capital requirement (OCR) = MDA threshold	CET1	9.55%	9.55%	10.75%	11.25%
	Tier 1	11.56%	11.56%	12.25%	12.75%
	Total Capital	14.25%	14.25%	14.25%	14.75%
Pillar 2 Guidance (P2G)	CET1	1.0%	1.0%	1.0%	1.0%
OCR + P2G	CET1	10.55%	10.55%	11.75%	12.25%

In 2020, OCR amounted to 14.25% for the Bank on the consolidated basis, consisting of:
- 10.75% TSCR (8% Pillar 1 requirement and 2.75% Pillar 2 requirement); and
- 3.5% CBR (2.5% Capital conservation buffer, 1% O-SII buffer and 0% countercyclical buffer).

The applicable OCR requirement for 2020 decreased from 14.75% to 14.25%, as Pillar 2 Requirement decreased by 0.5 p.p. to 2.75%, as a result of better overall SREP assessment. Moreover, Pillar 2 Guidance (P2G) which should be comprised entirely of CET1 capital, remains at a relatively low level 1.0%.

Following several measures taken by ECB in relation to COVID-19 pandemic, ECB has effectively as at 12 March 2020 amended the applicable decision for NLB in relation to the Pillar 2 Requirement composition, requiring that Pillar 2 Requirement must be held in the form of 56.25% of CET1 capital and 75% of Tier 1 capital, as a minimum, and not entirely of CET1 capital as required in previous years.

In 2021, NLB is required to maintain the same level of OCR at 14.25% on a consolidated basis, with unchanged structure.

The capital adequacy of NLB Group and NLB at the end of year 2020 remains strong in accordance with risk appetite orientations, and at a level, which covers all current and announced regulatory capital requirements, including capital buffers and other currently known requirements, and the Pillar 2 Guidance.

Table 5 – Capital adequacy of NLB Group:

	31.12.2020	30.09.2020	31.12.2019
Paid up capital instruments	200,000	200,000	200,000
Share premium	871,378	871,378	871,378
Retained earnings	552,146	552,146	358,648
Current result	63,635	-	35,000
Accumulated other comprehensive income	21,588	4,632	14,364
Other reserves	13,522	13,522	13,522
Minority interest	71,562	25,556	-
Prudential filters: Additional Valuation Adjustments (AVA)	(3,632)	(2,322)	(2,194)
(-) Goodwill	(3,529)	(3,529)	(3,529)
(-) Other intangible assets	(33,222)	(33,926)	(36,013)
(-) Deduction item related to credit impairments and provisions not included in capital	-	(8,914)	-
COMMON EQUITY TIER 1 CAPITAL (CET1)	**1,753,448**	**1,618,543**	**1,451,176**
Minority interest	14,614	4,807	-
Additional Tier 1 capital	**14,614**	**4,807**	**-**
TIER 1 CAPITAL	**1,768,062**	**1,623,350**	**1,451,176**
Capital instruments and subordinated loans eligible as T2 capital	284,595	284,595	44,595
Minority interest	12,806	1,678	-
Tier 2 capital	**297,401**	**286,273**	**44,595**
TOTAL CAPITAL	**2,065,463**	**1,909,623**	**1,495,771**
Risk exposure amount for credit risk	10,222,923	7,374,356	7,720,232
Risk exposure amount for market risks	1,250,563	534,563	523,050
Risk exposure amount for CVA	200	175	663
Risk exposure amount for operational risk	947,342	954,148	941,594
TOTAL RISK EXPOSURE AMOUNT (RWA)	**12,421,028**	**8,863,242**	**9,185,539**
Common Equity Tier 1 Ratio	14.1%	18.3%	15.8%
Tier 1 Ratio	14.2%	18.3%	15.8%
Total Capital Ratio	16.6%	21.5%	16.3%

As at 31 December 2020, the Total Capital Ratio for the NLB Group stood at 16.6% (or 0.3 p.p. higher than at the end of 2019), and for NLB at 27.1% (or 4.4 p.p. higher than at the end of 2019). As at 31 December 2020, the CET1 ratio stood at 14.1% (1.7 p.p. lower than at the end of 2019).The higher NLB Group total capital adequacy compared to the end of 2019 derives from higher capital (increase of EUR 569.7 million YoY) which compensated RWA increase of EUR 3,235.5 million YoY for the Group. Higher RWA derives from the acquisition of Komercijalna Banka, Beograd. The total capital increased mainly due to inclusion of the Tier 2 notes (EUR 240.0 million), inclusion of undistributed profit for the year 2019 (EUR 157.5 million), partial inclusion of 2020 profit (EUR 63.6 million), and inclusion of minority interest in capital calculation from June 2020 onwards (EUR 99.0 million as at 31 December 2020).

The drivers behind the differences between the RWAs in year 2020 are explained in Chapter 3.2 Capital requirements in the Table 6 – EU OV1 – Overview of RWAs.

Dividend distribution

The Bank's general intention with regards to the dividend policy is to distribute dividends in excess of the Group's target TCR, which currently amounts to 15.75%. The Bank's dividend policy envisages a yearly distribution of dividends in the approximate amount of 70% of the Group's result, while fulfilling all regulatory requirements, including the Pillar 2 Guidance.

Due to the ECB recommendations on dividend distributions during the COVID-19 pandemic for European banks, and also the BoS restriction on dividend distributions applicable for Slovenian banks with the aim to lower the impact and consequences of the COVID-19 pandemic, the Bank did not pay out any dividends in 2020.

Pursuant to the ECB recommendation of 15 December 2020 the dividend distribution in 2021 should remain prudent and below 15% of the cumulated profit for the year 2019 and 2020 and not higher than a 20 b.p. CET1 ratio for the year 2020 on consolidated basis, whichever is lower, and for which the distribution is subject to prior ECB approval. The prudent level of distribution for NLB on consolidated level amounts to approximately EUR 25 million, and JST does not object to such a distribution plan. According to the BoS decision of April 2020 on macroprudential restriction on profit distribution, banks in Slovenia are restricted to dividend pay-outs until April 2021. Based on the new BoS decision on macroprudential restriction on profit distribution of February 2021, the Bank is allowed to distribute dividends only in case of a positive cumulative profit achieved in Q1 2021, whereas the amount of distribution may not exceed 15% of the bank's cumulative profit for years 2019 and 2020 on an individual basis or 0.2% of the Bank' CET1 ratio on an individual basis as at the end of 2020, whereas distribution is also subject to prior BoS notification. In consequence this would mean the split of the envisaged approved dividend portion as per ECB recommendation into two tranches, the second one being paid upon expiry of the BoS decision and taking into account applicable regulation. In addition to the currently allowed distribution plan, the Bank envisages, subject to regulatory requirements, additional incremental dividends in 2021 to reach a cumulative payout ratio of 70% of the 2020's Group result (without considering the impact of negative goodwill) totaling EUR 92.2 million.

MREL requirement

In accordance with the ZRPPB, the Group will, in future, need to meet a MREL requirement set by the Bank of Slovenia. The MREL requirement for the Group is based on the Multiple Point of Entry (MPE) approach. For the time being, it is set as the percentage of TLOF at the sub-consolidated level of the NLB Resolution Group (the Bank and non-core part of the Group). Currently, a valid MREL decision issued by the BoS defines the MREL requirement at the level of 15.56% of TLOF at the sub-consolidated level of the NLB Resolution Group – which needs to be met as at 31 December 2021 onwards. In accordance with the revised methodology for MREL requirements, TLOF will no longer represent the basis for calculating the requirement, instead TREA (based on risk weighted assets and leverage ratio) will be used. The new period for fulfilling the requirement is expected to be from 1 January 2022 onwards (as binding intermediate target) with transition period until 2024. The Group expects to receive a new MREL decision in H1 2021, consequently the new MREL requirement will be implemented of as part of Group's risk appetite. Otherwise the MREL requirement is regularly analysed and monitored.

Acquisition of Komercijalna Banka, Beograd

On 26 February 2020, NLB entered into a share purchase agreement with the Republic of Serbia for the acquisition of an 83.23% ordinary shareholding in Komercijalna Banka, Beograd. By December 2020, NLB obtained all the necessary regulatory approvals, including approvals from the ECB and the National Bank of Serbia, and the acquisition was completed on 30 December 2020. The final purchase price (accounting for interest since 1 January 2020) amounted to EUR 394.7 million. On 10 March 2021, NLB announced the takeover bid in the Republic of Serbia for the acquisition of all remaining regular and priority shares of Komercijalna Banka, Beograd.

3.2. Capital requirements

(Article 438 c, e, and f and 445 of CRR)

NLB Group uses the following approaches to calculate Pillar 1 capital requirements on a consolidated basis:

- Credit risk – standardised approach,
- Market risk – standardised approach, and
- Operational risk – basis indicator 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 6 shows the detailed composition of the capital requirements of NLB Group at the end of 2020, at the end of September 2020, and at the end of 2019.

Table 6 – EU OV1 – Overview of RWAs of NLB Group

		31.12.2020		30.09.2020		31.12.2019	
		RWA	Minimum capital requirement - 8% of RWA	RWA	Minimum capital requirement - 8% of RWA	RWA	Minimum capital requirement - 8% of RWA
1	**Credit risk (excluding CCR)**	**10,095,394**	**807,632**	**7,252,116**	**580,169**	**7,582,117**	**606,569**
2	Of which the standardised approach	10,095,394	807,632	7,252,116	580,169	7,582,117	606,569
6	**CCR**	**28,286**	**2,263**	**28,522**	**2,282**	**37,758**	**3,021**
7	Of which mark to market	28,086	2,247	28,347	2,268	37,095	2,968
12	Of which CVA	200	16	175	14	663	53
19	**Market risk**	**1,250,563**	**100,045**	**534,563**	**42,765**	**523,050**	**41,844**
20	Of which the standardised approach	1,250,563	100,045	534,563	42,765	523,050	41,844
23	**Operational risk**	**947,342**	**75,787**	**954,148**	**76,332**	**941,594**	**75,328**
24	Of which basic indicator approach	947,342	75,787	954,148	76,332	941,594	75,328
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**99,443**	**7,955**	**93,893**	**7,511**	**101,020**	**8,082**
29	**Total**	**12,421,028**	**993,682**	**8,863,242**	**709,059**	**9,185,539**	**734,843**

In 2020, the RWA for Credit risk increased by EUR 2,502.7 million (lines 2, 7, and 27 in Table 6), mainly due to completion of the acquisition process of Komercijalna Banka, Beograd. Excluding the acquisition, RWA for credit risk decreased by EUR 173.9 million as the result of changes in regulation CRR and MIGA guarantee for obligatory reserves in NLB Group banks. CRR QF brought more favorable treatment of SME (changes in the prescribed SME supporting factor) and temporary treatment of public debt issued in the currency of another Member State. Furthermore, inclusion of Serbia in the list of third countries whose supervisory and regulatory requirements are considered equivalent to EEA countries contributed significantly to RWA reduction at the beginning of 2020 (EUR 100.0 million). RWA declined also due to the NLB Vita sale and due to the higher volume of impairments and provisions formed on the performing portfolio due to the worse macro forecasts related with COVID-19. In contrast, new production on the corporate and retail segment, including new project financing loans, resulted in RWA increase. New defaults also contributed to the RWA increase as well as the changed treatment of intangible assets. Due to the changed treatment of intangible assets, which were previously deducted from capital in whole and are now partially included in RWA, RWA increased by EUR 24.9 million.

The increase in RWA for market risk and CVA amounted to EUR 727.1 million (lines 12, 13, and 20 in Table 6) and occurred mainly due to completion of the acquisition process of Komercijalna Banka, Beograd.

The increase in the RWA for operational risks (EUR 5.7 million) derives from the higher three-year average of relevant income, as defined in Article 316 of CRR, which represents the basis for the calculation. In November 2020, the EBA gave further clarification on the term "end of the year" (see page 103).

3.3. Summary of the approach to assessing the internal capital needed for current and planned activities

(Article 438 a of CRR)

The Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) of NLB Group meet the requirements of the CRR, the guidelines of the ECB and EBA and follow good banking practice. Additionally, banking members operating in other SEE countries also follow their own local regulation requirements. Moreover, the ICAAP process is comprehensively integrated into Group's overall risk management system in order to assure proactive support for informed decision-making.

The most important goal of the ICAAP is to ensure adequate capital and sustainability at all times. The purpose of implementation of the ICAAP process is to have in place sound, effective, and comprehensive strategies and processes to assess and maintain on an ongoing basis the amount, types, and distribution of internal capital that is considered adequate to cover the nature and level of the risks to which NLB Group is or might be exposed. The ICAAP plays a key role in maintaining adequate capitalisation of NLB Group. In order to ensure this contribution to its continuity, prudent and conservative assumptions are built into two complementary internal perspectives.

From an economic perspective, NLB Group manages its capital adequacy by ensuring that all its risks are adequately covered by internal capital. NLB Group covers in this perspective a full universe of risks that may have a material impact on its risk profile, as a result of risk identification materiality which gives a very comprehensive view of risks. Moreover, economic risks and losses affect internal capital immediately and to their full extent, based on a point-in-time view. Some of those risks, or risks related to them, may also partially or fully materialise later under the normative perspective via accounting losses, own funds reductions or prudential provisions.

A normative perspective is a multiyear forward-looking assessment of NLB Group which shows its ability to fulfil all its capital-related requirements, defined by the regulator and the Group's risk appetite. Within these capital constraints, NLB Group defines its management buffer, above the regulatory and supervisory requirement, including internal capital needs that allow the Group to sustainably follow its business strategy. A normative perspective includes several stress scenarios and a reverse stress test. From a baseline perspective, NLB Group's goal is to maintain overall capital requirement (OCR), increased by the management buffer, at all times. From a stress perspective, NLB Group's goal is to maintain its total SREP requirement (TSCR), increased by the management buffer at all times, and also fulfilled during prolonged downturn developments that may imply a serious capital depletion.

Both perspectives mutually inform each other where the economic perspective shows the coverage of risks with internal capital, while in contrast, a normative perspective represents a potential reduction of internal capital in a forward-looking perspective, which also influences the economic perspective. Outcomes of the normative perspective inform the economic risk quantification and adjust or complement the latter if they do not adequately capture the risks arising from the considered adverse scenarios.

Moreover, the ICAAP process represents an integral input for business strategy by defining growth options, considering the risks involved, and directing the sustainable allocation of disposable capital resources under normal and stressed conditions. The ICAAP is incorporated in the capital planning, risk assessment of new products, or other relevant changes to proactively support strategic decision-making in NLB Group.

The ICAAP process as such provides an assured robust risk management process (from the organisational and methodological point of view) on an ongoing and forward-looking basis. Risk identification is embedded at a very early stage, focusing on the efficient risk management and mitigation of them with the aim of ensuring the prudent and economic use of its capital. The ICAAP outcomes support the Group's proactive risk management through limits in monitoring and reporting, adequate risk assessment, and measurement.

3.4. Capital instruments included in the capital

(Articles 437.1 b and c of CRR)

In 2020, the capital of NLB Group consisted of all three elements of capital (Common Equity Tier 1 capital, Tier 1 capital, and Tier 2 capital). The shares of the parent entity NLB are included in Common Equity Tier 1 capital and the subordinated Tier 2 notes issued in May 2019, November 2019, and February 2020 by NLB are included in Tier 2 capital. All three elements of capital also include Minority Capital (Non-controlling interest).

In 2020, the Bank continued with strengthening and optimising the capital structure. On 5 February 2020, the Bank issued subordinated Tier 2 notes (10NC5) in the aggregate nominal amount of EUR 120 million with characteristics prescribed by Article 63 of the CRR. The fixed coupon of the notes during the first five years is 3.40% p.a., thereafter it will be reset to the sum of the then applicable 5Y MS and the fixed margin as defined by the terms and conditions of the notes (i.e., 3.658% p.a.). The notes with ISIN code XS2113139195 and rated BB by S&P rating agency were admitted to trading on the Euro MTF Market operated by the Luxembourg Stock Exchange. On 25 March 2020, NLB obtained permission from the ECB for its inclusion in the capital, so the instrument is included in capital as at 31 March 2020.

Until June 2020, NLB Group did not undertake the calculation defined in Article 81 to 88 of the CRR, therefore the minority capital (Non-controlling interest) of the subsidiaries was not included in the consolidated capital. The calculation has been performed as at 30 June 2020, and the minority capital of existing subsidiaries has since then included in Group regulatory capital in the amount of EUR 31.7 million, and as at December 2020 in the total amount of EUR 99.0 million (of which EUR 66.1 million due to acquisition of Komercijalna Banka, Beograd).

Subordinated liabilities for NLB Group are disclosed in the 2020 NLB Group Annual Report – note 5.15 c) Subordinated liabilities (page 135).

Details on main characteristics of the capital instruments are disclosed in Appendix 6.

3.5. Capital buffers – Countercyclical buffer
(Article 440 of CRR)

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 was 0% as at 31 December 2020, which remained unchanged since its introduction on 1 January 2016. 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 exposure 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%. Counter-cyclical capital rates have generally been set at 0%, except for Slovakia, which had as at 31 December 2020 a countercyclical capital rate of 1.0%, Bulgaria and Czech Republic 0.5%, and Luxembourg 0.25%.

A calculation of the bank-specific countercyclical capital buffer is made on an individual, as well as on a 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. 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.

Table 7 – Amount of bank-specific countercyclical capital buffer:

31.12.2020	**NLB Group**	**NLB**
Total risk exposure amount	575,876	272,625
Institution specific countercyclical buffer rate	0.00%	0.00%
Institution specific countercyclical buffer requirement	-	-

31.12.2019	**NLB Group**	**NLB**
Total risk exposure amount	468,258	273,397
Institution specific countercyclical buffer rate	0.00%	0.02%
Institution specific countercyclical buffer requirement	-	63

Table 8 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer in NLB Group

31.12.2020	General credit exposures	Own funds requirements			
Country	Exposure value for SA	Of which: General credit exposures	Total	Own funds requirement weights	Countercyclical capital buffer rate
Slovenia	4,311,663	245,337	245,337	0.43	-
Serbia	1,939,545	119,858	119,858	0.21	-
North Macedonia	1,014,436	63,273	63,273	0.11	-
Bosnia and Herzegovina	930,458	57,850	57,850	0.10	-
Kosovo	580,516	36,726	36,726	0.06	-
Montenegro	538,926	34,468	34,468	0.06	-
United Kingdom	80,979	6,437	6,437	0.01	-
United States	44,720	3,343	3,343	0.01	-
Luxembourg	39,687	3,172	3,172	0.01	0.3
Croatia	18,028	1,862	1,862	0	-
Austria	19,499	1,524	1,524	0	-
Belgium	18,117	1,402	1,402	0	-
Netherlands	2,487	193	193	0	-
Switzerland	3,392	190	190	0	-
Germany	1,894	138	138	0	-
Cyprus	533	21	21	0	-
Sweden	189	11	11	0	-
United Arab Emirates	200	10	10	0	-
Spain	160	9	9	0	-
Latvia	120	7	7	0	-
Russian Federation	102	6	6	0	-
Czech Republic	184	6	6	0	0.5
Ireland	54	4	4	0	-
Turkey	67	4	4	0	-
China	57	3	3	0	-
Australia	45	3	3	0	-
Lithuania	91	3	3	0	-
Italy	40	2	2	0	-
Denmark	30	2	2	0	-
Slovakia	18	1	1	0	1.0
Kenya	15	1	1	0	-
Albania	19	1	1	0	-
Canada	13	1	1	0	-
Bulgaria	14	1	1	0	0.5
Hungary	13	1	1	0	-
Saudi Arabia	10	1	1	0	-
Poland	9	1	1	0	-
Other	39	-	-	-	-
Total	**9,546,369**	**575,876**	**575,876**	**1.00**	**-**

Table 9 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer in NLB

31.12.2020	General credit exposures	Own funds requirements			
Country	Exposure value for SA	Of which: General credit exposures	Total	Own funds requirement weights	Countercyclical capital buffer rate
Slovenia	4,316,057	245,346	245,346	0.90	-
United Kingdom	80,915	6,433	6,433	0.02	-
Serbia	54,073	4,855	4,855	0.02	-
Luxembourg	39,687	3,172	3,172	0.01	0.25
Montenegro	30,075	2,527	2,527	0.01	-
Bosnia And Herzegovina	18,553	1,561	1,561	0.01	-
Austria	19,434	1,520	1,520	0.01	-
Switzerland	20,330	1,444	1,444	0.01	-
Kosovo	17,341	1,410	1,410	0.01	-
United States	18,480	1,301	1,301	0	-
North Macedonia	8,185	978	978	0	-
Croatia	8,282	875	875	0	-
Belgium	10,423	827	827	0	-
Netherlands	2,448	191	191	0	-
Germany	1,511	112	112	0	-
Cyprus	474	18	18	0	-
Spain	159	9	9	0	-
Latvia	120	7	7	0	-
Russian Federation	99	6	6	0	-
Czech Republic	182	6	6	0	0.50
United Arab Emirates	115	5	5	0	-
Ireland	52	4	4	0	-
Australia	45	3	3	0	-
Lithuania	91	3	3	0	-
Denmark	30	2	2	0	-
Italy	38	2	2	0	-
Slovakia	18	1	1	0	1.00
Kenya	15	1	1	0	-
Bulgaria	14	1	1	0	0.50
Hungary	11	1	1	0	-
Poland	9	1	1	0	-
Other	35	-	-	-	-
Total	**4,647,301**	**272,625**	**272,625**	**1.00**	**-**

3.6. Detailed presentation of capital elements
(Article 437 d and e of CRR)

The table below shows in detail the elements of the calculation of the capital of NLB Group at the end of 2020, at the end of September 2020, and at the end of 2019 in the form prescribed by the EBA implementing technical standards, published as Commission Implementing Regulation (EU) No. 1423/2013 of 20 December 2014 (Annex IV – Own funds disclosure template). A summarised substantive presentation of the elements relevant for NLB Group is given in Chapter 3.1. Capital adequacy.

NLB Group does not have any capital instruments (issued before the implementation of CRR) that would no longer be eligible for inclusion, and therefore subject to pre-CRR treatment.

Table 10 – Own funds for NLB Group

		31.12.2020	30.09.2020	31.12.2019
Common equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	1,071,378	1,071,378	1,071,378
	of which: ordinary shares	1,071,378	1,071,378	1,071,378
2	Retained earnings - including current result	615,781	552,146	393,648
3	Accumulated other comprehensive income (and other reserves)	35,110	18,154	27,886
5	Minority interest (amount allowed in consolidated CET1)	71,562	25,556	-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,793,831**	**1,667,234**	**1,492,912**
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(3,632)	(2,322)	(2,194)
8	Intangible assets (net of related tax liability) (negative amount)	(36,751)	(37,455)	(39,542)
27a	Deduction item related to credit imapirments and provisions not included in capital (as a part of the interim result), but are lowering the exposure in RWA calculation (BoS requirement based on EBA Q&A 2014_1087)	-	(8,914)	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(40,383)**	**(48,691)**	**(41,736)**
29	**Common Equity Tier 1 (CET1) capital**	**1,753,448**	**1,618,543**	**1,451,176**
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	14,614	4,807	-
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**14,614**	**4,807**	**-**
43	**Total regulatory adjustments to Additional Tier 1 (AT1)**	**-**	**-**	**-**
44	**Additional Tier 1 (AT1) capital**	**14,614**	**4,807**	**-**
45	**Tier 1 capital (T1= CET1 + AT1)**	**1,768,062**	**1,623,350**	**1,451,176**
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	284,595	284,595	44,595
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	12,806	1,678	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**297,401**	**286,273**	**44,595**
58	**Tier 2 (T2) capital**	**297,401**	**286,273**	**44,595**
59	**Total capital (TC = T1 + T2)**	**2,065,463**	**1,909,623**	**1,495,771**
60	**Total risk weighted assets**	**12,421,028**	**8,863,242**	**9,185,539**
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.1%	18.3%	15.8%
62	Tier 1 (as a percentage of total risk exposure amount)	14.2%	18.3%	15.8%
63	Total capital (as a percentage of total risk exposure amount)	16.6%	21.5%	16.3%
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)	8.0%	8.0%	8.0%
65	of which: capital conservation buffer requirement	2.5%	2.5%	2.5%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1.0%	1.0%	1.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure amount)	6.1%	10.3%	7.8%
Amounts below the threshold for deduction (before risk weighting)				
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)	26,325	4,554	3,248
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)	7,988	7,733	10,908
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)	31,789	29,824	29,500

* Sub-items equal to zero or not applicable are not reported

3.7. Reconciliation of items with financial statements

(Articles 437 a and f, and 447 e of CRR)

Calculations of the capital and capital ratios are based on the financial statements of NLB Group prepared according to regulatory consolidation. 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.

Table 11 – Mapping of the balance sheet items (statement of financial position items) and capital for the purpose of capital adequacy of NLB Group

	31.12.2020		30.09.2020		31.12.2019	
	Prudential consolidation	**Included in capital**	**Prudential consolidation**	**Included in capital**	**Prudential consolidation**	**Included in capital**
Cash, cash balances at central banks and other demand deposits at banks	3,961,812	-	3,010,929	-	2,101,346	-
Financial assets held for trading	84,855	(85)	16,794	(17)	24,038	(24)
Non-trading financial assets mandatorily at fair value through profit or loss	42,393	(17)	36,897	(11)	25,359	(11)
Financial assets measured at fair value through other comprehensive income	3,514,290	(3,514)	2,277,988	(2,278)	2,141,428	(2,141)
Financial assets measured at amortised cost	11,433,090	-	9,402,494	-	9,434,390	-
Derivatives - hedge accounting	-	-	-	-	788	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	13,844	-	13,892	-	8,991	-
Investments in subsidiaries	10	-	10	-	-	-
Investments in associates and joint ventures	7,988	-	7,733	-	7,499	-
Tangible assets	303,949	-	240,020	-	247,921	-
Intangible assets	61,668	(36,751)	37,455	(37,455)	39,542	(39,542)
Goodwill	3,529	(3,529)	3,529	(3,529)	3,529	(3,529)
Other intangible assets	58,139	(33,222)	33,926	(33,926)	36,013	(36,013)
Current income tax assets	4,369	-	2,798	-	6,284	-
Deferred income tax assets	31,789	-	29,824	-	29,500	-
That rely on future profitability and arise from temporary differences	31,789	-	29,824	-	29,500	-
Other assets	96,948	-	62,740	-	63,811	-
Non-current assets classified as held for sale	8,658	-	5,960	-	7,717	-
Total assets	**19,565,663**		**15,145,534**		**14,138,614**	
Financial liabilities held for trading	15,485	(16)	15,870	(16)	17,903	(18)
Financial liabilities measured at fair value through profit or loss	-	-	-	-	7,998	-
Financial liabilities measured at amortised cost	17,215,383	284,595	13,141,383	284,595	12,259,053	44,595
Derivatives - hedge accounting	61,161	-	61,185	-	49,507	-
Provisions	125,059	-	89,430	-	88,414	-
Current income tax liabilities	1,002	-	966	-	2,271	-
Deferred income tax liabilities	4,475	-	2,313	-	2,833	-
Other liabilities	20,426	-	15,099	-	15,212	-
Total liabilities	**17,442,991**		**13,326,246**		**12,443,191**	
Share capital	200,000	200,000	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378	871,378	871,378
Accumulated other comprehensive income	21,588	21,588	4,632	4,632	14,364	14,364
Profit reserves	13,522	13,522	13,522	13,522	13,522	13,522
Retained earnings	845,933	615,781	680,831	552,146	551,144	393,648
Non-controlling interests	170,251	98,982	48,925	32,041	45,015	-
Total equity	**2,122,672**		**1,819,288**		**1,695,423**	
Total liabilities and equity	**19,565,663**		**15,145,534**		**14,138,614**	
Sum of balance sheet items		**2,065,463**		**1,918,537**		**1,495,771**
Deduction item: Exclusion of the effect of credit impairments and provisions, when they are not included in capital		-		(8,914)		-
Capital (Own funds)		**2,065,463**		**1,909,623**		**1,495,771**

Table 12 – Reconciliation of the accounting capital to the regulatory capital for the calculation of capital adequacy of NLB Group

31.12.2020	Equity - Prudential consoli-dation	Retained earnings not included in the regulatory capital	Negative goodwill	Minority interest eligible / not eligible (-)	Prudential filters and deduction items	Regulatory capital	Item in capital and 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	**21,588**	-	-	-		**21,588**	Accumulated other comprehensive income
Profit reserves	**13,522**	-	-	-	-	**13,522**	Other reserves
Retained earnings - from previous years	**552,146**	-	-	-	-	**552,146**	Retained earnings - from previous years
Retained earnings - current results	**293,787**	(92,294)	(137,858)	-	-	**63,635**	Current results
Minority interest	**170,251**	-	-	(98,689)	-	**71,562**	Minority interest
					(3,632)	**(3,632)**	Prudential filter: Additional Valuation Adjustment (AVA) (Article 34)
					(3,529)	**(3,529)**	Deduction item: Goodwill (Article 36.b)
					(33,222)	**(33,222)**	Deduction item: Other intangible assets (Article 36.b)
Total equity	**2,122,672**	**(92,294)**	**(137,858)**	**(98,689)**	**(40,383)**	**1,753,448**	**Common Equity Tier 1 (CET1) Capital**
				14,614		14,614	Additional Tier 1 Capital
						1,768,062	**Tier 1 Capital**
				12,806		297,401	Tier 2 Capital
				98,982		**2,065,463**	**Total Capital**

30.09.2020	Equity - Prudential consoli-dation	Temporary exclustion of unaudited interim profit	Exclusion of minority interest not eligible	Prudential filters and deduction items	Regulatory capital	Item in capital and 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	**4,632**	-	-		**4,632**	Accumulated other comprehensive income
Profit reserves	**13,522**	-	-	-	**13,522**	Other reserves
Retained earnings - from previous years	**552,146**	-	-	-	**552,146**	Retained earnings - from previous years
Retained earnings - current results	**128,685**	(128,685)	-	-	**-**	Current results
Minority interest	**48,925**	-	(23,369)	-	**25,556**	Minority interest
				(2,322)	**(2,322)**	Prudential filter: Additional Valuation Adjustment (AVA) (Article 34)
				(3,529)	**(3,529)**	Deduction item: Goodwill (Article 36.b)
				(33,926)	**(33,926)**	Deduction item: Other intangible assets (Article 36.b)
				(8,914)	**(8,914)**	Deduction item: Exclusion of the effect of credit impairments and provisions, when they are not included in capital
Total equity	**1,819,288**	**(128,685)**	**(23,369)**	**(48,691)**	**1,618,543**	**Common Equity Tier 1 (CET1) Capital**
			4,807		4,807	Additional Tier 1 Capital
					1,623,350	**Tier 1 Capital**
			1,678		286,273	Tier 2 Capital
			32,041		**1,909,623**	**Total Capital**

31.12.2019	Equity - Prudential consoli-dation	Retained earnings not included in the regula-tory capital	Exclusion of minority interest not eligible	Prudential filters and deduction items	Regulatory capital	Item in capital and 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	**14,364**	-	-		**14,364**	Accumulated other comprehensive income
Profit reserves	**13,522**	-	-	-	**13,522**	Other reserves
Retained earnings - from previous years	**358,648**	-	-	-	**358,648**	Retained earnings - from previous years
Retained earnings - current results	**192,496**	(157,496)	-	-	**35,000**	Current results
Minority interest	**45,015**	-	(45,015)	-	**-**	Minority interest
				(2,194)	**(2,194)**	Prudential filter: Additional Valuation Adjustment (AVA) (Article 34)
				(3,529)	**(3,529)**	Deduction item: Goodwill (Article 36.b)
				(36,013)	**(36,013)**	Deduction item: Other intangible assets (Article 36.b)
Total equity	**1,695,423**	**(157,496)**	**(45,015)**	**(41,736)**	**1,451,176**	**Common Equity Tier 1 (CET1) Capital**
					-	Additional Tier 1 Capital
					1,451,176	**Tier 1 Capital**
					44,595	Tier 2 Capital
					1,495,771	**Total Capital**

During 2020, total accounting equity according to prudential consolidation increased by EUR 427 million to EUR 2,123 million as at 31 December 2020, primarily due to the acquisition of Komercijalna Banka, Beograd.

3.8. Risk factors and Outlook in light of coronavirus pandemic outbreak

Risk factors

Risk factors affecting the business outlook are (among others): the economies’ sensitivity to a potential slowdown in the Euro area or globally, widening credit spreads, potential liquidity outflows, worsened interest rate outlook, regulatory and tax measures impacting the banks, and other geopolitical uncertainties.

The economic momentum in the region where the Group operates has worsened due to the COVID-19 pandemic that started at the end of Q1 2020. The governments in the region implemented different measures to mitigate its adverse negative impacts. In 2021, the Group region is expected to return to growth on the back of revival in private and investment consumption assuming that consumer and investment confidence are restored when the pandemic is successfully curbed.

Based on the measures taken by the governments in Slovenia and other countries, the Group is granting an option of moratoriums on the payment of obligations to all eligible borrowers due to COVID-19, which is not treated as a trigger for a significant increase in the credit risk. In accordance with EBA guidelines, all the clients requiring the moratorium are closely monitored as their financial situation and identification of credit deterioration will lead to a downgrade and will impact the IFRS 9 staging. Those clients will not automatically fall into the forbearance category. The Group regularly assesses the credit quality of the exposures benefiting from these measures and identifies any situation in which payment is unlikely. During 2020, the Group additionally reviewed IFRS 9 provisioning by testing a set of relevant macroeconomic scenarios to adequately reflect the current circumstances and the related impacts in the future.

According to EBA Guidelines EBA/GL/2020/07, in Tables 13 to 15 the information about moratoria and guarantee schemes is disclosed. They include legislative moratoria and also other (non-legislative) moratoria, concluded as a consequence of COVID-19.

Table 13 – Information on loans and advances subject to legislative and non-legislative moratoria for NLB Group

31.12.2020	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
		Performing			Non performing				Performing			Non performing			
	Total	Total	Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Total	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Total	Total	Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Total	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures
Loans and advances subject to moratorium	427,950	391,187	12,702	161,866	36,763	16,743	36,366	(26,908)	(12,027)	(1,263)	(9,148)	(14,881)	(9,302)	(14,663)	17,985
of which: Households	130,186	121,069	3,529	47,464	9,117	3,347	8,757	(6,009)	(2,148)	(173)	(1,506)	(3,861)	(1,178)	(3,669)	4,189
of which: Collateralised by residential immovable property	63,889	59,207	2,230	27,547	4,682	2,820	4,608	(1,901)	(475)	(59)	(421)	(1,426)	(942)	(1,419)	1,441
of which: Non-financial corporations	297,680	270,035	9,151	114,380	27,646	13,395	27,609	(20,897)	(9,877)	(1,090)	(7,641)	(11,020)	(8,124)	(10,995)	13,796
of which: Small and Medium-sized Enterprises	169,193	147,785	9,151	55,807	21,408	8,336	21,372	(13,963)	(7,193)	(1,090)	(5,372)	(6,770)	(4,460)	(6,745)	13,796
of which: Collateralised by commercial immovable property	257,293	234,784	9,044	105,230	22,509	8,882	22,509	(15,861)	(8,626)	(1,090)	(6,877)	(7,235)	(4,678)	(7,235)	13,592

30.06.2020	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
		Performing			Non performing				Performing			Non performing			
	Total	Total	Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Total	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Total	Total	Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Total	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures
Loans and advances subject to moratorium	1,447,158	1,411,094	19,416	221,052	36,065	21,869	30,862	(56,556)	(40,372)	(2,472)	(22,650)	(16,183)	(9,781)	(13,357)	-
of which: Households	672,209	657,896	2,198	40,960	14,313	4,516	9,374	(16,699)	(10,500)	(249)	(3,589)	(6,199)	(988)	(3,485)	-
of which: Collateralised by residential immovable property	191,782	185,659	1,229	15,897	6,123	3,542	5,160	(1,991)	(987)	(72)	(652)	(1,005)	(531)	(863)	-
of which: Non-financial corporations	755,835	734,084	17,164	179,693	21,752	17,353	21,488	(38,939)	(28,955)	(2,223)	(18,937)	(9,984)	(8,793)	(9,872)	-
of which: Small and Medium-sized Enterprises	573,912	552,160	14,450	137,567	21,752	17,353	21,488	(29,647)	(19,663)	(1,986)	(11,858)	(9,984)	(8,793)	(9,872)	-
of which: Collateralised by commercial immovable property	513,363	493,452	14,290	116,608	19,911	16,414	19,899	(26,460)	(17,501)	(1,852)	(9,783)	(8,959)	(8,088)	(8,957)	-

Table 14 – Breakdown of loans and advances subject to moratoria by residual maturity of moratoria for NLB Group

31.12.2020	**Number of obligors**	**Gross carrying amount**							
		Total	**Of which: legislative moratoria**	**Of which: Expired**	**Residual maturity of moratoria**				
					<= 3 months	**> 3 months <= 6 months**	**> 6 months <= 9 months**	**> 9 months <= 12 months**	**> 1 year**
Loans and advances for which moratorium was offered	313,284	2,675,647							
Loans and advances subject to moratorium (granted)	278,693	2,286,878	1,963,865	1,858,928	238,989	122,944	52,910	4,295	8,812
of which: Households		1,291,415	1,238,532	1,161,229	106,378	21,261	2,373	113	61
of which: Collateralised by residential immovable property		473,846	457,305	409,957	52,509	10,297	1,083	-	-
of which: Non-financial corporations		982,410	712,350	684,729	132,611	101,599	50,537	4,182	8,751
of which: Small and Medium-sized Enterprises		711,957	460,471	542,764	64,212	55,717	40,988	4,182	4,094
of which: Collateralised by commercial immovable property		583,981	362,780	326,688	123,457	81,979	40,291	2,815	8,751

30.06.2020	**Number of obligors**	**Gross carrying amount**							
		Total	**Of which: legislative moratoria**	**Of which: Expired**	**Residual maturity of moratoria**				
					<= 3 months	**> 3 months <= 6 months**	**> 6 months <= 9 months**	**> 9 months <= 12 months**	**> 1 year**
Loans and advances for which moratorium was offered	159,920	1,981,484							
Loans and advances subject to moratorium (granted)	144,072	1,693,576	1,693,576	246,418	1,103,589	48,308	143,038	139,485	12,738
of which: Households		804,889	804,889	132,680	589,549	12,561	51,670	17,980	448
of which: Collateralised by residential immovable property		248,192	248,192	56,410	145,138	5,531	32,216	8,846	50
of which: Non-financial corporations		866,181	866,181	110,346	502,361	28,395	91,368	121,422	12,290
of which: Small and Medium-sized Enterprises		676,169	676,169	102,257	451,305	24,793	36,168	55,040	6,606
of which: Collateralised by commercial immovable property		585,709	585,709	72,346	341,384	22,632	77,473	62,497	9,377

Table 15 – Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis for NLB Group

31.12.2020	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
	Total	of which: forborne	Public guarantees received	Inflows to non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	134,596	49	38,439	-
of which: Households	18,532			-
of which: Collateralised by residential immovable property	17			-
of which: Non-financial corporations	116,051	49	33,980	-
of which: Small and Medium-sized Enterprises	101,641			-
of which: Collateralised by commercial immovable property	7,440			-

30.06.2020	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
	Total	of which: forborne	Public guarantees received	Inflows to non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	31,164	-	9,500	-
of which: Households	369			-
of which: Collateralised by residential immovable property	-			-
of which: Non-financial corporations	30,795	-	9,338	-
of which: Small and Medium-sized Enterprises	29,500			-
of which: Collateralised by commercial immovable property	3,360			-

The economic slowdown had some negative impacts on the existing loan portfolio quality, namely as an increase of Stage 2 and Stage 3 exposures, and the related cost of risk. Furthermore, it also impacted new loan generation. In the initial stage of outbreak in Q1 2020, credit spread expansion arising from the Group's bond portfolio kept for liquidity purposes negatively influenced on the valuation. Following the intervention of the ECB at the end of March 2020, a drop in market yields resulted in positive valuation effects. Respectively, the related investment strategy of the Group adapts to the expected market trends in accordance with the set risk appetite. The liquidity position of the Group is expected to remain very solid; the pandemic did not result in any material liquidity outflows.

In this regard, the Group closely follows the macroeconomic indicators relevant to its operations:

- GDP trends and forecasts,
- Economic sentiment,
- Unemployment rate,
- Consumer confidence,
- Construction sentiment,
- Deposit stability and growth of loans in the banking sector,
- Credit spreads and related future forecasts,
- Interest rate development and related future forecasts,
- FX rates,
- Other relevant market indicators.

The Group developed a set of new macroeconomic scenarios, based on the ECB baseline, of mild and severe scenarios for the initial period from 2020 to 2022. For the two-year period from 2023 to 2024, the normal pre-COVID-19 methodology and IMF projections were used. These scenarios, which are based on the expected U-crisis (severe deterioration of macroeconomic indicators in 2020 and moderate positive growth in the following years), are included in the calculation of expected credit losses in accordance with IFRS 9.

The Group established a comprehensive internal stress-testing framework and early warning systems in various risk areas with built-in risk factors relevant to the Group's business model. The stress-testing framework is integrated into Risk Appetite, ICAAP, ILAAP, and Recovery Plan to determine how severe and unexpected changes in the business and macro environment might affect the Group's capital adequacy or liquidity position. Both the stress-testing framework and recovery plan indicators support proactive management of the Group's overall risk profile in these circumstances, including capital and liquidity positions from a forward-looking perspective.

Risk Management actions that might be used by the Group are determined by various internal policies and applied when necessary. Moreover, the selection and application of mitigation measures follows a three-layer approach, considering the feasibility analysis of the measure, its impact on the Group's business model, and the strength of available measure.

Outlook 2021

The global economy is expected to rebound in 2021. However, economies are likely to continue to be faced with the alternating relaxations and restrictions until the broad vaccine rollout enables a sustainable easing of containment measures. According to the Bank's estimation, the Eurozone economy is seen expanding 4.0%, while GDP in Slovenia could grow by around 4.5%, and in the SEE where the Group operates by around 4.8% in 2021. The rebound should be backed by fiscal policies at national and EU levels, accommodative monetary policy, and the gradual reopening of economies. The main driver of the growth should be the revival in consumer and investment spending. The return to growth of the economies of the Group's region should be underpinned by revival in consumer and capital spending, as well as the gradual easing of COVID-19 restrictions across the globe that boosts external demand and releases travel restrictions. Nevertheless, lingering uncertainty regarding the course of the pandemic and the vaccine rollout cloud the outlook, in general. The pace of the recovery in the EU trading partners is yet another important factor expected to weigh on the recovery of the Group's region.

During the COVID-19 pandemic, the Group has taken the necessary measures to protect its customers and employees by ensuring the relevant safety conditions and making sure services offered by the Group are provided without disruptions. As the COVID-19 situation continues, it is challenging to predict the full extent and duration of its business and economic implications. To adjust to such circumstances, the Group is aiming to further support its clients, also by constant development of its digital channels and adjusted scope of services offered to our clients.

Following stagnation in 2020, and in line with the economic rebound, moderate loan growth in Retail Banking in Slovenia is expected in 2021, with an emphasis on mortgage lending and a slow recovery in consumer lending. Corporate and Investment Banking in Slovenia is also expected to grow with the predominance of cross-border lending. Growth in Strategic Foreign Markets will remain robust and will greatly improve with the acquisition of Komercijalna Banka, Beograd. The customer deposit base will remain high. Revenues are expected to improve, with fee business growth returning to pre-COVID-19 levels. However, net interest income will continue to be under pressure due to shrinking margins in all markets and high balance of low-yield liquidity sources. The Group continues to strive for increasing margins over time by stimulating loan growth (especially retail) and pursuing new opportunities. In addition, the Bank, as at 1 April 2021, started charging retail deposits with balances exceeding EUR 250 thousand; consequently, it is expected that certain portion of retail deposits will be transferred into asset management and insurance products.

The commitment to cost containment remains strong and the Group will continue to pursue a strong cost agenda addressing both labour and non-labour cost elements. Nevertheless, costs are expected to moderately increase in 2021, given pressure on labour cost inflation throughout the region and continued investment activities into information technology upgrades, amid the growing relevance of digital banking and, last but not least, integration cost associated with the acquisition of Komercijalna Banka, Beograd.

After a few years of a negative cost of risk, the NPL stopped its multi-year declining trend in the Group. Similar to last year, the cost of risk in 2021 should remain within the set outlook at least in the regular course of business, since one-off effects are difficult to predict. The main circumstances influencing cost of risk shall be the length and severity of disruptions of COVID-19 on corporate operations and consumer spending, and the impact of off-setting measures by governments.

Further uncertainties and the related economic slowdown might have an additional negative impact on the existing loan portfolio quality, namely as a potential increase of Stage 2 and Stage 3 exposures. However, due to the quite stable quality of the portfolio in the year 2020, and other precautionary measures to minimise potential future losses, including paying special attention to continuous provision of services to clients and their monitoring, this impact should not be excessive.

From a liquidity perspective, the Group did not register any material liquidity outflows, on the contrary, deposits at the Group level are still increasing (in the Bank and in subsidiary banks). The liquidity position of the Group is expected to remain solid even if a highly unfavourable liquidity scenario materialises, as the Group holds sufficient liquidity reserves in the form of placements at the ECB, prime debt securities, and money market placements. Significant deposit inflows are putting an additional strain on profitability.

The capital position represents a strong base to cover all regulatory capital requirements, including capital buffers and other currently known requirements, as well as the Pillar 2 Guidance, also in the aggravated circumstances during the COVID-19 pandemic. Also, in 2021 the Group will continue with the activities for further strengthening the capital position, predominantly by measures to reduce RWAs.

3.9. CRR 'Quick Fix'

The European Commission published on 26 June 2020 an amending regulation (two Regulations were amended) to address the impact of COVID-19 pandemic on the economy in order to maximise the capacity of credit institutions to lend and absorb losses related to the pandemic.

Amendment of CRR (EU) No. 575/2013:
- Modification of the calculation of the leverage ratio to exclude central bank reserves,
- Extension of the provisions of ECL accounting under the IFRS 9 from 2018–2022 to 2020–2024,
- Temporary treatment of public debt issued in the currency of another Member State,
- Extension of the preferential treatment regarding provisioning requirements to exposures guaranteed by the public sector for seven years. The preferential treatment is usually only available for NPLs guaranteed of official export credit agencies.

Amendment of CRR II (EU) No. 2019/876:
- Bringing forward the implementation of:
  - Provisions on the treatment of certain loans granted by credit institutions to pensioners or employees,
  - Adjustments of risk weighted non-defaulted SME exposures (SME supporting factor)
  - The preferential treatment of exposures to entities that operate or finance physical structures or facilities, systems and networks that provide or support essential public services (Infrastructure supporting factor),
- Exempt prudently valued software assets from CET1 calculations.

The amending application directly applied the day after publication in the *Official Journal*, starting on 27 June 2020, only temporary exclusion of certain central bank reserves will apply from 28 June 2021.

NLB Group so far implemented:
- Changes in SME supporting factor, contributing EUR 197.8 million to RWA reduction,
- Temporary treatment of public debt issued in the currency of another Member State, contributing EUR 57.4 million to RWA reduction,
- Exempt prudently valued software assets from CET1 calculations.

Changes in SME supporting factor were introduced in 2019 CRR II in article 501 containing reductions to the capital requirements for credit risk on exposures to SMEs. The threshold to qualify for the SME supporting factor increased from EUR 1.5 million to EUR 2.5 million, with additional factor of 0.85% (add-on to previous 0.7619%).

Temporary treatment of public debt issued in the currency of another Member State is set out in new article 500a in to the CRR and applies in respect of the credit risk framework until 31 December 2024. For exposures to the central governments and central banks of Member States, where those exposures are denominated and funded in the domestic currency of another Member State, the risk weight applied shall be:
- 0% until 31 December 2022,
- 20% in 2023,
- 50% in 2024.

4. Risk management, objectives, and policies

4.1. General information on risk management, objectives, and policies
(Articles 435.1 a, b, c, d, e, and f, and 435.2 e of CRR)

NLB Group is the largest banking and financial group in Slovenia with a strategic focus on selected markets in SEE, namely Serbia, Bosnia and Herzegovina, North Macedonia, Kosovo, and Montenegro. On 30 December 2020, NLB concluded the acquisition process of Komercijalna Banka, Beograd on Serbian market. The acquisition further strengthened the Group long-standing presence in SEE region and ensured strategic and systemic position on all the markets where the Group operates. The Group is currently comprised of NLB as the parent entity in Slovenia, nine subsidiary banks in SEE, several companies for ancillary services (asset management, real estate management, etc.), and a limited number of non-core subsidiaries in a controlled wind-down.

The Group has a leading position in selected SEE markets with significant growth potential, focusing mainly on corporate and retail lending. Moreover, it has a very strong retail deposit-taking franchise, whereby providing asset management services is also important. The Group continues to pursue its vision to become an innovative with simple, customer-oriented solutions focused on Slovenia and SEE countries. Its implementation is expected to sustain the Group's profitability and achieve growth, including the alertness for future challenges in the banking environment.

The overall slow-down of the economy, caused by COVID-19 pandemic, had some negative impacts on the loan portfolio quality and new loan generation. The cost of risk increased due to the impact of worsened macroeconomic environment, where its materiality and impacts on the risk profile of the loan portfolio in the future will mostly depend on the length and severity of disruption in corporate operations and average income of private individuals. From the beginning of COVID-19 pandemic the Group complies with EBA guidelines on payment moratoria regarding forborne exposures, namely by frequently performing the assessment of borrowers and ensuring effective early warning systems. All relevant information was available to management bodies with higher frequency than before crises to assure adequate and timely oversight over the critical elements of credit risk management and executing mitigation measures if needed. On the other hand, the Group faced growing excess liquidity, impacts of the pandemic did not cause any material liquidity outflows.

Following the indications of the outbreak of the COVID-19 in Slovenia and SEE, the Group has taken necessary measures to protect its customers and employees by ensuring the relevant safety conditions and making sure that the services offered by the Group are provided without any disruption. The Group was continuously offering necessary services to clients, especially through digital channels (mobile banking, video calls, telebanking), which the Group continues to develop at an accelerated pace. A crisis management team was established in the Bank and other banking members with full engagement of the Management Board members. A special attention was paid to continuous provision of services to clients, their monitoring, health protection measures and prevention of cyber fraud.

NLB Group gives high importance to the risk culture and awareness of all relevant risks within the entire Group. Maintaining risk awareness is engrained in the business strategy of the Group. The Group is committed to developing a culture of client focus, risk awareness, integrity, efficient organisation, sustainable financing, 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.

Risk management in NLB Group is implemented in accordance with the established internal policies and procedures which consider European banking regulations, the regulations adopted by the Bank of Slovenia, ECB and EBA guidelines and relevant good banking practice. EU regulations are followed by the Group, where the Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators. On 30 December 2020, the acquisition of Komercijalna Banka, Beograd was completed. The harmonisation in the area of the Group's risk management framework and uniform data flow, based on Group's Risk management Standards, is ongoing. The business and operating environment relevant for the Group's operations is changing with trends such as changing customer behaviour, emerging new technologies and competitors, sustainable financing and increasing new regulatory requirements. Respectively, risk management is continuously adapting with the aim to detect and manage new potential emerging risks.

In accordance with its business model and strategy, the Group plans a prudent risk profile, optimal capital usage, and profitable operations in the long run considering the risks assumed. The Group Risk Management Framework is defined and organised with regards to the Group's business and risk profile, based on a forward-looking perspective to meet the internal objectives and all external requirements. The Group's Risk Management Framework supports business decision-making at a strategic and operating level, comprehensive steering, and proactive risk management by incorporating:

- Risk appetite and Risk strategy orientations,
- yearly review of strategic goals, budgeting, and the capital planning process,
- the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP) process,
- recovery plan activities,
- other internal stress-testing capabilities, early warning systems and ongoing risk analysis,
- regulatory and internal management reporting.

The Group is engaged in contributing to sustainable finance by incorporating environmental, social, and governance (ESG) risks into its business strategies, risk management framework, and internal governance arrangements. So, the management of ESG risks follows ECB and EBA guidelines and they will be comprehensively integrated into all relevant processes. Respectively, the management of ESG risks will represent an integral part of the Group's overall credit approval process and will be more comprehensively embedded in the risk management on portfolio level, including reputational risk. Corresponding stress test scenarios will serve for the impact assessment of ESG risks on the Group's capital and liquidity position on the short, mid-, and long-term view. Key risk indicators and internal capital allocation will be addressed in accordance with the revised business strategy.

Risk appetite

NLB Group's Risk Appetite Statement represents a strategic statement defining the maximum level of risk the Group is willing to assume or to avoid based on its risk-bearing capacity, in order to achieve the strategic business objectives. Risk appetite is defined through qualitative assertions and quantitative measures. Qualitative statements define key risk principles regarding risk management, while quantitative metrics provide directions for risk steering from a forward-looking perspective in terms of capital, liquidity, and risk-return optimisation. As such, risk appetite codifies the existing risk culture, principles, objectives, and measures in the Group.

The Group is the largest Slovenian banking and financial group and has an important presence in the SEE region. In accordance with its strategic orientations, the Group's intention is to: be a sustainably profitable; to work predominantly with clients on its core markets; and to provide innovative, but simple customer-oriented solutions. The Group has a well-diversified business model. Based on the Group's business strategy, credit risk is the dominant risk category, followed by valuation risk, interest rate risk in the banking book, operational risk, liquidity risk, market risk, and other non-financial risks. The environmental, social, and governance (ESG) risks do not represent a new risk category, but rather an aggravating factor for the types of risks already managed through the established risk management framework. Regular risk identification and their assessment is performed within the ICAAP process with aim to assure their overall control and effective risk management in a very early stage. In addition, internal capital and liquidity consumption are integrated into an overall risk management system in order to assure proactive support for informed decision-making on strategic and operational levels.

Managing risks and capital efficiently at all levels is crucial for NLB Group sustained long-term profitable operations. Management of credit risk, representing the Group's most important risk, focuses on the taking of moderate risks – diversified credit portfolio, adequate credit portfolio quality, sustainable cost of risk, and ensuring an optimal return considering the risks assumed. The liquidity risk tolerance is low. The 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. The Group limited exposure to credit spread risk, arising from the valuation risk of debt securities portfolio servicing as liquidity reserves, to the moderate level. The Group's basic orientation in the management of interest rate risk is to limit unexpected negative effects on revenues and capital that would arise from changed market interest rates and, therefore, a moderate tolerance for this risk is stated. When assuming operational risk, the Group pursues the orientation that such risk must not significantly impact its operations. Risk appetite for operational risks is low to moderate, with focus on mitigation actions for important risks and key risk indicators servicing as an early warning system. The conclusion of transactions in derivative financial instruments at Bank is primarily limited to servicing customers and hedging Bank's own positions. In the area of currency risk, the Group thus pursues the goals of low to moderate exposure. The tolerance for all other risk types, including non-financial risks, is low with a focus on minimising their possible impacts on the Group's operations.

The main Group risk appetite objectives are disclosed in Statement of Management of Risk on page 7. The values of the most important risk appetite indicators of NLB Group, including also acquired Komercijalna Banka Group, as at the end of year 2020, reflecting the interconnection between strategic business orientations, risk strategy, and targeted risk appetite profile are also disclosed in Statement of Management of Risk on page 8.

NLB Group established a risk appetite limit framework (key risk indicators and selected relevant triggers) to support its strategic objectives, which is the subject of the comprehensive consistency validation in the ICAAP process. The Group regularly monitors its target risk appetite profile, representing the key component of the risk mitigation process. Thus, the risk profile enables detailed monitoring and proactive management. Limit usage and potential deviations from limits or target values are regularly reported to the respective committees and/or the Management Board of the Bank, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank.

Consequently, NLB Group (including Komercijalna Banka Group) concluded the year 2020 as self-funded, with strong liquidity and solid capital position, demonstrating the Group's financial resilience. The acquired Komercijalna Banka Group has similar business model to the existing NLB Group, respectively its impact on the Group's risk profile was moderate.

Risk management, hedging, and mitigation
Managing risks and capital efficiently is crucial for the Group's sustained long-term profitable operations. A robust Risk Management framework is comprehensively integrated into decision-making, steering, and mitigation processes within the Group.

The key goal of NLB Group's Risk Management is to proactively manage, assess, and monitor risks within the Group. A sound and holistic understanding of risk management is embedded into the entire organisation, focusing on risk identification in a very early stage, efficient risk management, and mitigation of them with the aim to ensure the prudent use of its capital, adequate liquidity structure, and related buffers to support the financial resilience of the Group.

Key risk management guidelines of NLB Group are defined by its Risk Appetite and Risk Strategy in accordance with the Group's business model, based on a forward-looking perspective. They are regularly revised and enhanced. The Strategy of NLB Group, the Risk Appetite, and Risk Strategy guidelines, and the key internal policies of NLB Group – which are approved by the Management Board and by the Supervisory Board – specify the strategic goals, risk appetite guidelines, approaches, and methodologies for monitoring, measuring, and managing all types of risk in order to meet internal objectives and all external requirements. In addition, the main strategic risk guidelines are integrated into the annual business plan review and budgeting process.

Risk management focuses on managing and mitigating risks in line with the Group's Risk Appetite and Risk Strategy, representing the foundation of the Group's Risk management framework. Within these frameworks, the Group monitors a range of risk metrics in order to assure the Group's risk profile is in line with its risk appetite. The use of risk limits and potential deviations from limits and target values are regularly reported to the respective committees and/or the Management Board of the Bank. The comprehensive Risk Report is reviewed quarterly by the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank. The banking subsidiaries within the 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 credit risk mitigation process, the Group applies a single set of standards to retail and corporate loan collateral with the aim of efficient credit risk mitigation and consuming capital economically. The Group applies a cash-flow based credit policy that considers the repayment capacity of the client when approving or extending the loan or other credit exposure. The received collateral represents a secondary source of repayment. In the area of project finance, a careful monitoring process is established by different experts within relevant phases of the project, namely in terms of fulfilling requested conditions and criteria before each disbursement. A project's financial status is regularly reported to the respective committees.

NLB Group has a system for monitoring and reporting collateral at fair (market) value in accordance with the International Valuation Standards (IVS). The Collateral Management Policy additionally defines requirements regarding collateral enforceability and a list of acceptable and eligible types of collateral. The eligibility of different types of collateral, by types and ratios, referring to prudent lending criteria, is further set within internal lending guidelines. The credit portfolio and collateral structure, also in terms of concentrations, and other relevant analyses are regularly reported to the respective committees. In the retail segment, special focus is placed on the monitoring of fulfilment of macro-prudential guidelines (DSTI, LTV, and LTI). The Group has also established guidelines with respect to prudent foreign exchange (FX) lending across different SEE markets where the Group members operate, and where market practices vary along with different business strategies.

NLB Group's profitability is to a large extent based on its respective net interest income levels. For that reason, stabilising net interest income represents an important goal of the Group when managing interest rate risk, where the Group monitors its interest rate sensitivity from the aspects of income and economic value. All Group members manage their interest rate risk positions proactively in accordance with relatively conservative interest rate risk policies and limits. When hedging market risks, specifically interest rate risk and foreign exchange risk, in line with the set risk appetite, the Group follows the principle of a natural hedge or using derivatives in line with hedge accounting principles.

The Group has defined detailed Standards for Liquidity Risk Management, where regulatory and internally developed measures, approaches, and stress test capabilities are constantly monitored, controlled, managed, and further developed in line with the latest banking practices. Additionally, all banking members have established a Contingency Plan that focuses on measures for overcoming potential temporary and/or long-term liquidity disruptions.

The Group operates its main business activities in euros, while in the case of the subsidiary banks, in addition to their domestic currencies, they also partly operate in euros, which is the Group's reporting currency. The Group's net open foreign exchange position from transactional risk is relatively low and proactively managed on a daily basis. Regarding structural FX positions on a consolidated basis, assets and liabilities held in foreign operations are converted into the euro currency at the closing FX rate on the balance sheet date. FX differences of non-euro assets and liabilities are recognised in the other comprehensive income, and therefore affect shareholder's equity.

Through comprehensive identification of operational risks, possible future losses are identified, estimated, and managed in most efficient way, where the Group follows the guideline that such risk may not considerably influence its operations. The major operational risks are actively managed with the measures taken to reduce such risks in accordance with risk appetite, mostly by improving controls referring to relevant internal processes. Special attention is dedicated to a scenario-based analysis and the related prevention measure, referring to high severity, low frequency events, which also includes cyber and other topical risks. Furthermore, key risk indicators, serving as an early warning system for the broader field of operational risks, are established with the aim to further improve the existing internal controls and to respond in a timely manner.

Stress-testing

Stress-testing is an important part of risk management in NLB Group since alerts to unexpected adverse outcomes arise from a wide range of risks and provide an indication of the financial resources (capacity) that might be needed to absorb losses if large shocks might occur.

The Group established a comprehensive internal stress-testing programme and other early warning systems in different risk areas with the intention to:

- contribute to setting and pursuing the Group's business strategy,
- support decision-making on an ongoing basis,
- strengthen the existing internal controls and timely responding when necessary.

The stress-testing programme comprises all major stress-testing types – different stress scenarios, reverse stress tests and sensitivity analysis. The stress-testing framework is developed and performed on the level of NLB Group, according to the vulnerability of its business model. It includes all material, existing and potential, risk types stemming from the Group's current risk profile, as well as a forward-looking perspective. In addition, partial stress test exercises are also carried out, like per individual risk type, selected portfolio level, etc.

NLB Group conducts a “bottom-up” stress-testing approach. It comprises group-wide stress tests based on the presumption of severe, but plausible stress scenarios (namely different scenarios considering macroeconomic downturn) and other relevant scenario analysis.

Stress-testing has an important role when assessing the Group’s resilience to stressed circumstances. As such it is embedded into the Group’s risk management system, representing an important component of sound risk management. In addition, stress-testing is integrated into the risk appetite, ICAAP, ILAAP, recovery plan and budgeting process to determine how severe unexpected changes in the business and macro environment might affect Group’s capital adequacy or liquidity position. Furthermore, stress tests results are considered as an important element when setting risk appetite and other risk limits.

The Group established a clear governance process in the area of stress-testing. The stress-testing programme was developed by the senior management (under responsibility of Risk Management function) and approved and monitored by the Management Board. Stress-testing results on the level of the Group are regularly discussed in the respective Committees, the Management Board, and the Supervisory Board, and are used to support business decisions, and capital and liquidity planning. Moreover, stress-testing exercises contribute to proactive management of the Group’s overall risk profile, namely the capital and liquidity position using a forward-looking perspective, and the selection of risk management actions as mitigation when necessary.

In addition to internal stress test approaches, the Group also participates in regulatory stress test exercises. The ECB conducts, in cooperation with the EBA, overall ECB stress-testing exercises (presumes a very unfavourable market conditions and includes all material risk types with the aim of testing capital adequacy resilience in such circumstances) and thematic ECB stress test exercises (partial stress tests, including selected specific risk type). Qualitative outcomes of regulatory stress test exercises are included in the determination of Pillar 2 requirement (P2R), namely as an element of risk governance, and setting Pillar 2 Guidance (P2G).

The table below sketches risk categories, types of stress tests, their frequency, corresponding stress test applications, and the relevant decision-making bodies where the results are discussed and approved.

Table 16: Scope of stress-testing exercises on the level of NLB Group

Risk category	Stress test type	Stress test application	Decision making body	Frequency
CREDIT RISK **stress testing segment: credit portfolio**				
Credit risk - default & migration risk	scenario analysis	Strategy & budgeting, ICAAP, RP	RICO, MB, SB	Quarterly, Yearly
Individual concentration	Herfindahl-Hirschman Index (HHI)	Strategy & budgeting, ICAAP, RP	RICO, MB, SB	
Industry concentration		Strategy & budgeting, ICAAP, RP	RICO, MB, SB	
Internal IRB - Sensitivity of risk components (PD, EAD, LGD, maturity)	sensitivity analysis	Strategy & budgeting, ICAAP, RP	RICO, MB, SB	
FX Lending	sensitivity analysis (PD change)	Strategy & budgeting, ICAAP, RP	RICO, MB, SB	
ECL (Expected credit losses)	scenario analysis	IFRS 9 Methodology	MB	Yearly
NPL reduction	sensitivity analysis	NPL Strategy	MB, SB	Yearly
OPERATIONAL RISK **stress testing segment: potential loss events**				
Operational risk losses modelling	sensitivity analysis	Strategy & budgeting, ICAAP, RP, other internal ST	OpRC, MB, SB	Quarterly, Yearly
High risk low frequency analysis	scenario analysis	RP, other internal ST	OpRC, MB, SB	Yearly (more frequently if necessary)
MARKET RISK **stress testing segment: overall FX position, trading positions, exposures to soverigns and banks**				
Foreign exchange (FX) risk	scenario analysis, sensitivity analysis	Strategy & budgeting, ICAAP, RP, internal ST	ALCO, MB, SB	Monthly / Quarterly
Market risks	sensitivity analysis	Strategy & budgeting, ICAAP, internal ST	ALCO, MB, SB	Quarterly
CVA risk	sensitivity analysis	Strategy & budgeting, ICAAP, internal ST	ALCO, MB, SB	Quarterly
EWS for exposures to sovereigns and banks - stressed credit spread	sensitivity analysis	Internal ST	ALCO, MB, SB	Daily / Monthly
IRRBB **stress testing segment: overall interest rate position in banking book**				
IR risk in banking book	scenario analysis, sensitivity analysis	Strategy & budgeting, ICAAP, RP, internal ST	ALCO, MB, SB	Monthly / Quarterly
Credit spread risk/valuation risk	scenario analysis, sensitivity analysis	Strategy & budgeting, ICAAP, RP, internal ST	ALCO, MB, SB	Monthly / Quarterly
LIQUIDITY RISK **stress testing segment: overall liquidity position or relevant liquidity subsegments**				
Liquidity risk: overall liquidity position	scenario analysis, reverse stress test	Strategy & budgeting, ICAAP, ILAAP, RP, internal ST	ALCO, MB, SB	Monthly / Quarterly
Liquidity risk: intraday liquidity	scenario analysis	ILAAP; internal ST	ALCO	Monthly
BUSINESS AND STRATEGIC RISK **stress testing segment: budget projections**				
Potential losses referring to business and strategic risk	scenario analysis based on expert knowledge	Strategy & Budgeting, ICAAP, internal ST	MB, SB	Yearly

Risk measurement and reporting systems

As a systemic banking group, NLB Group is subject to the Single Supervisory Mechanism (SSM), which is supervised by the Joint Supervisory Team of the ECB and the Bank of Slovenia. The Group complies with ECB regulations, while Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators. With regards to capital adequacy, based on the provisions of the Directive (CRD) and Decision (CRR), the Group applies the standardised approach to credit and market risk, and the basic approach (a simplified approach with less data granularity) to operational risks, with the exception of NLB which applies the standardised approach.

Across the Group, risks are assessed, monitored, managed, or mitigated in a uniform manner, as defined in the Group's Risk management standards, also considering the specifics of the markets in which individual Group members operate. For the purposes of measuring exposure to credit risk, liquidity risk, interest rate risk in banking book, valuation risk, operational risk, market risk and non-financial risks, in addition to prescribed regulations, the Group uses internal methodologies and approaches that enable more detailed monitoring and management of risks. These internal methodologies are aligned with ECB, EBA and Basel guidelines, as well as best practices in banking methodologies. Following the acquisition of Komercijalna Banka, Beograd, the harmonisation process in the area of risk management is underway.

As for risk reporting, Group's internal guidelines reflect, in addition to internal requirements, the substance and frequency of reporting required by the Bank of Slovenia and the ECB. In addition, each member of the Group also complies with the requirements of its local regulations. Risk reporting is carried out in the form of standardised reports, pursuant to risk management policies based on common methodologies for measuring and harmonising exposure to risks, uniform databases structure within Data Warehouse (DWH), comprehensive data quality assurance and automated report preparation, which ensures the quality of reports and reduces the possibility of errors.

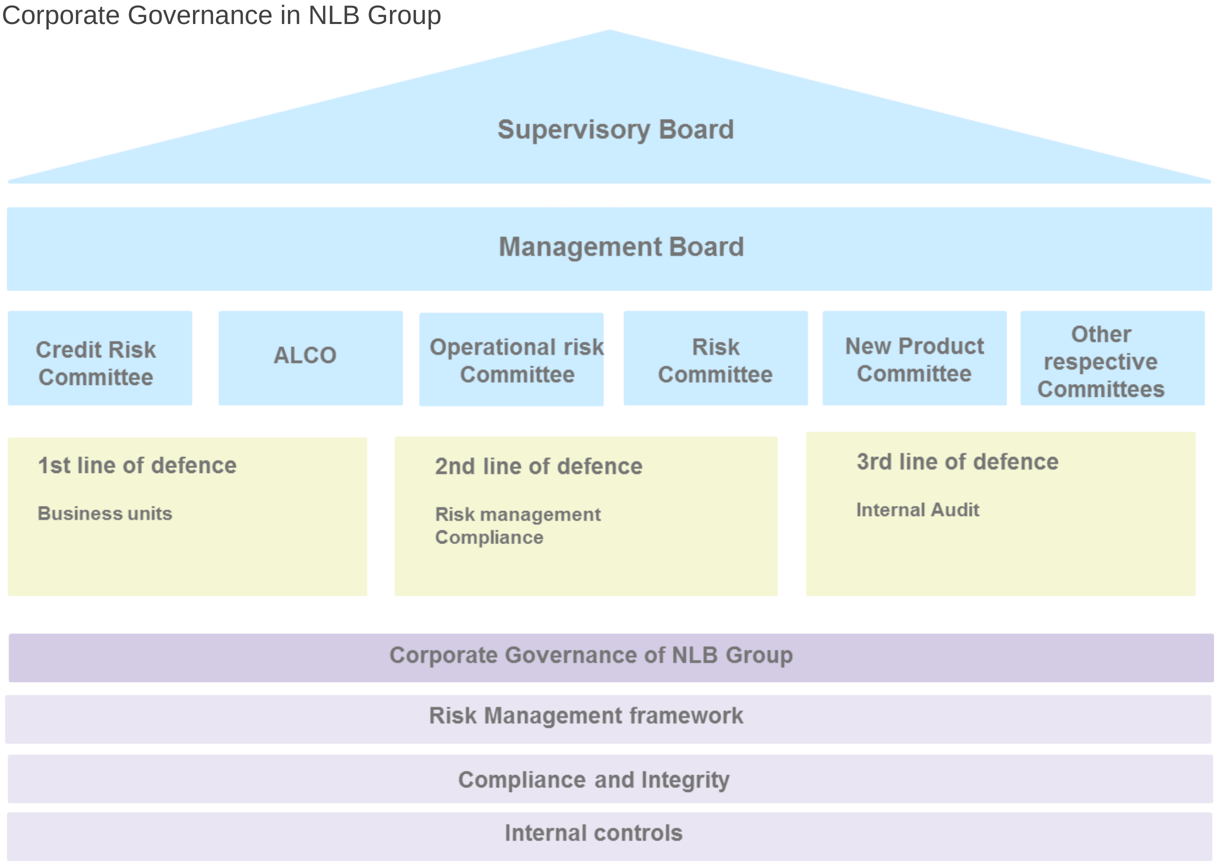
Data and IT system
Risk data are calculated and stored in the NLB Group Data Warehouse (DWH), collected from NLB and other group member's DWH. The established process provides an integrated information in common reference structure where business users can access in a consistent and subject-oriented format. Data are regularly checked and validated. Data used for internal risk assessment, management, and reporting are the same as data which NLB Group uses for regulatory reporting.

Corporate governance in relation to risk management and internal controls
NLB Group established a corporate governance framework based on the principles of sound and responsible governance, in accordance with the applicable legislation of the Republic of Slovenia, particularly the provisions of the Companies Act (ZGD-1) and the Banking Act (ZBan-2), the Regulation on Internal Governance Arrangements, the Management Body, and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks, the EBA Guidelines on internal governance, the EBA Guidelines on the assessment of the suitability of members of the management body, and key function holders, as well as the EBA Guidelines on remuneration practices. Several layers of management, as shown in the diagram below, provide cohesive risk management governance in the Group.

A steady and reliable internal governance system on the level of the Group was developed, encompassing the following:

- a clear organisational structure with precisely defined, transparent, and consistent internal relations in the area of responsibility,
- incorporation of main strategic risk guidelines into an annual business plan review, the budgeting process, and other relevant decision-making,
- effective risk management processes for identifying, measuring, assessing, managing, and monitoring risks, including risk appetite, risk strategy, ICAAP, ILAAP, the recovery plan, and the reporting of risks to which the Group is exposed or could be exposed in its operations;
- adequate internal control mechanisms, including also appropriate administrative and accounting procedures,
- appropriate remuneration policies and practices that are in line with prudent and effective risk management, and thus also promote risk management.

Corporate Governance in NLB Group



NLB Group uses the ‘three lines of defence framework’ as an important element of its internal governance. The three lines of defence principles provides a clear division of activities. Moreover, it defines roles and responsibilities for risk management at different levels of the Group.

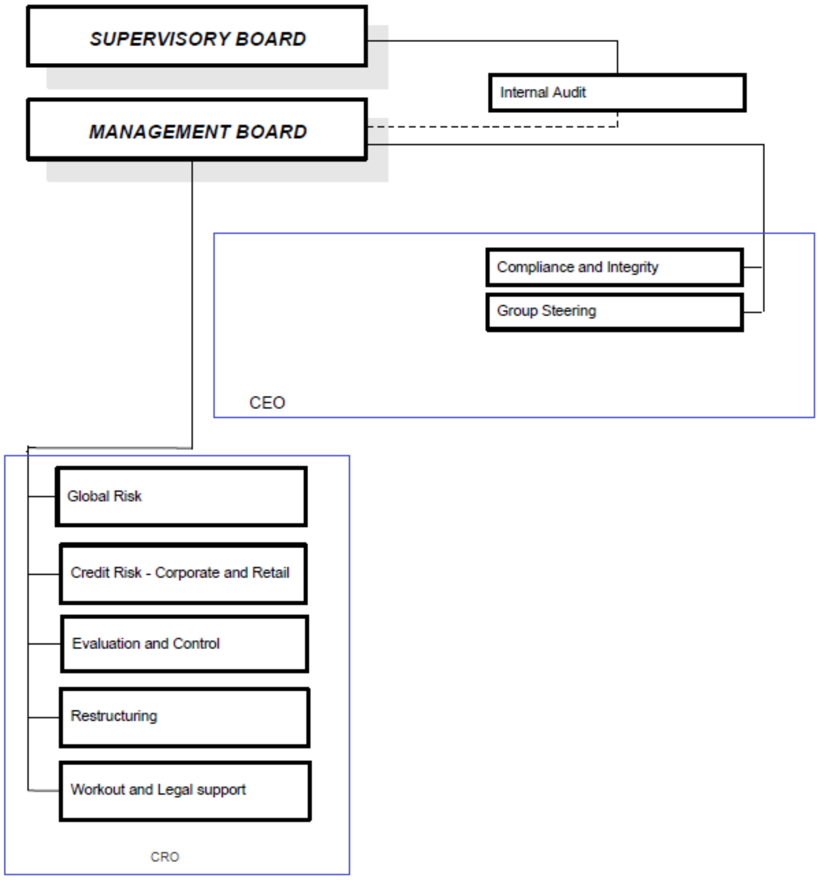
Within this framework, business units represent the first line of defence, having primary responsibility for day-to-day risk management. In addition, they are accountable for identifying and managing the risks that occur while conducting their activities with clients within risk appetite framework or other risk management limits. They also ensure that adequate internal controls are in place for risk mitigation.

Risk Management and Compliance comprise the second line of defence. Risk management defines rules about the risk appetite, risk strategy, other risk policies and guidelines, risk monitoring, and management. Some units within the Chief Risk Officer area (in relation to underwriting, restructuring, and workout decisions) are analysing and co-deciding on the risks suggested by the business part, and thereby assuming responsibility for the analysis and the risks. However, a specialised risk management function within Global Risk covers the overarching aspects of risk management, namely, to assure compliance with a set risk appetite or other risk management limits. Its mandate is to provide an increased focus on holistic risk management and cross-risk oversight to further enhance risk steering and mitigation within the whole Group. Beyond monitoring fulfilment of legal and regulatory requirements Compliance is also concerned with ethics and integrity within the whole Group.

An Internal Audit represents the third line of defence. It reviews key risks referring to the Group’s operations and provides an independent and comprehensive supervision of the internal control system, including risk management activities performed by both, the first and second lines of defence.

The tasks and responsibilities of Global Risk, Compliance (also covering the information security function in accordance with the BoS regulation), and Internal Audit are set out in accordance with the definitions of the Zban-2, under which all such functions are independent and have direct access to NLB’s Supervisory Board. During 2020, there were no material changes in two functions presenting the second and third line of defence of the internal control framework (Global Risk and Internal Audit in NLB). Changes in the Compliance function are presented in the later section “Compliance and Integrity in NLB Group and NLB,” namely referring to the recruitment of additional resources, the establishment of dedicated NLB Group AML team and NLB Group CISO, and the additional tasks related to the security function.

Risk management organisation in NLB



The responsibilities of the respective specific risk management bodies in the Group are described below.

Management Board and its working bodies
The Management Board of NLB leads, presents, and acts in the name of the Bank individually and on its own responsibility, and has authority in accordance with law and the Act of the Bank itself.

With the aim of appropriate and effective performance management, the Management Board has created a system of adequate risk management, internal audit, and corporate management. The Management Board of NLB is a working body that manages its business process and adopts key management decisions. Additional working bodies of the Management Board, where risk-related issues are the subject of discussion and decision-making, are the:

- Credit Committee whose role is to accept decisions on grading classifications, set exposure limits, and approve loans in commercial banking in line with the Rules on Authorisations and Signing, including materially important clients within the NLB Group. In addition, the Retail Credit Committee accepts decisions on lending and other investments with terms and conditions deviating from the regular offer and exceeding authorisations of retail network directors, as defined by the Management Board.
- Asset and Liability Committee (ALCO) whose role is to analyse balance sheet positions, changes, and trends, and also to form decisions to achieve a balance sheet structure in line with the Bank's business policy. Its wider role includes overseeing normal banking activity; that goals are set, and targets are achieved.
- Operational Risk Committee whose role is monitoring, guiding, and supervising operational risk and other risks related to operational risk (such as IT and physical security, incidents, risk associated with projects, internal controls, etc.) management in NLB Group and NLB.
- New and Existing Products Committee whose role is assessing and mitigating risks when introducing new products and when substantial changes of existing products is proposed.
- Risk Committee whose role is to discuss, oversee, follow-up, and periodically review risk and risk-commercial related issues and submit them to the Management Board for a decision.

Supervisory Board and its working bodies
The Supervisory Board of NLB is composed of members who are appointed and recalled by the General Meeting of the Bank. Its task is to monitor and supervise the management of NLB and its operations. There are five working committees of the Supervisory Board, namely the:

- Risk Committee monitors and drafts resolutions for the Supervisory Board in all areas of risk relevant to NLB's operations. It consults on the current and future risk appetite and the risk management strategy, and it helps exercise control over senior management as regards implementation of the risk management strategy. Information on the Risk Committee and the number of times the Risk Committee has met is disclosed in Appendix 1.
- Audit Committee monitors and prepares draft resolutions for the Supervisory Board on financial reporting, internal control and risk management, internal audit, compliance, external audit, and supervises the implementation of regulatory measures.
- Operations and IT Committee monitors and prepares draft resolutions for the Supervisory Board on implementation of the strategy for the IT, Information Security, and Operations area. Additionally, the Committee monitors key Operations and IT key performance and service quality indicators, key Operations and IT projects/initiatives and operating risks in the area of IT, Information Security, and Operations.
- Nomination Committee drafts proposed resolutions for the Supervisory Board concerning the appointment and dismissal of Management Board and Supervisory Board members, 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 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 NLB.
- Remuneration Committee carries out expert and independent assessments of remuneration policies and practices, and on this basis formulates initiatives for measures related to improving the management of NLB'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 risk management and compliance functions.

Risk management role in NLB Group
The risk management framework is comprehensively integrated into the decision-making, steering, and mitigation processes within the Group in order to proactively support its business operations. The risk management function in the Group is in charge of managing, assessing, and monitoring risks within Bank as the parent entity in Slovenia, and the competence centre for nine banking subsidiary banks, and a number of non-core subsidiaries that are in a controlled wind-down.

Risk Management and control on the Group level is performed through a clear organisational structure with defined roles and responsibilities. The organisation and delineation of competencies is designed to prevent conflicts of interest, ensure a transparent and documented decision-making process, subject to an appropriate upward and downward flow of information. Business line Risk Management in NLB is, by encompassing several professional areas (Global Risk, Corporate and Retail Credit Analysis, Evaluation and Control), in charge of formulating and controlling the Group's Risk Management policies, setting limits, overseeing the harmonisation, regular monitoring of risk exposures, and limits based on centralised reporting at the Group level.

The centralised monitoring of risks aims to establish standardised and systemic approaches to risk management, and therefore, a comprehensive overview of the Group's and of each member's statement of financial position. Risk monitoring in NLB Group members is centralised within an independent and/or separate organisational unit. All members of Group which are included in the financial statements of Group report their exposure to risks to the competent organisational units within the risk management business line. These organisational units then report all relevant risk information to the Assets and Liabilities Committee (ALCO) of the Management Board and the Risk Committee of the Supervisory Board.

The credit ratings of clients that are materially important to the Group and the issuing of credit risk opinions are centralised via the Credit Committee of NLB. The process follows the co-decision principle, in which the Credit committee of the respective group member first approves their decision, following which the Credit Committee of NLB gives their opinion. This same principle and process is also set for the issuing of credit exposures for the materially important clients of the Group.

NLB Group member's management pursue Group's strategic goals and monitor, manage, and mitigate the risks assumed in accordance with the set limits, targets, and other guidelines established at Group level. In compliance with the risk management policies of the Group, the risk management function in each Group member is separated from the business function (first line of defence) in order to maintain the objectivity required when assessing business decisions. The organisational unit for managing risks directly reports to the Management Board and its committees (Credit Committee, ALCO, and the Operational Risk Committee), which report to the Supervisory Board (Risk Committee of the Supervisory Board or Board of Directors).

Compliance and Integrity in NLB Group and NLB

Compliance and Integrity in the Group, in its role as an internal control function performs control activities with respect to the main following areas:

- anti-money laundering, counter-terrorist financing, and restrictive measures (sanctions),
- information security and data protection,
- personal data protection,
- regulatory compliance management,
- prevention of fraud, internal investigations, and security,
- development of compliance risk methodologies, and setting and monitoring ethics and integrity standards,
- harmonisation of policies and practices within Group (Competence line Compliance and Integrity).

In close cooperation with different organisational units, Compliance and Integrity helps in assessing and managing compliance risks in different areas of operations in the Group.

In 2020, the compliance function went through important changes to upgrade its standards, processes and procedures which are core of its responsibilities as one of the second line control functions, namely the recruitment of additional resources, establishment of dedicated group AML team and group CISO, and additional tasks related to the security function.

The main activities of the Compliance and Integrity Centre are:

- Conducting compliance checks in various areas covered by the compliance audits, identification of shortcomings in this regard, suggestion of mitigation measures to be undertaken, and the monitoring of improvement,
- Managing the system for the reporting of suspected harmful practices (directing the system for reporting on violations through different channels) and conducting internal investigations of the reported cases,
- Providing advisory services on compliance-related issues and regular analysis of compliance trends or observed problems and weaknesses in the Group,
- Identifying and assessing risks associated with compliance and integrity that occur in the daily operations of the bank, including investment processes, processes for the development of (new) products and services, projects (IT and other projects), organisational and HR changes, and other changes which can have a significant impact on the Bank's operations, as well as through conducting regular annual comprehensive assessment of the risks for compliance and integrity at NLB and NLB Group level within the ECRA process (Enterprise compliance and integrity risk assessment);
- Participation in assessing the suitability of key functions holders in NLB and NLB Group, as well as members of the Management Board and the Supervisory Board of NLB,
- Providing compliance communication, training, workshops, and targeted surveys for employees and the implementation of activities for strengthening the culture of assuming and managing the risks of compliance and integrity in NLB and NLB Group,
- Overseeing the regulatory compliance and assessing regulatory compliance risks (monitoring, reporting, and assessing the implementation of regulatory changes required in NLB's legal environment),
- Managing the Compliance and Integrity Competence Line for ensuring the same standards throughout the Group, with higher requirements for the core subsidiaries.

As regulatory risk is one of the top compliance risks which NLB is additionally exposed to due to the listing of its financial instruments on the London, Luxembourg, and the Ljubljana Stock Exchange, the Group has in place a regulatory compliance management system for handling and managing changes in the legal environment. This system is managed centrally by the compliance function, while implementation processes are decentralised. This means that OUs responsible for certain areas affected by a change in applicable regulations prepare action plans and lead implementation processes, thus ensuring Group’s compliance. The Compliance and Integrity function oversees the relevant regulatory changes' effects and the status of implementation. Focusing also on other compliance and integrity risks specific to the SEE region where the Group operates, specific policies and procedures are in place to identify and manage other types of compliance and integrity risks within the Group where higher requirements are set for core subsidiaries.

As part of its approach to standards for conduct within the Group and building a risk culture within NLB and NLB Group, the Group has in place a uniform NLB Group Code of Conduct which as a standard regulates zero tolerance for all types of harmful conduct, and this standard is consistently implemented in the Group. The Code also prohibits, *inter alia*, breaches of internal acts (including risk procedures and policies). The Group has dedicated reporting (whistleblowing) channels (including anonymous ones) to report any suspected violations or breaches are reported and dealt with to prevent damages to the Group members, as well as prevent prohibited or harmful practices.

At the level of NLB Group, binding standards in the field of compliance and integrity are defined, which regulate the policies, rules, and procedures for each member of the Group, which must be implemented in the individual member in the field of compliance and of integrity. In this way, NLB Group provides a unified and harmonised approach to risk management in this area, which is regularly checked by Compliance and Integrity within its regular activities (on-site visits, off-site checks, quarterly reporting, extraordinary reporting, escalation procedures and strict binding rules, standards, and methodologies).

The compliance functions in the Group thus define the rules for managing the risks of compliance and integrity, and analyse which risks the bank exposes in its operations, and with recommendations and guidelines, supports other organisational units in determining control mechanisms that can adequately manage the risks of compliance and integrity. The compliance of operations and the strengthening of integrity, as well as other compliance functions in the strategic members of the Group, is directly responsible to the Management Board and has direct access to the Supervisory Board.

The compliance functions of NLB Group are thus focused on systematic monitoring of the regulatory environment, including the assessment of its impact on the operations of the Group. In addition to regulatory issues, the compliance function in the Group members also, in line with NLB Standards, deals with ethics and integrity, and depending on local regulatory requirements, as well as other areas governed by Standards in the field of compliance and integrity (i.e., AMLTF, internal investigations, regulatory relations, protection of information and protection of personal data). For some banking members of the Group, for example, due to local requirements, fraud, AMLTF, CISO, or DPO area is organised in a separate organisational unit, separate from the compliance function.

The compliance functions within NLB Group thus give great emphasis on preventive activities with the aim of preventing harmful behaviour and incidents in the entire Group.

Internal Audit

NLB Group, through its Internal Audit, seeks to adequately monitor key risks which might jeopardise the achievement of its strategy and goals, related control systems, and governance processes. By providing assurances and advice, and with a deep understanding of operations, Internal Audit helps to strengthen and protect the value of the Group. The best practice examples and international guidelines established by the Committee of Sponsoring Organisations of the Treadway Commission (“COSO”) and Control Objectives for Information Technologies (“COBIT”) used at IT audit are the criteria Internal Audit uses to cover all control objectives and risk management.

Internal Audit serves as an advisory tool for the systematic and professional assessment of the success of NLB Group’s risk management procedures, control system, and governance of the Group operations. Following a risk-based methodology, Internal Audit prepares the yearly audit plan, which has been approved by the Management Board and Supervisory Board. On that basis, Internal Audit serves as an impartial guide to the Management and Supervisory Board regarding those areas of NLB and of NLB Group with the highest risk in order to help ensure such risks are managed appropriately. Internal Audit also performs “Group Audits” in which internal auditors of the Group members participate in order to provide assurance at the Group level, as well as to provide additional expertise and assistance. Furthermore, a review of the quality of the internal audit service performance was carried out in three banking members of the Group.

Internal Audit dedicates significant resources to verifying whether audit recommendations have been fulfilled, providing training and consultancy to the management, and promoting the assurance of high-quality and professional operations of the internal audit function. Internal Audit introduces the uniform rules of operation as part of the internal audit function and supervising compliance with these rules across the entire Group. Internal Audit and other internal audit services in the Group operate in accordance with the International Standards for the Professional Practice of Internal Auditing, the ZBan-2, or other relevant laws which regulate the operations of a member, the Code of Ethics of Internal Auditors and the Code of Internal Auditing Principles.

4.2. The number of directorships held by members of the management body
(Articles 435.2 a of CRR)

Table 17 – The number of directorships held by members of the management body

Director	Number of directorships	External directorships as counted under Article 91(3) and 91(4) of Directive 2013/36/EU
Blaž Brodnjak	5	President of the Association of Banks in Slovenia, President of the Board of Governors: AmCham Slovenia, Member of Executive Committee of the Handball Federation of Slovenia
Andreas Burkhardt	3	None
Archibald Kremser	3	None
Petr Brunclík	1	None

Details on functions, held by members of the management body are disclosed in the 2020 NLB Group Annual Report, in the Corporate Governance chapter (page 78).

4.3. The recruitment policy for the selection of the management body and their actual knowledge, skills, and expertise
(Articles 435.2 b of CRR)

The last amendment to the Policy on the selection of suitable candidates for management body (Supervisory Board and Management Board) was adopted in 2019. With this Policy, the framework for the selection and appointment of suitable Management Body candidates is set. The framework is defined with the selection process policy, with the goal of the Management Body as a whole to possess the whole spectrum of relevant knowledge, skills, and experience required for the in-depth understanding of the Bank's strategy and challenges, and the risks to which it is exposed.

The policy sets out the process of selecting suitable candidates for Management Body members, which is composed of several steps, and the professional criteria of selection and expertly managed procedures of candidate selection enabling the bodies of the Bank to lay the grounds for selection and perform due diligence in accordance with the highest ethical standards and care in the selection of suitable candidates for management body members. This will also ensure that the Bank's management body is composed of individuals having a balanced range of skills, knowledge, and experience with regard to the strategic goals and challenges, and possessing appropriate qualifications as a team considering the size, complexity, and risk profile of the Bank. Expertly and transparently managed processes are not only in the Bank's interest but also in the interest of the selected candidates because they dispel doubts about their expertise, qualification, independence, references, and whether they are the right choice.

Candidates for members of the management body of the Bank may only be persons who meet the legally prescribed conditions for a supervisory board member under the above regulations and the criteria set out below.

Beside all legal and statutory set conditions, Management Body 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. With 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 order to follow the objectives of its long-term success and to ensure they are in line with the Bank's best interests and highest ethical standards of its management. Management Body 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 Body candidates must subordinate their personal interests, the partial interest of third parties, as well as 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 means influence decision-making in the Bank's best interest.

In the 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. During the Management Body member selection process, recommendations of both genders being appropriately represented are followed.

The selection of Management Body Members should strive for the Management Board as a whole to have all the necessary expertise, knowledge, skills, and experience at their disposal for successfully managing or supervising the Bank.

The composition of the Management Body must be such to achieve collective suitability, which is shown in:

- different levels of experience, age, education, and expert knowledge at the level of individual Supervisory Board members, and consequently, at the level of the entire Supervisory Board, in particular in the field of capital markets, financial analyses, and reports, matters related to financial strength, strategic planning, corporate governance, and familiarity with laws and regulations,
- knowledge of the local, regional, and, if appropriate, the global economic market, as well as the characteristics of the legal and regulatory environment, considering the international experience of individual members of the Supervisory Board,
- a suitable method of communication, cooperation, and critical judgement or discussion in the process of decision-making, to which contribute the characteristics of every member; and
- appropriate gender representation.

Selection procedure of the candidate for the Supervisory Board
The Supervisory Board shall once a year assess its composition, performance, potential conflicts of interest of individual members, performance of individual members and the Supervisory Board as a whole, and the efficiency and performance of cooperation with the Management Board. The Supervisory Board shall also make a self-assessment of its collective suitability. If it establishes that the number of the members of the Supervisory Board is inappropriate or that the number of the members of the Supervisory Board must be increased, or that certain knowledge, skills, and experience are lacking, or that the members in the Supervisory Board are no longer qualified to perform this function because they do not meet the required conditions, or because one or several members are unsuitable and thus the Supervisory Board as a whole no longer meets the required collective suitability, the Nomination Committee shall inform the persons who have informed the bank that they hold the shares or other rights representing significant stakes about this.

The Supervisory Board shall invite the addressees to examine the candidates for Supervisory Board members who meet the conditions prescribed by the applicable regulations.

The procedure consists of the following steps:

- identification of the need to search for and nominate a candidate for Supervisory Board member,
- definition of the profile,
- search for candidates,
- selection of the candidates,
- fit & proper assessment of the candidates,
- proposal for appointment of a candidate,
- appointment of a candidate as a Supervisory Board member.

In 2020, employee's representatives of NLB were also appointed as the members of the Supervisory Board of NLB for the first time, which is one of the rights of employee co-management on the basis of the Employee Participation in Management Act.

According to the Workers' Participation in Management Act, the Companies Act, the Cooperation Agreement between the Workers' Council, and the Employer and the Rules of Procedure of the NLB Workers' Council, the Workers' Council elected and appointed three workers' representatives in June 2020 and another in November 2020. In September 2020, one of the appointed workers' representatives resigned and in January 2021, the Workers' Council elected and appointed new representative, her mandate started at 22 January 2021. Thus, the interests of employees in the Supervisory Board of NLB are represented by four employee representatives of NLB.

The appointment of employee representatives for the members of the Supervisory Board brings additional diversity at all levels, as with their diverse work experience and knowledge of the bank's operations they can contribute to greater risk management, compliance, and transparency of the bank's operations.

Selection procedure of the candidate for the Management Board
Once a year, the Supervisory Board assesses the composition of the Management Board, performance, potential conflicts of interest of individual members, performance of individual members, and the Management Board as a whole, as well as its efficiency.

If it establishes that the number of the members of the Management Board is inappropriate; or that the number of the members of the Management Board must be increased; or that certain knowledge, skills, and experience are lacking; or that the members in the Management Board are no longer qualified to perform this function because they do not meet the required conditions; or because one or several members are unsuitable and thus the Management Board as a whole no longer meets the required collective suitability; the Appointment Committee shall inform the Supervisory Board about this and start the selection procedure.

The procedure consists of the following steps:

- identification of the need to search for and appoint a candidate to be NLB's Management Board member,
- definition of the profile,
- search for candidates,
- selection of the candidates,
- fit & proper assessment of the candidates,
- proposal for appointment of a candidate,
- appointment of a candidate for Management Board member.

The Management Board comprises of four members; namely the Chairman of the Board (CEO) – who is also responsible for the Large Corporates area, Retail Banking, and Private Banking (CMO); the CRO; the CFO; in 2020 the new COO start the mandate – who besides the IT area is 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 the 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. There are no foreseeable changes within the overall composition of the management body.

4.4. 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 CRR)

The Bank accepted the Policy of Supervisory Board diversity on 8 August 2016 and published it on its internet page. A new policy of diversity with regard to selection of members of the management body was prepared in 2019, referring not only to the Supervisory Board, but also to the Management Board and B-1 level, and was confirmed on General Assembly on 29 April 2019. In 2020, the policy on diversity was not changed.

With the policy on provision of diversity of the Management Body and senior management (hereinafter: 'Diversity Policy') based on Article 34 of ZBan-2, NLB sets the framework in the area of diversity of and representation of both genders in the management and supervision bodies (Supervisory Board and Management Board) and the senior management, and lays down the process of the selection and appointment of candidates (defined in more detail in the Policy on the selection of suitable candidates for members of the Supervisory Board and the Policy on the selection of suitable candidates for members of the Management Board), which enables the management body to be composed in such manner that, as a whole, it possesses suitable knowledge, skills, and experience needed for in-depth understanding of the strategy and challenges of the Bank, and the risks the latter is exposed to. With this policy, NLB also sets the framework for diversity with regard to education, range of knowledge, skills and experience, age, gender, and international experience.

Diversity of the management body and senior management enables different opinions, prevents the so-called "group thinking," enables well-considered and balanced decisions, risk management and thus greater performance and efficiency of the Bank.

Considering the size of the Bank and the bank group, and their regional presence and business strategy, the following aspects are important to ensure diversity:

- expert experience,
- knowledge and skills,
- international experience,
- gender structure and
- age structure.

The Policy aims at the following:

- The management body as a whole must cover an adequately wide range of knowledge, skills, and expert experience of its members, and be composed with regard to the following criteria: experience, reputation, management of any conflicts of interest, independence, available time, and collective suitability of the body as a whole.
- The management body as a whole must cover different international experience of its members in different areas, especially identified, where a certain gap appears.
- It is encouraged to achieve diversity as regards gender representation, and the plan of activities and the period for achieving the goals shall be set.
- It is encouraged to achieve diversity as regards the age structure, which should reflect the age structure in the Bank as much as possible.
- The goals of the Policy shall also be reasonably applied to the provision of diversity of the wider management.

The diversified composition of the Supervisory Board is recognised as one of the Bank's key business strengths through its diversity policy. A Supervisory Board member can only be a person who fulfill the requirements according to the Zban-2 and other regulations.

Supervisory Board members must subordinate their personal interests, partial interest of third parties, as well as 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.

In 2020, the Workers' Council of NLB elected and appointed employee representatives as members of the Supervisory Board of NLB, thus four employee representatives were appointed. As part of employee participation in the bank's management, the appointment of four representatives brings additional diversity at all levels, including the achievement of gender quotas in the bank's governing bodies, and employees' representatives with their diverse work experience will be able to contribute to better employee involvement in governing bodies.

The Bank has established succession systems, career and mobility planning, training, mentoring, coaching, and talent management, especially for those who will potentially assume positions in the Management Board or senior management. The achievement of the diversity targets is evaluated annually, and more detailed action plans are drawn up where necessary.

In the table below the structure of the Supervisory Board, Management Board, and senior management is presented.

Table 18 – The structure of the Supervisory Board, Management Board, and senior management in NLB

Goal	Supervisory Board		Management Board		Senior Management	
Wide range of knowledge, skills, professional experience	H		H		H	
International experience of members in various fields	H		H		MH	
Age structure	30-40	0	30-40	0	30-40	5
	40-50	2	40-50	4	40-50	20
	50-60	7	50-60	0	50-60	12
	60+	2	60+	0	60+	0
Proportion of women	36%		0		46%	

H = High, M= Medium

The achievement of the diversity targets is evaluated annually, and more detailed action plans are drawn up where necessary

5. Credit risk and general information on CRM

5.1. General qualitative information on credit risk
(Article 435.1 a, b, c, and d of CRR)

In addition to information disclosed in Section 4.1 (General information on risk management, objectives, and policies), specifics related to credit risk are disclosed below.

Credit risk management strategies and policies
The Group's lending strategy focuses on its core markets of retail, SME, and selected corporate business activities within the region and EU. On the Slovenian market, the focus is on providing appropriate solutions for retail, medium-sized companies, and small enterprise segments, whereas on the corporate segment, the Bank established cooperation with selected corporate clients (through different types of lending or investment instruments). All other banking members in the SEE region, where the Group is present, are universal banks, mainly focused on the retail, medium-sized companies, and small enterprise segments. Their primary goal is to provide comprehensive services to clients by applying prudent Risk Management principles. Currently, the acquired Komercijalna Banka, Beograd is predominantly focused on retail and large companies, however, its future strategy will be more focus on retail and SME segment. With acquisition of Komercijalna Banka, Beograd, there were no major changes in the corporate and retail credit portfolio structure. Credit portfolio remains well diversified, there is no large concentration in any specific industry or client segment.

The Group is oriented towards appropriate credit portfolio diversification in order to avoid large concentration. The Group carefully monitors its loan portfolio and new approved loans from different aspects, including their migration and default rate.

In recent years, NLB Group has focused on active NPL management and used the positive momentum of macroeconomic recovery to improve its portfolio quality. The overall slow-down of the economy, caused by COVID-19 pandemic at the end of Q1 2020, had some negative impacts on the existing loan portfolio quality and new loan generation. The Group's credit portfolio quality remained solid with quite stable rating structure and portfolio diversification. The cost of risk increased due to the impact of worsened macroeconomic environment, where its materiality and impacts on the risk profile of the loan portfolio in the future will mostly depend on the length and severity of disruption in corporate operations and average income of private individuals.

Credit Risk appetite
With the aim to maintain the medium-term and long-term sustainability of operations, the Group strives to maintain the adequate quality of the credit portfolio, and increase profitability based on a concept of optimising the ratio between the return and the assumed risks. While maintaining a balanced overall risk profile, NLB will foster the development of micro and small companies to support their evolution into a robust backbone of target market economies. The Group places great emphasis on monitoring the concentration risk (industry, single client/group of related persons) to avoid the exposure to excessive risk. In terms of COVID-19 circumstances, the Group experienced a moderate portfolio deterioration, nevertheless the portfolio quality remained within the acceptable risk appetite limits. In addition, the acquired Komercijalna Banka, Beograd has similar business model to the existing NLB Group, its impact on the Group's credit risk profile was moderate. More detailed guidelines concerning the credit portfolio's quality and its concentration are defined in NLB Group Risk Strategy and NLB Group Risk profile, whereby the target values and limits are the subject of a regular, at least quarterly monitoring.

Credit risk management and mitigation
In its operations, the Group is exposed to credit risk or the risk of losses due to the failure of a debtor to settle its liabilities with the 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 ECB or the Bank of Slovenia, and the EBA guidelines. This area is governed in detail by the internal methodologies and procedures set out in internal acts.

Through regular reviews of the business practices and the credit portfolios of Group members, NLB ensures that the credit risk management of those entities function in accordance with 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, 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. For the purpose of objectively assessing a client's operation comprehensively, internal scoring models for particular client segments have been developed. It is also important to secure high-quality collateral even though it 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. In this part of the credit process, regular monitoring of clients within the Early Warning System (EWS) is important. In the case of client default, restructuring or work-out is initiated depending on the severity of the client position.

- The quality and trends in the credit portfolio, including on-balance and off-balance sheet exposures, are actively monitored, and analysed at the level of the overall portfolio of the Group.

  Comprehensive analyses are regularly performed to assure monitoring of the portfolio quality through time, and to identify any breach of limits or targets. Great emphasis is placed on the evolution of portfolio structure in terms of client segmentation, credit rating structure, structure by stages (based on IFRS9), and NPL ratios. Furthermore, the coverage of NPL is an important indicator of potential future losses that has to be closely monitored.

  In light of the COVID-19 circumstances in 2020, a detailed monitoring of COVID-related transactions has been initiated. The Bank monitors COVID-19-related moratoria in terms of the type of moratoria, the length of the moratoria period granted and the behaviour of loans after the expiration of the grace period.

  Apart from analysing the portfolio as a whole, vintage analysis is used to monitor the quality of new loans production and test the conservativity of the lending standards, which should ensure the portfolio quality is maintained within the Group Risk Appetite.

  Apart from default risk, the portfolio management is also focused on monitoring single name and industry concentration, migration, and FX lending risk. An increasing emphasis is also placed on stress tests that forecast the effects of negative macroeconomic movements on the portfolio, on the level of impairments and provisions, and on capital adequacy. Capital requirements for credit risk at the Group level within the first pillar are calculated according to the standardised approach, while within the second pillar an internal IRB approach is used to estimate the RWA for default, migration, and FX lending risk, while single name concentration add-on is based on the Granularity adjustment methodology and industry concentration add-on is estimated based on the HHI concentration indexes.

The Group is constantly developing a wide range of advanced approaches, supported by mathematical and statistical models, in the area of credit risk assessment in line with best banking practises to further enhance existing risk management tools. In order to manage exposures with higher risk, the Group established several measures, including the introduction of an early warning system and a loan watch committee. The restructuring approaches built in the past are focused on the early warning detection of clients with potential financial difficulties and their proactive resolving. These approaches encompass systematic usage of standardised tools for the timely restructuring of exposures. From the beginning of COVID-19 pandemic, the Group fully respected EBA guidelines on payment moratoria regarding forborne status, nevertheless assessment of borrowers by monitoring the early warning signals gained importance. Respectively, the monitoring systems were upgraded with intention to detect any significant increase in credit risk at an early stage.

Structure and organisation of the credit risk management and control function
The credit risk management function in NLB is organised within the Risk (CRO), headed by the member of the Management Board responsible for the risk area. The credit risk management function is controlled by Global Risk. The Global Risk is in functional and organisational terms separate from other functions where business decisions are adopted, and where a conflict of interest may arise with the risk management function. The head of the risk management function has direct access to the Management Board of NLB, and at the same time unhindered and independent access to the Supervisory Board.

The risk management function is organised in a way that the head of the risk management function obtains the information (and must be informed) by the directors of other OUs in NLB and NLB Group members (primarily directors within risk area) about all major risks and circumstances that influence or could influence the specific development of risks and the risk profile of NLB and NLB Group. The head of the risk management function thus ensures that all major risks in NLB and NLB Group are identified and reported. In Group members, the risk management function is organised according to the local legislation and the Group's guidelines, as defined in "Risk Management Standards in NLB Group." The guidelines on risk management provide the Group members with the main principles, with which they have to align their business policies, organisation, work procedures, and reporting system.

Credit process
General principles of lending to non-financial clients in the Group are:

- The Group finances only clients that it knows (Know Your Client) and trusts, and only those acting according to ethical and moral values, conducting legal business, and transparently disclosing their operations.
- The Group finances only clients with a sufficient level of anticipated free cash flow, as the primary source of repayment. Furthermore, credit approval is not based only on client's financial statements, a comprehensive analysis is done by also considering the client's industry specifics, future cash flow generation capability, the references and competences of owners and management bodies, and critical judgement of future financial plans.
- In COVID-19 circumstances, the Group has offered moratoria in line with the local regulation or non-legislative agreements for clients to overcome the specific circumstances. Nevertheless, the active monitoring of clients and detection of any deterioration of the client credit risk leads to downgrades or transfer to stage 2 even before the expiration of the moratoria period.
- The received collateral cannot influence the client's creditworthiness assessment. The accepted collateral represents a secondary source of repayment as a risk mitigation tool.
- In case of restructuring, the Group primarily follows restructuring criteria and measures with the aim to optimally resolve the client's financial difficulties. Before restructuring, a detailed analysis is performed testing the client's viability to reach sustainable financial indebtedness in mid-term and the willingness to cooperate in the restructuring process. For corporate clients, different economic options are tested and the option that maximises the NPV for the bank is selected.

More detailed principles and rules are defined in NLB Group's Lending policy and measures, and procedures.

For materially important clients of the Group, the credit ratings and the issuance of credit risk opinions are centralised via the Credit Committee of NLB. The process follows the co-decision principle, in which the credit committee of the respective group member first approves their decision, following which the Credit Committee of NLB gives their opinion. The resolution of the Credit Committee of NLB is made on the basis of all available documentation, including a non-binding rating opinion prepared by the underwriting department of NLB (Corporate and Retail Credit Analysis). This same principle and process is also set for the issuing of credit exposures for materially important clients of the Group.

As part of credit granting process, the Validation and Control function ensures that all contractual covenants are met, before the funds are actually transferred, including the minimum pre-conditions regarding collateral. By following strict procedures before credit transfer, the bank makes sure to have credit risk mitigation measures in place for the case of repayment problems.

Restructuring and collection
The Group banking members have an early warning system in place for identifying increased credit risk and thus, in a systematic manner, identifies in the early stage the clients with high credit risk for inclusion on the watch list, or for commencing the process of restructuring. An action plan is compiled for such clients and its implementation is regularly monitored with the aim of implementing the measures for the improvement of the client's financial position.

In the segment of restructuring, the Group performs different measures in order to ensure financial and business restructuring of the clients, with the purpose to proactively prevent them becoming non-performing clients, while in contrast, it performs different restructuring measures with already non-performing clients when the client's business model is assessed as viable. The focus is on a fast and active approach in order to start to resolve the client's financial difficulties in the early stages. Minimum activities for the Group members are set in the standards "Restructuring and Non-performing loan management in NLB Group Members."

Those clients whose business model is not assessed as viable, do not meet the criteria for restructuring and are transferred to the Work-out and Legal Support Unit. In line with the relevant methodologies that regulate legal collection area, clients must be transferred from the sales segments into a special and separate unit for managing non-performing loans in the process of work-out, while the sales units must focus only on the healthy part of the credit portfolio.

Within the framework of NPL management, the Group uses a wide range of possible collection measures. The principal mission in the work-out area is to optimally resolve the collection of unpaid claims through (out of) court and by conducting litigation, which also requires constant professional and ethical communication with third parties. Other approaches to resolve NPL are liquidation of collateral, where the bank established a group of real-estate management specialists to enable optimal recovery. Furthermore, individual or package sales of claims are performed, and finally unpaid part of facilities are written-off based on Bank of Slovenia guidelines or similar regulations on subsidiaries home markets. The Group's goal is to achieve the maximum value of repayments, and thus minimise the losses with the existing NPL portfolio.

NPL Management and Reduction Strategy on the level of Group describes all aforementioned NPL management and reduction measures and sets anticipated results of single measures and mid-term objectives in terms of NPL reduction. Targets defined in the NPL Strategy and yearly budget are regularly monitored and revised at least on a yearly basis.

Internal control assessment in credit risk function
Internal audit regularly monitors and reviews the area of credit risk management, based on identified and assessed risks in the process of planning audits and regulatory required reviews.

In 2020, Internal Audit performed several reviews in the area of credit risk management and mitigation. Additionally, due to *ad hoc* changes regarding COVID-19 pandemic situation few reviews related to moratoria have been performed. As the leading strengths, they identified an enhanced automatisation, efficient key controls in credit process and underway process optimisation activities. Also, Cross Border financing concept was assessed as well-defined. Internal Audit assessed that the quality of housing portfolio is good and the requirements of Regulation on macroprudential restriction on household lending are followed and implemented in the lending process. With regards to NPL, continuous reduction of NPLs portfolio with active NPL management and comprehensive renewal of the end-to-end collection process were also assessed as strengths of credit risk management process.

Internal Audit also identified certain possibilities for improvements in credit risk management process. A changing and very complex regulatory environment was identified as one of the major challenges for the bank/group. Identified shortcomings were addressed with adequate audit recommendations to responsible organisation units. The implementation of recommendations is regularly followed.

Compliance in credit risk function
The NLB Group Code of Conduct (**https://www.nlb.si/code-of-conduct**) obliges all employees within NLB and other Group members to follow internal rules and procedures, as well as to comply with relevant regulatory requirements, *inter alia* also in the area of managing credit risk. Therefore, they must respect the rules regulating the credit processes, the rules arising from the investment policies regarding natural persons and legal entities, including limits set to manage credit risk. They must also respect the core principles and values that are prescribed by NLB Group Code of Conduct. The latter stipulates, *inter alia*, that NLB and other Group members have zero tolerance for misconduct related to fraud or other types of harmful behaviour, including breaches of limits and other risk management-related measures to ensure business within the risk management policies and procedures on a daily basis.

The system of internal controls in NLB and other core members of the Group also includes the close integration of the compliance function into credit risk management processes in terms of preventing harmful practices, improving the control environment to manage compliance and integrity risks, identifying and assessing risks in specific financing processes, and in the context of investigations into reported suspected harmful conduct.

During 2020, Compliance and Integrity closely cooperated with credit risk management in supporting the identification and management of compliance and integrity risk, as well as reputation risk related to proposed investments of the bank, including AML/CTF, personal data protection, and information security risks. These assessments are also an integral part of major changes of the bank's business or internal processes (usually managed through a project management approach) to enable the Bank to foresee risks related to changes in credit risk management policies, processes, and methodologies (this approach is followed for other risks, as well). The same approach to manage credit risks, compliance risks and other types of risks is followed when assessing risks related to new or existing products which the Bank offers to its clients, i.e. before introducing a new product or when regularly assessing the existing products and services of the Bank.

Furthermore, as part of fraud prevention and management, Compliance and Integrity monitors all information communicated in relation to any deviations from standard procedures, and is actively involved in the conduct of investigations, corrective actions, and issuing recommendations to eliminate any irregularities detected and possible damage in cases where suspected of fraudulent or other types of harmful behaviour. This approach was used in 2020 as a standard procedure for compliance functions in the Group.

5.2. General quantitative information on credit risk
(Article 442 c, 444 e, and 453 f and g of CRR)

Table 19 – EU CRB-B – Total and average net amount of exposures of NLB Group

	2020		2019	
	Net value of exposures at the end of the period	**Average net exposures over the period**	**Net value of exposures at the end of the period**	**Average net exposures over the period**
Central governments or central banks	7,187,927	5,503,610	4,454,581	3,929,026
Regional governments or local authorities	218,977	160,376	132,965	133,781
Public sector entities	322,691	194,368	150,664	122,048
Multilateral development banks	90,506	88,553	107,057	95,659
International organisations	25,010	25,134	25,225	29,105
Institutions	1,039,648	842,639	738,346	790,126
Corporates	3,916,888	3,644,567	3,489,022	3,364,606
Of which: SMEs	1,598,248	1,541,690	1,458,433	1,297,173
Retail	6,893,324	5,708,438	5,109,369	4,834,802
Of which: SMEs	2,119,511	1,696,074	1,410,425	1,164,898
Secured by mortgages on immovable property	1,001,423	974,039	975,744	856,916
Of which: SMEs	189,224	182,099	169,509	150,493
Exposures in default	205,596	165,984	156,110	185,103
Items associated with particularly high risk	348,980	253,801	201,050	142,850
Covered bonds	355,290	356,397	359,609	344,394
Collective investments undertakings	57,694	52,666	51,718	50,390
Equity exposures	35,094	19,846	19,012	21,773
Other exposures	988,028	759,715	676,682	653,084
Total standardised approach	**22,687,075**	**18,750,134**	**16,647,152**	**15,553,661**
Total	**22,687,075**	**18,750,134**	**16,647,152**	**15,553,661**

The highest net exposure is reached in the segments of Retail, Central government and central banks, and the Corporate segment. The highest increase of net exposure compared to 31 December 2019 is shown in the segment of Central government or central banks and in the Retail segment (acquisition of Komercijalna Banka, Beograd).

5.3. Geographical breakdown of exposures
(Article 442 d of CRR)

Table 20 – EU CRB-C – Geographical breakdown of exposures of NLB Group

31.12.2020	Slovenia	Serbia	North Macedonia	Bosnia and Herzegovina	Kosovo	Montenegro	Other countries	Total
Central governments or central banks	2,746,365	1,924,305	473,100	416,498	208,814	146,572	1,272,273	7,187,927
Regional governments or local authorities	70,738	48,637	961	69,399	-	6,470	22,772	218,977
Public sector entities	50,979	158,104	23,522	73,123	15	3,316	13,631	322,691
Multilateral development banks	-	-	-	-	-	-	90,506	90,506
International organisations	-	-	-	-	-	-	25,010	25,010
Institutions	23,392	38,293	10,590	7,083	708	1,996	957,586	1,039,648
Corporates	2,279,411	495,429	265,894	332,896	224,814	130,052	188,391	3,916,888
Retail	2,880,017	1,654,920	830,216	710,563	379,949	423,682	13,978	6,893,324
Secured by mortgages on immovable property	998,304	-	-	-	-	-	3,120	1,001,423
Exposures in default	94,434	47,312	18,894	9,998	3,332	25,039	6,589	205,596
Items associated with particularly high risk	63,076	131,206	41,112	15,811	78,772	12,338	6,664	348,980
Covered bonds	-	-	-	-	-	-	355,290	355,290
Collective investments undertakings	52,066	5,628	-	-	-	-	-	57,694
Equity exposures	7,996	726	525	98	-	3	25,745	35,094
Other exposures	352,399	291,428	96,336	100,921	42,151	96,820	7,972	988,028
Total standardised approach	**9,619,176**	**4,795,987**	**1,761,151**	**1,736,389**	**938,555**	**846,289**	**2,989,528**	**22,687,075**
Total	**9,619,176**	**4,795,987**	**1,761,151**	**1,736,389**	**938,555**	**846,289**	**2,989,528**	**22,687,075**

31.12.2019	Slovenia	Serbia	North Macedonia	Bosnia and Herzegovina	Kosovo	Montenegro	Other countries	Total
Central governments or central banks	1,963,420	166,357	365,432	305,768	151,956	116,232	1,385,416	4,454,581
Regional governments or local authorities	62,392	-	2,238	37,905	-	7,482	22,947	132,965
Public sector entities	38,746	30,455	23,029	41,988	15	2,896	13,536	150,664
Multilateral development banks	-	-	-	-	-	-	107,057	107,057
International organisations	-	-	-	-	-	-	25,225	25,225
Institutions	21,873	2,233	8,065	4,784	1,689	542	699,160	738,346
Corporates	2,390,985	146,867	260,400	254,767	219,429	83,968	132,605	3,489,022
Retail	2,591,154	411,305	780,281	627,757	380,402	306,970	11,500	5,109,369
Secured by mortgages on immovable property	972,966	-	-	-	-	-	2,778	975,744
Exposures in default	98,322	10,662	15,701	5,409	1,555	19,475	4,986	156,110
Items associated with particularly high risk	69,584	16,449	16,319	17,254	58,608	14,570	8,266	201,050
Covered bonds	-	-	-	-	-	-	359,609	359,609
Collective investments undertakings	51,718	-	-	-	-	-	-	51,718
Equity exposures	10,906	-	526	98	-	-	7,481	19,012
Other exposures	303,416	61,618	108,844	82,835	34,662	72,463	12,844	676,682
Total standardised approach	**8,575,483**	**845,947**	**1,580,836**	**1,378,565**	**848,315**	**624,598**	**2,793,409**	**16,647,152**
Total	**8,575,483**	**845,947**	**1,580,836**	**1,378,565**	**848,315**	**624,598**	**2,793,409**	**16,647,152**

The table shows net exposures by country. The materiality threshold was determined in such a way, that all countries where the Group has banking subsidiaries are included. In this display, exposures to ‘Other countries’ have thresholds below 3.7%, of which France has 1.7% and the rest of countries are below 1,5%.The net exposure at the end of 2020 in Slovenia represents 42% of the total, followed by Serbia (21%), North Macedonia and Bosnia and Herzegovina (each 8%), and Kosovo and Montenegro (each 4%). Other countries mostly include different EU member states, where the bulk of exposure is on Central government and Institutions for liquidity management purposes.

Compared to end of 2019, the net exposure in Slovenia increased mainly on the Central governments or central banks segment and on the Retail segment. NLB as a parent bank maintained its leading position in the Retail segment in Slovenia. In other markets of the Group, net exposures increased mainly in Retail and Central governments or central banks segments due to acquisition of Komercijalna Banka, Beograd.

5.4. Concentration of exposures by industry or counterparty types
(Article 442 e of CRR)

Table 21 – EU CRB-D – Concentration of exposures by industry or counterparty types of NLB Group

31.12.2020	Agriculture, forestry and fishing	Mining and quarrying	Manufac-turing	Electricity, gas, steam and air conditioning supply	Water supply	Constru-ction	Wholesale and retail trade	Transport and storage	Accommo-dation and food service activities	Information and communi-cation	Real estate activities	Professional, scientific and technical activities	Admini-strative and support service activities	Public admini-stration and defence, compulsory social security	Education	Human Health services and social work activities	Arts, entertain-ment and recreation	Other services	Total
Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,187,926	7,187,926
Regional governments or local authorities	26	-	-	-	-	258	1,094	-	-	-	24	119	20	216,600	-	94	84	658	218,977
Public sector entities	8,414	3,293	2,341	95,533	21,731	5,008	375	21,189	1,597	25,049	177	18,994	2,067	69,051	5,114	13,649	6,360	22,747	322,691
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	90,506	90,506
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,010	25,010
Institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,039,648	1,039,648
Corporates	43,905	66,705	919,647	272,322	30,557	310,084	758,381	555,759	40,817	245,532	129,766	219,633	97,560	-	5,236	19,437	10,193	191,354	3,916,888
Retail	232,330	9,091	393,803	9,499	15,001	303,365	559,082	165,798	49,850	44,613	10,316	231,948	39,478	2,075	5,625	14,926	9,479	4,797,045	6,893,324
Secured by mortgages on immovable property	4,311	43	103,098	1,954	3,530	15,681	46,016	33,356	15,457	3,229	12,592	11,237	4,996	641	480	3,210	1,363	740,229	1,001,423
Exposures in default	3,483	14	23,195	32	550	8,717	46,669	21,557	21,416	4,574	2,115	8,503	1,793	13	479	1,672	3,052	57,760	205,596
Items associated with particularly high risk	2,449	4,513	30,021	32,136	-	156,792	6,499	1,860	27,029	86	83,147	1,954	1,315	-	19	37	22	1,100	348,979
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	355,290	355,290
Collective investments undertakings	-	-	1,298	-	-	-	-	-	-	-	-	-	-	-	-	-	-	56,396	57,694
Equity exposures	-	-	-	-	-	-	-	-	-	11,504	-	4	-	-	-	-	10	23,576	35,094
Other exposures	2	-	43,400	1	1	1,786	448	262	3	4,041	23,210	680	607	13	46	-	208	913,321	988,028
Total standardised approach	**294,919**	**83,659**	**1,516,804**	**411,478**	**71,370**	**801,689**	**1,418,565**	**799,781**	**156,169**	**338,629**	**261,346**	**493,073**	**147,836**	**288,393**	**16,999**	**53,025**	**30,772**	**15,502,567**	**22,687,074**
Total	**294,919**	**83,659**	**1,516,804**	**411,478**	**71,370**	**801,689**	**1,418,565**	**799,781**	**156,169**	**338,629**	**261,346**	**493,073**	**147,836**	**288,393**	**16,999**	**53,025**	**30,772**	**15,502,567**	**22,687,074**

31.12.2019	Agriculture, forestry and fishing	Mining and quarrying	Manufac-turing	Electricity, gas, steam and air conditioning supply	Water supply	Constru-ction	Wholesale and retail trade	Transport and storage	Accommo-dation and food service activities	Information and communi-cation	Real estate activities	Professional, scientific and technical activities	Admini-strative and support service activities	Public admini-stration and defence, compulsory social security	Education	Human Health services and social work activities	Arts, entertain-ment and recreation	Other services	Total
Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,454,581	4,454,581
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	50	28	132,888	-	-	-	-	132,965
Public sector entities	4,675	3,502	4,821	6,599	2,546	110	51	3,050	4,541	30,849	4,518	3,185	79	54,024	5,909	699	1,910	19,594	150,664
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	107,057	107,057
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,225	25,225
Institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	738,346	738,346
Corporates	34,058	10,420	888,744	234,821	35,275	203,348	625,280	598,390	41,645	205,541	107,646	195,211	119,663	-	1,779	11,901	14,287	161,012	3,489,022
Retail	97,566	5,295	261,960	14,887	11,237	222,260	427,819	110,961	25,330	34,684	13,930	76,455	45,028	545	5,226	11,193	7,613	3,737,380	5,109,369
Secured by mortgages on immovable property	5,389	257	87,595	65	4,245	10,007	43,108	37,210	14,537	5,544	4,236	21,818	2,481	785	576	2,514	1,669	733,706	975,744
Exposures in default	2,290	481	21,201	1,726	53	15,648	44,879	4,147	2,642	686	172	14,441	1,253	2	46	2,419	766	43,259	156,110
Items associated with particularly high risk	-	-	25,897	7,010	-	91,468	8,532	219	5,148	4	35,805	4,505	1,435	-	-	1	4	21,022	201,050
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	359,609	359,609
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	51,718	51,718
Equity exposures	-	-	-	-	-	-	-	-	3,290	7,950	-	-	-	-	-	-	-	7,772	19,012
Other exposures	-	-	27,856	2	-	2,804	312	218	3	3,167	37,912	338	2	6	26	-	154	603,883	676,682
Total standardised approach	**143,978**	**19,956**	**1,318,075**	**265,110**	**53,356**	**545,644**	**1,149,981**	**754,195**	**97,135**	**288,425**	**204,220**	**316,002**	**169,970**	**188,250**	**13,561**	**28,728**	**26,402**	**11,064,163**	**16,647,152**
Total	**143,978**	**19,956**	**1,318,075**	**265,110**	**53,356**	**545,644**	**1,149,981**	**754,195**	**97,135**	**288,425**	**204,220**	**316,002**	**169,970**	**188,250**	**13,561**	**28,728**	**26,402**	**11,064,163**	**16,647,152**

The prevailing industries at the end of 2020 are Manufacturing, Wholesale, and Retail trade. Other services include segments that cannot be attributed to an industry for example Central government, Institutions, and Retail. The highest increase in net exposure was noticed in the Construction and Wholesale and the Retail trade sector as a result of acquisition of Komercijalna Banka, Beograd.

5.5. Maturity of exposures
(Article 442 f of CRR)

Table 22 – EU CRB-E – Maturity of on-balance exposures of NLB Group

	Net exposure value				
31.12.2020	**On demand**	**Up to1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Central governments or central banks	4,049,025	819,165	2,020,346	292,119	7,180,655
Regional governments or local authorities	-	5,404	52,675	156,583	214,662
Public sector entities	-	22,395	178,677	79,354	280,426
Multilateral development banks	-	12,614	60,129	17,762	90,505
International organisations	-	-	24,512	499	25,010
Institutions	384,688	195,512	287,428	83,563	951,191
Corporates	72,750	461,306	1,188,672	944,903	2,667,631
Retail	-	746,662	2,615,213	1,814,854	5,176,728
Secured by mortgages on immovable property	-	117,422	210,082	634,945	962,450
Exposures in default	-	71,439	49,435	61,922	182,796
Items associated with particularly high risk	131	16,655	86,270	145,986	249,042
Covered bonds	-	4,308	275,226	75,756	355,290
Collective investments undertakings	-	4,340	-	53,354	57,694
Equity exposures	-	-	-	35,094	35,094
Other exposures	507,968	163,800	101,564	213,381	986,712
Total standardised approach	**5,014,562**	**2,641,023**	**7,150,229**	**4,610,075**	**19,415,888**
Total	**5,014,562**	**2,641,023**	**7,150,229**	**4,610,075**	**19,415,889**

	Net exposure value				
31.12.2019	**On demand**	**Up to1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Central governments or central banks	1,869,278	716,815	1,072,508	773,698	4,432,299
Regional governments or local authorities	-	3,526	33,280	94,640	131,446
Public sector entities	-	22,557	56,627	52,896	132,080
Multilateral development banks	-	36,951	39,558	30,547	107,057
Institutions	192,171	159,160	240,966	65,450	657,746
Corporates	64,589	650,655	908,095	747,836	2,371,174
Retail	-	692,466	1,617,398	1,579,480	3,889,344
Secured by mortgages on immovable property	-	83,123	250,868	627,242	961,232
Exposures in default	-	35,224	35,994	40,898	112,116
Items associated with particularly high risk	-	24,207	34,796	67,072	126,076
Covered bonds	-	-	273,609	86,000	359,609
Collective investments undertakings	-	6	-	51,712	51,718
Equity exposures	-	-	-	19,012	19,012
Other exposures	339,896	67,201	101,357	166,993	675,448
Total standardised approach	**2,465,934**	**2,491,891**	**4,682,458**	**4,411,298**	**14,051,581**
Total	**2,465,934**	**2,491,891**	**4,682,458**	**4,411,298**	**14,051,581**

At the end of 2020, 36.8% of net on-balance exposure has remaining maturity ‘1 year to 5 years,’ followed by the ‘On demand’ category with 25.8% and ‘Over 5 years’ with 23.7%. In the last year, the highest increase was noticed in the ‘On demand’ category, followed closely by an increase in the ‘1 year to 5 years’ category.

5.6. Credit quality of exposures by exposure class and instrument types

(Article 442 g and h of CRR)

Table 23 – EU CR1-A – Credit quality of exposures by exposure class and instrument types of NLB Group

	31.12.2020	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
		Defaulted exposures	Non-defaulted exposures					
16	Central governments or central banks	-	7,199,789	-	11,863	-	4,388	7,187,927
17	Regional governments or local authorities	-	223,685	-	4,708	-	1,475	218,977
18	Public sector entities	-	327,060	-	4,369	-	(304)	322,691
19	Multilateral development banks	-	90,525	-	19	-	1	90,506
20	International organisations	-	25,120	-	110	-	82	25,010
21	Institutions	-	1,040,586	-	938	2	(289)	1,039,648
22	Corporates	226	3,972,721	1,186	54,874	1	3,893	3,916,887
23	*Of which: SMEs*	226	1,633,458	1,186	34,250	1	5,136	1,598,248
24	Retail	-	6,953,476	-	60,152	29	9,543	6,893,324
25	*Of which: SMEs*	-	2,144,935	-	25,424	13	7,976	2,119,511
26	Secured by mortgages on immovable property	-	1,004,862	-	3,439	2	304	1,001,423
27	*Of which: SMEs*	-	191,580	-	2,356	2	975	189,224
28	Exposures in default	437,264	-	231,668	-	46,592	40,605	205,596
29	Items associated with particularly high risk	75,677	341,102	59,033	8,767	7,082	2,822	348,980
30	Covered bonds	-	355,696	-	406	-	(13)	355,290
32	Collective investments undertakings	-	57,694	-	-	-	-	57,694
33	Equity exposures	12	35,082	-	-	-	-	35,094
34	Other exposures	593	987,631	21	175	3	(225)	988,028
35	***Total standardised approach***	**513,772**	**22,615,029**	**291,908**	**149,818**	**53,711**	**62,281**	**22,687,075**
36	***Total***	**513,772**	**22,615,029**	**291,908**	**149,818**	**53,711**	**62,281**	**22,687,075**
37	Of which: Loans	465,980	9,874,441	267,511	117,994	53,711	57,364	9,954,915
38	Of which: Debt securities	798	4,949,925	798	12,371	-	4,435	4,937,554
39	Of which: Off- balance-sheet exposures	46,399	3,266,964	23,599	18,577	-	482	3,271,186

	30.06.2020	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
		Defaulted exposures	Non-defaulted exposures					
16	Central governments or central banks	-	5,170,770	-	7,872	-	402	5,162,897
17	Regional governments or local authorities	-	149,357	-	3,810	-	582	145,547
18	Public sector entities	-	162,666	-	2,837	-	298	159,829
19	Multilateral development banks	-	91,717	-	19	-	1	91,698
20	International organisations	-	25,277	-	70	-	42	25,207
21	Institutions	-	695,371	-	716	1	(502)	694,655
22	Corporates	223	3,636,625	224	57,760	1	6,021	3,578,864
23	*Of which: SMEs*	223	1,557,797	224	30,961	1	933	1,526,835
24	Retail	-	5,422,154	-	55,273	9	7,737	5,366,881
25	*Of which: SMEs*	-	1,629,363	-	20,413	7	4,358	1,608,949
26	Secured by mortgages on immovable property	-	957,596	-	4,104	2	1,565	953,493
27	*Of which: SMEs*	-	180,946	-	2,890	2	1,006	178,056
28	Exposures in default	367,080	-	213,198	-	13,434	14,000	153,882
29	Items associated with particularly high risk	75,655	204,888	53,972	7,008	-	2,801	219,563
30	Covered bonds	-	356,170	-	410	-	(10)	355,760
32	Collective investments undertakings	-	51,191	-	-	-	-	51,191
33	Equity exposures	-	12,391	-	-	-	-	12,391
34	Other exposures	487	721,137	25	271	-	(144)	721,327
35	***Total standardised approach***	**443,445**	**17,657,309**	**267,420**	**140,149**	**13,447**	**32,793**	**17,693,185**
36	***Total***	**443,445**	**17,657,309**	**267,420**	**140,149**	**13,447**	**32,793**	**17,693,185**
37	Of which: Loans	395,861	7,856,390	244,939	111,481	13,447	30,299	7,895,831
38	Of which: Debt securities	798	3,421,206	798	8,148	-	242	3,413,058
39	Of which: Off- balance-sheet exposures	46,253	2,885,763	21,683	19,773	-	2,026	2,890,561

	31.12.2019	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
		Defaulted exposures	Non-defaulted exposures					
16	Central governments or central banks	-	4,462,173	-	7,592	-	1,379	4,454,581
17	Regional governments or local authorities	-	136,196	-	3,231	-	719	132,965
18	Public sector entities	-	153,101	-	2,437	-	181	150,664
19	Multilateral development banks	-	107,075	-	18	-	(10)	107,057
20	International organisations	-	25,252	-	28	-	7	25,225
21	Institutions	-	738,974	-	629	3	(1,228)	738,346
22	Corporates	249	3,533,690	224	44,693	9	(1,565)	3,489,022
23	*Of which: SMEs*	249	1,486,715	224	28,307	9	9,858	1,458,433
24	Retail	-	5,156,443	-	47,074	221	(5,656)	5,109,369
25	*Of which: SMEs*	-	1,427,072	-	16,647	36	(181)	1,410,425
26	Secured by mortgages on immovable property	-	978,427	-	2,684	-	(8,334)	975,744
27	*Of which: SMEs*	-	171,330	-	1,821	-	767	169,509
28	Exposures in default	370,731	-	214,622	-	105,638	6,437	156,110
29	Items associated with particularly high risk	73,268	186,072	53,143	5,147	29,855	(5,689)	201,050
30	Covered bonds	-	360,037	-	428	-	99	359,609
32	Collective investments undertakings	-	51,718	-	-	-	-	51,718
33	Equity exposures	3,290	15,722	-	-	-	-	19,012
34	Other exposures	538	676,322	26	152	2	342	676,682
35	***Total standardised approach***	**448,076**	**16,581,203**	**268,014**	**114,112**	**135,727**	**(13,318)**	**16,647,152**
36	***Total***	**448,076**	**16,581,203**	**268,014**	**114,112**	**135,727**	**(13,318)**	**16,647,152**
37	Of which: Loans	372,579	7,753,296	240,376	90,290	135,727	(14,997)	7,795,209
38	Of which: Debt securities	798	3,741,975	798	7,943	-	1,367	3,734,031
39	Of which: Off- balance-sheet exposures	70,833	2,566,933	26,840	15,354	-	312	2,595,572

In 2020, gross exposure increased by EUR 6.1 billion (of which KB Group EUR 4.6 billion), mostly in the segment Central government or central banks (NLB Group EUR 2.7 billion, of which KB Group EUR 1.8 billion) and Retail segment (NLB Group EUR 1.8 billion, of which KB Group EUR 1.2 billion). The volume of general credit risk adjustment also increased by EUR 35.7 million, mostly due to increase of corporate and retail exposure.

Table 24 – EU CR1-B – Credit quality of exposures by industry or counterparty types of NLB Group

	Gross carrying values of						
31.12.2020	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
Agriculture, forestry and fishing	8,755	295,641	5,271	4,206	516	3,838	294,919
Mining and quarrying	60	84,917	46	1,271	18	646	83,659
Manufacturing	55,045	1,514,636	31,850	21,027	5,707	8,195	1,516,804
Electricity, gas, steam and air conditioning supply	113	416,397	81	4,951	3	364	411,478
Water supply	2,901	71,581	2,350	761	142	2,185	71,370
Construction	45,318	797,229	29,203	11,654	11,407	(2,711)	801,689
Wholesale and retail trade	121,725	1,392,746	73,734	22,172	6,022	2,145	1,418,565
Transport and storage	35,165	784,814	13,399	6,799	2,137	4,132	799,781
Accommodation and food service activities	33,541	136,306	9,971	3,708	222	5,056	156,169
Information and communication	6,190	340,797	1,597	6,762	1,333	3,235	338,629
Real estate activities	15,111	258,545	8,931	3,378	700	(2,534)	261,346
Professional, scientific and technical activities	47,308	487,356	37,819	3,771	3,341	4,357	493,073
Administrative and support service activities	5,127	147,784	3,334	1,741	257	2,246	147,836
Public administration and defence, compulsory social security	367	293,857	354	5,477	-	4,672	288,394
Education	1,132	17,017	653	498	1	392	16,999
Human health services and social work activities	3,905	52,007	2,233	654	3	312	53,025
Arts, entertainment and recreation	6,019	28,132	2,895	484	410	1,846	30,772
Other services	125,990	15,495,266	68,186	50,503	21,491	23,904	15,502,566
Total	**513,772**	**22,615,029**	**291,908**	**149,818**	**53,711**	**62,280**	**22,687,075**

	Gross carrying values of						
30.06.2020	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
Agriculture, forestry and fishing	7,081	158,365	4,978	3,112	182	2,634	157,356
Mining and quarrying	64	26,834	50	515	1	181	26,333
Manufacturing	46,427	1,403,263	29,414	26,434	920	8,320	1,393,842
Electricity, gas, steam and air conditioning supply	2,912	323,818	1,559	4,576	2	1,449	320,595
Water supply	329	59,658	240	836	-	232	58,912
Construction	60,413	619,719	39,731	10,784	1,110	1,375	629,617
Wholesale and retail trade	117,733	1,182,532	71,468	17,679	622	1,164	1,211,118
Transport and storage	17,929	748,668	13,382	5,987	122	2,684	747,227
Accommodation and food service activities	18,288	108,030	6,630	2,885	69	1,701	116,803
Information and communication	4,399	282,507	2,591	5,654	2	1,914	278,662
Real estate activities	16,362	207,055	11,489	3,663	32	(540)	208,264
Professional, scientific and technical activities	39,739	412,082	25,389	4,129	72	1,421	422,303
Administrative and support service activities	4,716	139,922	2,600	1,417	4	932	140,621
Public administration and defence, compulsory social security	318	206,131	317	4,718	-	605	201,414
Education	34	17,642	14	734	-	(8)	16,928
Human health services and social work activities	4,197	28,510	2,149	519	1	101	30,039
Arts, entertainment and recreation	1,605	23,572	694	726	3	33	23,757
Other services	100,899	11,709,001	54,725	45,781	10,306	8,595	11,709,394
Total	**443,445**	**17,657,309**	**267,420**	**140,149**	**13,447**	**32,793**	**17,693,185**

	Gross carrying values of						
31.12.2019	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
Agriculture, forestry and fishing	7,625	144,066	5,334	2,378	1,826	979	143,978
Mining and quarrying	1,788	19,800	1,307	326	1,683	(1,086)	19,956
Manufacturing	53,037	1,313,103	31,804	16,261	15,988	(377)	1,318,075
Electricity, gas, steam and air conditioning supply	3,503	266,133	1,775	2,750	1	1,143	265,110
Water supply	110	53,905	57	601	43	90	53,356
Construction	63,719	527,545	38,832	6,788	32,321	(3,769)	545,644
Wholesale and retail trade	121,554	1,120,435	74,969	17,040	46,878	(158)	1,149,981
Transport and storage	16,272	753,332	11,916	3,493	436	(6,857)	754,195
Accommodation and food service activities	10,861	93,363	4,929	2,159	863	1,552	97,135
Information and communication	2,127	291,163	1,434	3,430	27	213	288,425
Real estate activities	16,534	203,742	11,600	4,456	9,023	(5,271)	204,220
Professional, scientific and technical activities	44,174	299,186	25,244	2,114	4,032	3,358	316,002
Administrative and support service activities	3,539	170,570	2,284	1,855	882	(264)	169,970
Public administration and defence, compulsory social security	329	192,368	327	4,120	6	(159)	188,250
Education	63	14,098	17	583	5	133	13,562
Human health services and social work activities	4,546	26,834	2,127	525	57	25	28,728
Arts, entertainment and recreation	1,526	26,280	681	722	54	(4)	26,402
Other services	96,771	11,065,279	53,376	44,512	21,604	(2,866)	11,064,163
Total	**448,076**	**16,581,203**	**268,014**	**114,112**	**135,727**	**(13,318)**	**16,647,152**

Manufacturing (representing around 7% of total gross exposure) and Wholesale and the Retail trade (6%) remain the strongest industries at the end of 2020, each. Non-defaulted exposures increased most in the Manufacturing, Wholesale, and Retail Trade segments, and in the Construction industry (EUR 743 million, o/w KB Group EUR 576 million). Other services represent all client segments that are not considered non-financial corporations (including Central government, Retail, and Institutions).

Table 25 – EU CR1-C – Credit quality of exposures by geography of NLB Group

	Gross carrying values of						
31.12.2020	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
Slovenia	182,422	9,561,329	83,899	40,677	10,513	2,686	9,619,176
Serbia	70,703	4,761,277	18,501	17,492	7,767	26,134	4,795,987
North Macedonia	63,955	1,769,276	45,054	27,026	10,221	(22,612)	1,761,151
Bosnia and Herzegovina	67,325	1,746,810	55,366	22,379	9,272	13,263	1,736,389
Kosovo	20,504	961,894	17,167	26,675	46	19,737	938,555
Montenegro	81,781	826,803	51,977	10,318	5,789	15,006	846,289
Other countries	27,082	2,987,640	19,943	5,252	10,105	8,068	2,989,528
Total	**513,772**	**22,615,029**	**291,908**	**149,818**	**53,711**	**62,281**	**22,687,075**

	Gross carrying values of						
30.06.2020	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
Slovenia	170,934	9,669,512	75,471	54,422	4,008	18,285	9,710,553
North Macedonia	58,729	1,666,692	40,450	26,593	1,187	7,872	1,658,378
Bosnia and Herzegovina	47,940	1,405,022	36,374	19,681	5,885	7,993	1,396,907
Kosovo	13,280	886,457	11,981	23,925	2	4,087	863,831
Serbia	34,612	902,021	22,081	6,333	1,770	2,068	908,218
Montenegro	78,648	644,287	50,833	5,908	185	2,184	666,193
Other countries	39,303	2,483,319	30,229	3,288	411	(9,696)	2,489,105
Total	**443,445**	**17,657,309**	**267,420**	**140,149**	**13,447**	**32,793**	**17,693,185**

	Gross carrying values of						
31.12.2019	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
Slovenia	186,399	8,504,231	79,378	35,769	18,677	1,981	8,575,483
North Macedonia	50,567	1,591,286	34,854	26,163	11,620	7,198	1,580,836
Bosnia and Herzegovina	48,563	1,386,506	38,664	17,840	23,631	(3,035)	1,378,565
Kosovo	12,068	867,660	10,490	20,922	2,953	3,591	848,315
Montenegro	73,128	606,334	49,717	5,147	30,163	893	624,598
Serbia	36,103	838,097	23,190	5,063	24,794	777	845,947
Other countries	41,249	2,787,089	31,721	3,209	23,889	(24,723)	2,793,409
Total	**448,076**	**16,581,203**	**268,014**	**114,112**	**135,727**	**(13,318)**	**16,647,152**

Slovenia is the biggest market for NLB Group with 42% of gross exposure at the end of 2020, followed by Serbia (21%), North Macedonia, and Bosnia and Herzegovina (each 8%) and other countries where the Group's banking subsidiaries are established. Nevertheless, the growth rate of gross exposure in countries where banking subsidiaries are established exceeds the growth in Slovenia. The increase of non-default exposures was the highest in Serbia (acquisition of Komercijalna Banka, Beograd).

5.7. Non-performing and forborne exposures
(Article 442 a, b, and i of CRR)

The Bank uses a unified definition of past due and default exposures that is aligned with Article 178 of CRR. The Bank has aligned its definition to the new European Banking Authority (EBA) definition of non-performing loans as at 31.12.2020. Defaulted clients are rated D, DF, or E based on the Bank's internal rating system and contain clients with material delays over 90 days, as well as clients that were assessed as unlikely to pay. The aforementioned new definition brings changes to the retail segments, where the rating is no longer attributed on facility level; all facilities of the same client now obtain a common rating grade.

For all default clients, an assessment of (individual or collective) impairments and provisions is performed. The Bank prepares individual impairments for all defaulted clients exceeding the materiality threshold, while clients with lower exposure obtain collective impairments and provisions. These are based on 100% PD and LGDs applicable based on available collateral and expected repayments from other sources.

A forborne loan (or restructured financial asset) is a financial asset in relation to which forbearance has been introduced. The most frequent forbearance measures in the Group are, but not limited to:

- an extension or forbearance on asset repayment,
- lower interest rates,
- a lower amount of receivables resulting from a contractually agreed debt waiver and ownership restructuring,
- debt-to-equity swap,
- a takeover of other assets (including collateral liquidation) for a full or partial repayment.

Forbearance status is a trigger for transferring the facility to stage 2, where lifetime impairments and provisions are applied. In 2020, the Group granted COVID-19 related moratoria, which when aligned with the EBA definition of legislative and non-legislative COVID-19 moratoria, did not authomatically obtain the forbearance status.

Table 26 – NPL Template 1 – Credit quality of forborne exposures of NLB Group

31.12.2020	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-performing forborne						
	Performing forborne	Total	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures	Total	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
Loans and advances	**55,354**	**255,984**	**255,984**	**248,448**	**(5,761)**	**(148,908)**	**142,714**	**107,295**
General governments	1,050	292	292	292	(5)	(292)	-	3,131
Other financial corporations	50	2,375	2,375	2,375	-	(2,375)	50	-
Non-financial corporations	33,882	228,601	228,601	221,065	(4,739)	(137,086)	114,395	90,788
Households	20,372	24,716	24,716	24,716	(1,017)	(9,155)	28,269	13,376
Loan commitments given	942	644	644	644	(4)	(37)	1,332	582
Total	**56,296**	**256,628**	**256,628**	**249,092**	**(5,765)**	**(148,945)**	**144,046**	**107,877**

	30.06.2020	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
		Performing forborne	Total	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures	Total	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
1	**Loans and advances**	**53,881**	**221,916**	**221,916**	**191,862**	**(5,071)**	**(138,304)**	**124,280**	**79,190**
3	General governments	-	5,836	5,836	5,836	-	(2,705)	3,131	3,131
5	Other financial corporations	54	1,943	1,943	1,943	-	(1,943)	54	-
6	Non-financial corporations	44,496	191,035	191,035	160,981	(4,051)	(126,525)	99,692	61,640
7	Households	9,331	23,102	23,102	23,102	(1,020)	(7,131)	21,403	14,419
9	Loan commitments given	1,330	348	348	348	(40)	(331)	722	-
10	**Total**	**55,211**	**222,264**	**222,264**	**192,210**	**(5,111)**	**(138,635)**	**125,002**	**79,190**

	31.12.2019	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
		Performing forborne	Total	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures	Total	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
1	**Loans and advances**	**65,090**	**216,582**	**216,582**	**198,401**	**(4,940)**	**(139,455)**	**131,013**	**72,053**
3	General governments	-	5,945	5,945	5,945	-	(2,725)	3,219	3,219
5	Other financial corporations	24	1,935	1,935	1,935	-	(1,935)	24	-
6	Non-financial corporations	53,970	186,840	186,840	168,659	(4,464)	(128,327)	104,577	54,682
7	Households	11,096	21,862	21,862	21,862	(476)	(6,468)	23,193	14,152
9	Loan commitments given	1,520	894	894	894	(7)	(835)	1,309	60
10	**Total**	**66,610**	**217,476**	**217,476**	**199,295**	**(4,947)**	**(140,290)**	**132,322**	**72,113**

Table 27 – NPL Template 3 – Credit quality of performing and non-performing exposures by past due days of NLB Group

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
31.12.2020	**Total**	**Not past due or past due ≤ 30 days**	**Past due > 30 days ≤ 90 days**	**Total**	**Unlikely to pay that are not past due or are past due ≤ 90 days**	**Past due > 90 days ≤ 180 days**	**Past due > 180 days ≤ 1 year**	**Past due > 1 year ≤ 2 years**	**Past due > 2 years ≤ 5 years**	**Past due > 5 years ≤ 7 years**	**Past due > 7 years**	**Of which defaulted**
Loans and advances	**9,874,701**	**9,792,732**	**81,969**	**465,884**	**210,990**	**24,849**	**32,063**	**50,625**	**41,151**	**14,558**	**91,648**	**465,884**
Central banks	58,296	58,296	-	-	-	-	-	-	-	-	-	-
General governments	430,792	423,283	7,509	395	8	-	356	-	30	1	-	395
Credit institutions	174,631	174,591	40	12	12	-	-	-	-	-	-	12
Other financial corporations	172,821	171,617	1,204	2,840	145	-	3	317	-	2,375	-	2,840
Non-financial corporations	3,792,652	3,780,208	12,444	336,269	147,751	10,165	16,376	32,505	31,106	10,250	88,116	336,269
Of which SMEs	2,306,254	2,294,014	12,240	254,129	97,656	6,858	15,950	31,172	18,862	10,250	73,381	254,129
Households	5,245,509	5,184,737	60,772	126,368	63,074	14,684	15,328	17,803	10,015	1,932	3,532	126,368
Debt securities	**4,964,103**	**4,964,103**	**-**	**798**	**798**	**-**	**-**	**-**	**-**	**-**	**-**	**798**
Central banks	27,529	27,529	-	-	-	-	-	-	-	-	-	-
General governments	3,866,918	3,866,918	-	-	-	-	-	-	-	-	-	-
Credit institutions	938,236	938,236	-	-	-	-	-	-	-	-	-	-
Other financial corporations	34,830	34,830	-	798	798	-	-	-	-	-	-	798
Non-financial corporations	96,590	96,590	-	-	-	-	-	-	-	-	-	-
Off-balance sheet exposures	**3,235,819**			**46,245**								**46,245**
Central banks	129			-								-
General governments	127,762			228								228
Credit institutions	85,011			36								36
Other financial corporations	29,519			24								24
Non-financial corporations	2,306,446			42,960								42,960
Households	686,952			2,997								2,997
Total	**18,074,623**	**14,756,835**	**81,969**	**512,927**	**211,788**	**24,849**	**32,063**	**50,625**	**41,151**	**14,558**	**91,648**	**512,927**

30.06.2020	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
	Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Loans and advances	**7,856,390**	**7,728,785**	**127,605**	**396,087**	**146,920**	**30,767**	**28,896**	**51,281**	**36,178**	**12,332**	**89,713**	**396,087**
Central banks	7	7	-	-	-	-	-	-	-	-	-	
General governments	331,147	331,086	61	7,492	7,111	-	381	-	-	-	-	7,492
Credit institutions	118,415	118,410	5	14	14	-	-	-	-	-	-	14
Other financial corporations	116,430	116,426	4	2,518	19	-	-	317	239	1,943	-	2,518
Non-financial corporations	3,177,323	3,113,844	63,479	288,334	100,500	17,657	14,288	37,425	28,263	9,015	81,186	288,334
Of which SMEs	1,910,617	1,886,110	24,507	222,806	60,471	17,655	14,287	32,192	22,403	9,014	66,784	222,806
Households	4,113,068	4,049,012	64,056	97,729	39,276	13,110	14,227	13,539	7,676	1,374	8,527	97,729
Debt securities	**3,436,180**	**3,436,180**	**-**	**798**	**798**	**-**	**-**	**-**	**-**	**-**	**-**	**798**
Central banks	27,644	27,644	-	-	-	-	-	-	-	-	-	-
General governments	2,514,713	2,514,713	-	-	-	-	-	-	-	-	-	-
Credit institutions	765,185	765,185	-	-	-	-	-	-	-	-	-	-
Other financial corporations	34,871	34,871	-	798	798	-	-	-	-	-	-	798
Non-financial corporations	93,767	93,767	-	-	-	-	-	-	-	-	-	-
Off-balance sheet exposures	**2,849,112**			**46,234**								**46,234**
Central banks	130			-								-
General governments	143,478			66								66
Credit institutions	81,672			36								36
Other financial corporations	15,932			24								24
Non-financial corporations	1,996,353			44,921								44,921
Households	611,547			1,187								1,187
Total	**14,141,682**	**11,164,965**	**127,605**	**443,119**	**147,718**	**30,767**	**28,896**	**51,281**	**36,178**	**12,332**	**89,713**	**443,119**

31.12.2019	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
	Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Loans and advances	**9,515,270**	**9,448,273**	**66,997**	**372,872**	**147,412**	**19,073**	**22,150**	**46,497**	**32,233**	**16,774**	**88,733**	**372,872**
Central banks	1,569,762	1,569,761	1	-	-	-	-	-	-	-	-	-
General governments	311,430	311,414	16	7,695	7,214	1	62	-	318	-	100	7,695
Credit institutions	307,573	307,566	7	15	15	-	-	-	-	-	-	15
Other financial corporations	111,293	111,289	4	2,503	7	-	-	317	244	1,935	-	2,503
Non-financial corporations	3,114,113	3,097,074	17,039	269,408	102,866	9,721	10,974	33,039	22,906	12,441	77,461	269,408
Of which SMEs	1,833,488	1,824,775	8,713	210,093	73,410	9,015	8,239	22,882	21,021	12,440	63,086	210,093
Households	4,101,099	4,051,169	49,930	93,251	37,310	9,351	11,114	13,141	8,765	2,398	11,172	93,251
Debt securities	**3,755,354**	**3,755,354**	**-**	**798**	**798**	**-**	**-**	**-**	**-**	**-**	**-**	**798**
Central banks	66,080	66,080	-	-	-	-	-	-	-	-	-	-
General governments	2,731,971	2,731,971	-	-	-	-	-	-	-	-	-	-
Credit institutions	827,835	827,835	-	-	-	-	-	-	-	-	-	-
Other financial corporations	35,736	35,736	-	798	798	-	-	-	-	-	-	798
Non-financial corporations	93,732	93,732	-	-	-	-	-	-	-	-	-	-
Off-balance sheet exposures	**2,525,249**			**58,996**								**58,996**
Central banks	128			-								-
General governments	30,094			78								78
Credit institutions	72,040			95								95
Other financial corporations	11,837			92								92
Non-financial corporations	1,844,465			57,622								57,622
Households	566,685			1,109								1,109
Total	**15,795,873**	**13,203,627**	**66,997**	**432,666**	**148,210**	**19,073**	**22,150**	**46,497**	**32,233**	**16,774**	**88,733**	**432,666**

Table 28 – NPL Template 4 – Performing and non-performing exposures and related impairments and provisions of NLB Group

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accumu-lated partial write-off	On performing exposures	On non-performing exposures
31.12.2020	**Total**	**Of which stage 1**	**Of which stage 2**	**Total**	**Of which stage 2**	**Of which stage 3**	**Total**	**Of which stage 1**	**Of which stage 2**	**Total**	**Of which stage 2**	**Of which stage 3**			
Loans and advances	**9,874,701**	**9,313,952**	**560,749**	**465,884**	**-**	**433,272**	**(117,997)**	**(77,137)**	**(40,860)**	**(267,510)**	**-**	**(259,974)**	**(53,711)**	**3,696,548**	**245,423**
Central banks	58,296	58,296	-	-	-	-	(30)	(30)	-	-	-	-	-	-	-
General governments	430,792	427,427	3,365	395	-	395	(5,562)	(5,216)	(346)	(390)	-	(390)	(530)	97,253	-
Credit institutions	174,631	174,629	2	12	-	12	(227)	(227)	-	(10)	-	(10)	(8)	10,916	-
Other financial corporations	172,821	171,988	833	2,840	-	2,840	(1,096)	(1,095)	(1)	(2,840)	-	(2,840)	(244)	15,512	-
Non-financial corporations	3,792,652	3,379,504	413,148	336,269	-	303,657	(73,270)	(41,615)	(31,655)	(197,431)	-	(189,895)	(31,277)	2,176,433	126,458
Of which SMEs	2,306,254	2,026,010	280,244	254,129	-	254,053	(54,282)	(29,006)	(25,276)	(157,906)	-	(157,832)	(29,672)	1,442,474	83,598
Households	5,245,509	5,102,108	143,401	126,368	-	126,368	(37,812)	(28,954)	(8,858)	(66,839)	-	(66,839)	(21,652)	1,396,434	118,965
Debt securities	**4,964,103**	**4,963,845**	**258**	**798**	**-**	**798**	**(12,371)**	**(12,343)**	**(28)**	**(798)**	**-**	**(798)**	**-**	**160,112**	**-**
Central banks	27,529	27,529	-	-	-	-	(25)	(25)	-	-	-	-	-	-	-
General governments	3,866,918	3,866,660	258	-	-	-	(11,056)	(11,028)	(28)	-	-	-	-	-	-
Credit institutions	938,236	938,236	-	-	-	-	(985)	(985)	-	-	-	-	-	81,144	-
Other financial corporations	34,830	34,830	-	798	-	798	(164)	(164)	-	(798)	-	(798)	-	7,078	-
Non-financial corporations	96,590	96,590	-	-	-	-	(141)	(141)	-	-	-	-	-	71,890	-
Off-balance-sheet exposures	**3,235,819**	**3,118,560**	**117,260**	**46,245**	**-**	**46,245**	**(18,565)**	**(15,798)**	**(2,767)**	**(23,611)**	**-**	**(23,461)**		**531,920**	**9,848**
Central banks	129	129	-	-	-	-	-	-	-	-	-	-		-	-
General governments	127,762	127,682	80	228	-	228	(337)	(337)	-	(172)	-	(22)		112,376	-
Credit institutions	85,011	85,011	-	36	-	36	(46)	(46)	-	(4)	-	(4)		1,085	-
Other financial corporations	29,519	29,415	104	24	-	24	(108)	(108)	-	(5)	-	(5)		4,759	-
Non-financial corporations	2,306,446	2,193,603	112,844	42,960	-	42,960	(15,529)	(12,897)	(2,632)	(22,270)	-	(22,270)		407,943	9,723
Households	686,952	682,720	4,232	2,997	-	2,997	(2,545)	(2,410)	(135)	(1,160)	-	(1,160)		5,757	125
Total	**18,074,623**	**17,396,357**	**678,267**	**512,927**	**-**	**480,315**	**(148,933)**	**(105,278)**	**(43,655)**	**(291,919)**	**-**	**(284,233)**	**(53,711)**	**4,388,580**	**255,271**

30.06.2020	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accumu-lated partial write-off	On performing exposures	On non-performing exposures
	Total	Of which stage 1	Of which stage 2	Total	Of which stage 2	Of which stage 3	Total	Of which stage 1	Of which stage 2	Total	Of which stage 2	Of which stage 3			
Loans and advances	**7,856,390**	**7,369,245**	**487,145**	**396,087**	**-**	**366,034**	**(111,481)**	**(69,315)**	**(42,166)**	**(244,939)**	**-**	**(239,814)**	**(13,447)**	**3,350,629**	**176,759**
Central banks	7	7	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	331,147	327,368	3,779	7,492	-	7,492	(4,828)	(4,391)	(437)	(3,026)	-	(3,026)	(99)	95,076	3,131
Credit institutions	118,415	118,412	3	14	-	14	(192)	(192)	-	(11)	-	(11)	(7)	997	-
Other financial corporations	116,430	115,254	1,176	2,518	-	2,518	(583)	(580)	(3)	(2,499)	-	(2,499)	(5)	16,650	-
Non-financial corporations	3,177,323	2,805,660	371,663	288,334	-	258,281	(70,351)	(39,264)	(31,087)	(187,022)	-	(181,897)	(2,910)	1,926,573	90,130
Of which SMEs	1,910,617	1,655,602	255,015	222,806	-	222,733	(47,377)	(26,811)	(20,566)	(155,932)	-	(155,859)	(1,998)	1,252,369	58,166
Households	4,113,068	4,002,544	110,524	97,729	-	97,729	(35,527)	(24,888)	(10,639)	(52,381)	-	(52,381)	(10,426)	1,311,333	83,498
Debt securities	**3,436,180**	**3,435,898**	**282**	**798**	**-**	**798**	**(8,148)**	**(8,108)**	**(40)**	**(798)**	**-**	**(798)**	**-**	**154,884**	**-**
Central banks	27,644	27,644	-	-	-	-	(25)	(25)	-	-	-	-	-	-	-
General governments	2,514,713	2,514,431	282	-	-	-	(6,976)	(6,936)	(40)	-	-	-	-	-	-
Credit institutions	765,185	765,185	-	-	-	-	(788)	(788)	-	-	-	-	-	77,174	-
Other financial corporations	34,871	34,871	-	798	-	798	(98)	(98)	-	(798)	-	(798)	-	7,023	-
Non-financial corporations	93,767	93,767	-	-	-	-	(261)	(261)	-	-	-	-	-	70,687	-
Off-balance-sheet	**2,849,112**	**2,751,549**	**97,563**	**46,234**	**-**	**46,234**	**(19,773)**	**(16,560)**	**(3,213)**	**(21,683)**	**-**	**(21,683)**		**311,171**	**10,839**
Central banks	130	130	-	-	-	-	-	-	-	-	-	-		-	-
General governments	143,478	143,407	71	66	-	66	(1,150)	(1,149)	(1)	(11)	-	(11)		19	-
Credit institutions	81,672	81,672	-	36	-	36	(100)	(100)	-	(4)	-	(4)		714	-
Other financial corporations	15,932	15,819	113	24	-	24	(26)	(25)	(1)	(5)	-	(5)		6,142	-
Non-financial corporations	1,996,353	1,902,868	93,485	44,921	-	44,921	(15,581)	(12,501)	(3,080)	(21,190)	-	(21,190)		300,105	10,717
Households	611,547	607,653	3,894	1,187	-	1,187	(2,916)	(2,785)	(131)	(473)	-	(473)		4,191	122
Total	**14,141,682**	**13,556,692**	**584,990**	**443,119**	**-**	**413,066**	**(139,402)**	**(93,983)**	**(45,419)**	**(267,420)**	**-**	**(262,295)**	**(13,447)**	**3,816,684**	**187,598**

31.12.2019	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accumu-lated partial write-off	On performing exposures	On non-performing exposures
	Total	Of which stage 1	Of which stage 2	Total	Of which stage 2	Of which stage 3	Total	Of which stage 1	Of which stage 2	Total	Of which stage 2	Of which stage 3			
Loans and advances	**9,515,270**	**9,042,645**	**472,625**	**372,872**	**-**	**354,689**	**(90,815)**	**(57,598)**	**(33,217)**	**(240,377)**	**-**	**(237,155)**	**(135,727)**	**4,041,451**	**112,000**
Central banks	1,569,762	1,569,762	-	-	-	-	(476)	(476)	-	-	-	-	-	-	-
General governments	311,430	307,344	4,086	7,695	-	7,695	(4,125)	(3,724)	(401)	(3,202)	-	(3,202)	-	102,012	3,219
Credit institutions	307,573	306,490	1,083	15	-	15	(229)	(223)	(6)	(15)	-	(15)	-	998	-
Other financial corporations	111,293	110,593	700	2,503	-	2,503	(397)	(388)	(9)	(2,500)	-	(2,500)	-	18,345	-
Non-financial corporations	3,114,113	2,761,695	352,418	269,408	-	251,225	(55,744)	(29,677)	(26,067)	(183,909)	-	(180,687)	(113,561)	1,899,616	76,749
Of which SMEs	1,833,488	1,669,942	163,546	210,093	-	209,662	(41,509)	(26,483)	(15,026)	(151,095)	-	(151,021)	(86,989)	1,207,706	53,348
Households	4,101,099	3,986,761	114,338	93,251	-	93,251	(29,844)	(23,110)	(6,734)	(50,751)	-	(50,751)	(22,166)	2,020,480	32,032
Debt securities	**3,755,354**	**3,755,049**	**305**	**798**	**-**	**798**	**(7,943)**	**(7,901)**	**(42)**	**(798)**	**-**	**(798)**	**-**	**-**	**-**
Central banks	66,080	66,080	-	-	-	-	(60)	(60)	-	-	-	-	-	-	-
General governments	2,731,971	2,731,666	305	-	-	-	(6,836)	(6,794)	(42)	-	-	-	-	-	-
Credit institutions	827,835	827,835	-	-	-	-	(837)	(837)	-	-	-	-	-	-	-
Other financial corporations	35,736	35,736	-	798	-	798	(39)	(39)	-	(798)	-	(798)	-	-	-
Non-financial corporations	93,732	93,732	-	-	-	-	(171)	(171)	-	-	-	-	-	-	-
Off-balance-sheet	**2,525,249**	**2,404,459**	**120,790**	**58,996**	**-**	**58,996**	**(15,354)**	**(12,910)**	**(2,444)**	**(24,068)**	**-**	**(24,068)**		**325,973**	**15,983**
Central banks	128	128	-	-	-	-	-	-	-	-	-	-		-	-
General governments	30,094	30,020	74	78	-	78	(388)	(387)	(1)	(18)	-	(18)		2,462	-
Credit institutions	72,040	72,040	-	95	-	95	(25)	(25)	-	(25)	-	(25)		711	-
Other financial corporations	11,837	11,733	104	92	-	92	(49)	(48)	(1)	(74)	-	(74)		2,040	-
Non-financial corporations	1,844,465	1,729,741	114,724	57,622	-	57,622	(11,408)	(9,133)	(2,275)	(23,561)	-	(23,561)		315,867	15,829
Households	566,685	560,797	5,888	1,109	-	1,109	(3,484)	(3,317)	(167)	(390)	-	(390)		4,893	154
Total	**15,795,873**	**15,202,153**	**593,720**	**432,666**	**-**	**414,483**	**(114,112)**	**(78,409)**	**(35,703)**	**(265,243)**	**-**	**(262,021)**	**(135,727)**	**4,367,424**	**127,983**

Table 29 – NPL Template 9 – Collateral obtained by taking possession and execution processes of NLB Group

31.12.2020	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
Property, plant, and equipment (PP&E)	13,268	-
Other than PP&E	141,882	(29,871)
Residential immovable property	15,683	(2,066)
Commercial immovable property	125,258	(27,594)
Movable property (auto, shipping, etc.)	925	(197)
Other	16	(14)
Total	**155,150**	**(29,871)**

30.06.2020	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
Property, plant, and equipment (PP&E)	7	-
Other than PP&E	114,460	(32,588)
Residential immovable property	11,172	(2,259)
Commercial immovable property	102,338	(30,227)
Movable property (auto, shipping, etc.)	934	(88)
Other	16	(14)
Total	**114,467**	**(32,588)**

31.12.2019	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
Other than PP&E	119,034	(33,483)
Residential immovable property	12,445	(3,430)
Commercial immovable property	105,871	(31,082)
Other	718	1,029
Total	**119,034**	**(33,483)**

Table 30 – EU CR2-A – Changes in the stock of general and specific credit risk adjustments of NLB Group

		2020		H1 2020		2019	
		Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
1	**Opening balance**	(268,014)	(114,113)	(268,014)	(114,113)	(419,580)	(96,865)
2	Increases due to amounts set aside for estimated loan losses during the period	(71,040)	(82,909)	(24,033)	(42,724)	(14,510)	(61,760)
3	Decreases due to amounts reversed for estimated loan losses during the period	27,465	48,283	11,128	16,558	27,941	44,271
4	Decreases due to amounts taken against accumulated credit risk adjustments	53,674	37	13,435	12	135,456	271
8	Other adjustments	(33,993)	(241)	64	118	2,679	(30)
9	**Closing balance**	(291,908)	(148,943)	(267,420)	(140,149)	(268,014)	(114,113)
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	15,922	-	6,278	-	17,376	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-	-	-	-	-	-

Credit impairments and provisions were formed in the amount of EUR 62.3 million (in 2019 were released in amount EUR 13.3 million). The cost of risk increased from -20 basis points to 62 basis points (Komercijalna Banka Group is excluded from calculation to ensure comparability with previous years).

Table 31 – EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities of NLB Group

	2020	H1 2020	2019
	Gross carrying value defaulted exposures	Gross carrying value defaulted exposures	Gross carrying value defaulted exposures
Opening balance	**373,377**	**373,377**	**614,278**
Loans and debt securities that have defaulted or impaired since the last reporting period	52,983	47,359	52,982
Returned to non-defaulted status	(54,579)	(16,859)	(54,579)
Amounts written off	(53,671)	(13,447)	(135,727)
Other changes	148,667	6,229	(103,577)
Closing balance	**466,777**	**396,659**	**373,377**

In 2020, there was a material increase of defaulted exposures that amounted to EUR 93 million or 25% of the initial default exposure volume, due to change of presentation of excluded interest, acquisition of subsidiares and coronavirus pandemic outbreak. The Group increased gross carrying amount due to change in presentation of excluded interest for EUR 33,990 thousand. Aquisitions of new subsidiares Komercijalna Banka, Beograd, Komercijalna Banka, Banja Luka and Komercijalna Banka, Podgorica contributed to increase in amount of EUR 40,804 thousand.

5.8. Use of credit risk mitigation techniques
(Article 453 b, c, e, f, and g of CRR)

Credit protection policy
The NLB Group applies a single set of standards to retail and corporate loan collateral, as developed by the Group members in accordance with regulatory requirements. The master document regulating loan collateral in the NLB Group is the Loan Collateral Policy in NLB and NLB Group. The Policy has been adopted by the Management Board of NLB Group. The Policy represents the basic principles that the Group's employees must consider when signing, evaluating, monitoring, and reporting collateral, with the aim of reducing credit risk.

In line with the policy, the primary source of loan repayment is the debtor's solvency, and the accepted collateral is a secondary source of repayment in case the debtor ceases to repay the contractual obligations.

The 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 or central banks, bank debt securities, and real-estate mortgages (the real estate must be, beside other criteria, located in the EEA 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, investment coupons, 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. If there is of a lower probability that this type of collateral would generate a cash flow, the NLB Group takes a conservative approach and accepts the collateral while reporting its value as zero.

The processes for valuing collateral
In compliance with relevant regulations, the Group has established a system for monitoring and reporting collateral at fair (market) value.

The market value of real estate used as collateral is obtained from valuation reports of licensed appraisers. The market value of movable property is obtained from valuation reports of licensed appraisers or from sales agreements. Both, valuation reports and sales agreements must not be older than one year. In NLB and members of the Group, most reports of external real estate appraisers are controlled. Controls are performed by internal appraisers. The subject of control is the content, value, scope, and format of the report, its compliance with international valuation standards and the estimated value. If they notice deviations, they estimate needed correction of the value of the external valuation (in %) and correct the value of the external valuation. The value adjustment can only be negative and can be applied only in a limited range. For the purposes of business decisions and the calculation of the necessary impairments and provisions, additional deductions (haircuts) are applied to the eventual adjusted market value, depending on the type of collateral. These haircuts for purpose of liquidation value are for real estate in the range between 30 and 70%, depending on the type of real estate and location, for movables they range between 50 and 100% depending on the type of movable.

The market value of financial instruments held by the Group is obtained from the organised market – such as 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 real estate appraisers for real estate. All appraisals must be made for the purpose of secured lending and in accordance with the international valuation standards (IVS, EVS or RICS). Appraisals related to retail loans are generally ordered only from appraisers with whom the NLB has a contract for real-estate valuations. For corporate loans, appraisals are usually submitted by clients. If a client submits an appraisal that is not made by an appraiser included on the NLB's reference list, the NLB's expert department which employs certified real estate appraisers in construction with licences granted by the Slovenian 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 Group members obtain valuations from in-house appraisers and outsourced appraisers, all possessing the necessary licences. The Group has compiled a reference list of appraisers for valuations of real estate located outside the Republic of Slovenia. Appraisals must be made in accordance with the international valuation standards, and for larger exposures, real-estate evaluations must also be reviewed by an internal licensed appraiser with knowledge of the local real-estate market. If the appraisal does not correspond to the international valuation standards, or if the value adjustment is greater than certain limit, the appraisal is rejected as inadequate.

When assuring collateral, the Group follows the internal regulations which define the minimum security or pledge ratios. The 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. If real estate, movable property, and financial instruments serve as collateral, the Group's lien on such assets should be top ranking. Exceptionally, where the value of the mortgaged real estate is large enough, the lien can have a different priority order.

The 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 Republic of Slovenia, and partly, for the housing segment to Serbia, Montenegro, and Bosnia and Herzegovina) based on public records and indexes of real-estate value published by the relevant government authorities (the Surveying and Mapping Authority in the Republic of Slovenia). The value of pledged movable property is monitored once a year (in NLB automated, with a straight-line depreciation over the period of the remaining useful life).

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.

The Group accepts the following material types of loan collateral:

- Collateral in the form of business and residential real estate: land, buildings and individual parts of buildings in a storeyed property intended for living in or performing a business activity, such as land in the area foreseen for construction, apartments, residential buildings, garages and holiday homes, business premises, industrial buildings, offices, shops, hotels, branches and warehouses, forests, parking spaces, etc. Objects can be completed or under construction. Priority is given to property where the pledge right of the Bank is entered in the first place and real estate is already owned by the debtor and/or the pledger. For real estate, there must be a market, and it must be redeemable within a reasonable time.

- Collateral in the form of movable property: priority is given to the types of movable property, that are highly likely to be sold in the event of execution, and the funds received are used to repay the collateralised claims (their market value must be estimated with considerable reliability). Among the appropriate types of movable property, the Bank includes motor vehicles, agricultural machinery, construction machinery, production lines and series-produced machines and some custom-made production machines.
- 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):
    - Cash receivable collateral: bank deposits and savings with the Bank are appropriate in domestic and foreign currency.
    - Debt securities: shares and bonds which, according to the Bank's assessment, are suitable for securing investments and are traded on a regulated market (marketable securities of higher-quality Slovenian and foreign issuers).
    - The pledge of investment coupons of mutual funds managed by management companies (a priority company NLB Skladi, asset management d.o.o.) and are, according to the bank assessment, suitable for insurance of investments.
- Pledge of an equity stake: non-marketable capital shares with a credit rating of at least B are adequate.
- Pledge or assignment of receivables as collateral: cash receivables must have longer maturities than the maturity of the investment and they must not be due and not be paid.
- Other material forms of loan collateral (e.g. life insurance policies pledged to NLB): the Bank accepts products of Vita, life insurance company – pledge of an investment life insurance policy and a life insurance policy with a guaranteed return that includes saving, in addition to insurance.

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.

The Group accepts the following types of personal loan collateral:

- Joint and several guarantees by retail and corporate clients: for the collateralisation of private individuals' loans, employees or pensioners are adequate guarantors. They must not be in the process of personal bankruptcy. They are responsible for fulfilling the debtor's obligations for loans with a repayment period not exceeding 60 months. For the collateralisation of legal entities investments, legal entities or private individuals are adequate guarantors.
- Bank guarantees.
- Government guarantees (e.g., of the Republic of Slovenia).
- Guarantees by national and regional development agencies with which the Bank has a contract on the acceptance of guarantees (e.g., Slovenian Enterprise Fund).
- Other types of personal loan collateral.

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 client's creditworthiness (credit ranking), loan maturity, and varies depending on whether the loan is granted to retail or a corporate client.

NLB has also created, in the area of real-estate loan collateral, an 'online' connection with the Surveying and Mapping Authority in the Republic of Slovenia which allows direct and immediate verification of the existence of property.

The Group strives to ensure the best possible collateral for long-term loans, in particular mortgages where possible. As a result, the mortgaging of real estate is the most frequent form of loan collateral of corporate and retail clients. In corporate exposures, the next most frequent forms of collateral are government and corporate guarantees, while in retail loans, it is guarantors.

Concentration that arises due to CRM measures and may prevent CRM instruments from being effective

The CRR eligible collateral that allow a decrease in RWA for credit risks amounts to EUR 775 million and represents 5.2% of the net exposure pre CCR and CRM. The prevailing types of collateral used as CRM are government guarantees and cash deposits, the Bank does not use credit derivatives to manage capital requirements. The low volume of eligible collateral shows the low concentration from a CRM point of view.

Table 32 – EU CR3 – CRM techniques – Overview of NLB Group

31.12.2020	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	9,318,909	636,006	545,064	485,349	-
Total debt securities	4,798,082	139,471	127,647	127,647	-
Total exposures	**14,116,991**	**775,478**	**672,710**	**612,996**	**-**
Of which defaulted	14,010	27,378	677	8	-

30.06.2020	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	7,339,514	556,317	518,726	473,181	-
Total debt securities	3,281,653	131,406	131,193	131,193	-
Total exposures	**10,621,166**	**687,722**	**649,919**	**604,374**	**-**
Of which defaulted	10,246	26,142	435	19	-

31.12.2019	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	7,193,175	602,034	560,587	512,692	-
Total debt securities	3,599,835	134,196	126,189	126,189	-
Total exposures	**10,793,010**	**736,230**	**686,776**	**638,881**	**-**
Of which defaulted	4,134	17,831	351	15	-

At the end of 2020, the secured part of the portfolio represents 5.2% of the total portfolio. However, it has to be considered that such low share is due to strict rules applied to the eligible collateral in the standardised approach. The values of secured exposure decreased in 2020, primarily due to repayment of exposure with state guarantees.

Table 33 – CRM techniques – Overview by exposure classes of NLB Group

31.12.2020 Exposure classes	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
Central governments or central banks	3,993,119	-	-	-
Regional government or local authorities	214,660	-	-	-
Public sector entities	270,591	9,819	4,964	3,643
Multilateral development banks	90,506	-	-	-
International organisations	25,010	-	-	-
Institutions	569,940	67,573	55,756	55,756
Corporates	2,114,815	551,386	513,479	506,052
Retail	5,070,417	104,997	62,292	13,606
Secured by mortgages on immovable property	962,450	-	-	-
Exposures in default	179,146	3,634	673	8
Exposures associated with particularly high risk	211,751	37,160	34,637	33,930
Covered bonds	355,290	-	-	-
Collective investment undertakings	1,831	-	-	-
Other items	57,466	909	909	-
Total	**14,116,991**	**775,478**	**672,710**	**612,996**

31.12.2019 Exposure classes	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
Central governments or central banks	2,825,042	-	-	-
Regional government or local authorities	131,442	-	-	-
Public sector entities	127,464	4,597	4,597	4,568
Multilateral development banks	107,057	-	-	-
International organisations	25,225	-	-	-
Institutions	398,912	61,892	53,890	53,890
Corporates	1,753,358	616,474	585,545	576,374
Retail	3,844,021	44,123	36,728	39
Secured by mortgages on immovable property	961,232	-	-	-
Exposures in default	111,597	451	338	15
Exposures associated with particularly high risk	118,310	7,766	4,750	3,995
Covered bonds	359,609	-	-	-
Collective investment undertakings	1,556	-	-	-
Other items	28,186	928	928	-
Total	**10,793,010**	**736,230**	**686,776**	**638,881**

Table 34 – EU CR4 – Standardised Approach – Credit risk exposure and CRM effects of NLB Group

	31.12.2020	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	7,180,655	7,271	7,520,698	40,051	1,892,158	25%
2	Regional government or local authorities	214,662	4,315	214,662	1,659	135,464	63%
3	Public sector entities	280,426	42,264	275,462	9,530	248,807	87%
4	Multilateral development banks	90,506	-	393,591	-	-	-
5	International organisations	25,010	-	25,010	-	-	-
6	Institutions	951,191	88,457	923,143	23,986	311,663	33%
7	Corporates	2,667,631	1,249,256	2,156,027	312,347	2,224,216	90%
8	Retail	5,176,729	1,716,596	5,114,436	376,825	3,891,788	71%
9	Secured by mortgages on immovable property	962,450	38,974	962,450	8,576	355,666	37%
10	Exposures in default	182,796	22,800	182,123	5,879	231,457	123%
11	Exposures associated with particularly high risk	249,042	99,937	214,405	15,081	344,229	150%
12	Covered bonds	355,290	-	355,290	-	40,866	12%
14	Collective investment undertakings	57,694	-	57,694	-	18,654	32%
15	Equity	35,094	-	35,094	-	47,076	134%
16	Other items	986,712	1,316	985,803	261	480,880	49%
17	**Total**	**19,415,888**	**3,271,186**	**19,415,888**	**794,195**	**10,222,924**	**50.6%**

	30.06.2020	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	5,156,502	6,395	5,805,261	14,261	1,178,194	20%
2	Regional government or local authorities	134,501	11,046	134,501	3,007	61,601	45%
3	Public sector entities	135,151	24,678	131,099	4,946	105,356	77%
4	Multilateral development banks	91,698	-	91,698	-	-	-
5	International organisations	25,207	-	25,207	-	-	-
6	Institutions	605,071	89,584	544,500	23,215	176,365	31%
7	Corporates	2,372,343	1,206,521	1,832,110	308,584	2,107,237	98%
8	Retail	3,926,418	1,440,463	3,891,862	319,676	2,990,454	71%
9	Secured by mortgages on immovable property	939,136	14,357	939,136	3,777	358,391	38%
10	Exposures in default	129,312	24,570	128,888	5,969	155,209	115%
11	Exposures associated with particularly high risk	147,803	71,761	139,537	11,970	227,261	150%
12	Covered bonds	355,760	-	355,760	-	39,445	11%
14	Collective investment undertakings	51,191	-	51,191	-	12,344	24%
15	Equity	12,391	-	12,391	-	24,292	196%
16	Other items	720,141	1,186	719,484	236	350,964	49%
17	**Total**	**14,802,624**	**2,890,561**	**14,802,624**	**695,642**	**7,787,113**	**50.3%**

	31.12.2019	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	**On-balance-sheet amount**	**Off-balance-sheet amount**	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RWAs**	**RWA density**
1	Central governments or central banks	4,432,299	22,282	5,119,059	15,761	1,234,573	24%
2	Regional government or local authorities	131,446	1,519	131,446	304	58,943	45%
3	Public sector entities	132,080	18,583	127,484	3,153	102,111	78%
4	Multilateral development banks	107,057	-	107,057	-	-	-
6	Institutions	657,746	80,600	603,871	22,343	208,104	33%
7	Corporates	2,371,174	1,117,847	1,785,630	290,571	2,044,864	98%
8	Retail	3,889,344	1,220,025	3,852,615	268,701	2,934,373	71%
9	Secured by mortgages on immovable property	961,232	14,512	961,232	3,897	363,798	38%
10	Exposures in default	112,116	43,994	111,778	10,074	139,956	115%
11	Exposures associated with particularly high risk	126,076	74,975	121,325	14,903	204,343	150%
12	Covered bonds	359,609	-	359,609	-	39,589	11%
14	Collective investment undertakings	51,718	-	51,718	-	13,287	26%
15	Equity	19,012	-	19,012	-	35,375	186%
16	Other items	675,448	1,235	674,520	247	340,914	51%
17	**Total**	**14,051,581**	**2,595,572**	**14,051,581**	**629,955**	**7,720,230**	**52.6%**

The table shows exposures before CRM and CCF, exposure post-CCF and -CRM and the RWA for all customer segments. In 2020, the increase of both types of exposures was noticed in the Central government or central banks segment and in the Retail segment, which is in line with the findings in other disclosure tables. The last column shows RWA density or the average risk weight for each client segment. The average weight decreased from 52.6% in 2019 to 50.6% in 2020.

6. Use of ratings by external rating institutions (ECAI)

(Article 444 a, b, c, and d of CRR)

For calculating the capital requirement for credit risk, NLB Group uses the standardised approach as prescribed by CRR. Calculation of the capital requirement considers the effect of loan collaterals as a secondary source of repayment. NLB Group uses the simple calculation method for collaterals. According to this methodology, the capital requirement is calculated depending on the segment of clients, their credit quality (in case ECAI was nominated for the segment and external credit rating is available), and the quality of collateral which must be adequately evaluated and at the same time satisfy the prescribed minimum requirements.

For the calculation of capital requirement for credit risk, NLB Group nominated Fitch Ratings credit rating agency, which was estimated to be an eligible external credit assessment institution, at the same time the mapping to the credit quality steps was determined by the EBA. The credit assessments of this agency are used for the categories of exposure:

- to the central government or central bank, and
- to institutions, including the exposure to institutions with short-term credit assessment.

The weight for each category of exposure is determined based on CRR.

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 long-term credit rating of the debtor or other financial instruments of the same debtor or country is used.

For categories of exposure for which a credit assessment institution was not appointed, the risk weight is assigned according to the prescribed legislation, meaning that it is assigned based on the rating of the debtor's country or specific rules applying to the respective exposure category.

Table 35 – EU CR5 – Standardised Approach of NLB Group

	31.12.2020	Risk weight 0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted	Total	Of which unrated
1	Central governments or central banks	5,666,133	-	-	-	43,343	-	30,669	-	-	1,788,816	-	31,789	-	-	-	-	7,560,749	7,560,749
2	Regional government or local authorities	22,770	-	-	-	72,609	-	-	-	-	120,943	-	-	-	-	-	-	216,321	216,321
3	Public sector entities	21,739	-	-	-	78	-	28,766	-	-	234,409	-	-	-	-	-	-	284,992	284,992
4	Multilateral development banks	393,591	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	393,591	393,591
5	International organisations	25,010	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,010	25,010
6	Institutions	-	-	-	-	599,634	-	311,518	-	-	35,977	-	-	-	-	-	-	947,129	252,391
7	Corporates	-	-	-	-	-	-	-	-	-	2,468,374	-	-	-	-	-	-	2,468,374	2,468,374
8	Retail	-	-	-	-	-	-	-	-	5,491,261	-	-	-	-	-	-	-	5,491,261	5,491,262
9	Secured by mortgages on immovable property	-	-	-	-	-	742,411	228,614	-	-	-	-	-	-	-	-	-	971,025	971,025
10	Exposures in default	-	-	-	-	-	-	-	-	-	101,094	86,909	-	-	-	-	-	188,003	188,002
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	229,486	-	-	-	-	-	229,486	229,486
12	Covered bonds	-	-	-	301,918	53,372	-	-	-	-	-	-	-	-	-	-	-	355,290	111,063
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-	12,820	-	-	-	-	44,874	-	57,694	57,694
15	Equity	-	-	-	-	-	-	-	-	-	27,106	-	7,988	-	-	-	-	35,094	35,094
16	Other items	493,279	-	-	-	14,881	-	-	-	-	477,904	-	-	-	-	-	-	986,064	972,804
17	**Total**	**6,622,522**	**-**	**-**	**301,918**	**783,916**	**742,411**	**599,567**	**-**	**5,491,261**	**5,267,443**	**316,395**	**39,777**	**-**	**-**	**44,874**	**-**	**20,210,083**	**19,257,860**

	30.06.2020	Risk weight 0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted	Total	Of which unrated
1	Central governments or central banks	4,585,447	-	-	-	67,006	-	99,330	-	-	1,035,986	-	31,753	-	-	-	-	5,819,523	5,819,523
2	Regional government or local authorities	22,910	-	-	-	66,247	-	-	-	-	48,352	-	-	-	-	-	-	137,508	137,508
3	Public sector entities	13,970	-	-	-	2,042	-	30,171	-	-	89,862	-	-	-	-	-	-	136,045	136,045
4	Multilateral development banks	91,698	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	91,698	91,698
5	International organisations	25,207	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,207	25,207
6	Institutions	-	-	-	-	377,895	-	178,068	-	-	11,752	-	-	-	-	-	-	567,715	79,207
7	Corporates	-	-	-	-	-	-	-	-	-	2,140,695	-	-	-	-	-	-	2,140,695	2,140,695
8	Retail	-	-	-	-	-	-	-	-	4,211,538	-	-	-	-	-	-	-	4,211,538	4,211,538
9	Secured by mortgages on immovable property	-	-	-	-	-	701,444	241,469	-	-	-	-	-	-	-	-	-	942,913	942,913
10	Exposures in default	-	-	-	-	-	-	-	-	-	94,152	40,705	-	-	-	-	-	134,857	134,857
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	151,507	-	-	-	-	-	151,507	151,507
12	Covered bonds	-	-	-	317,066	38,694	-	-	-	-	-	-	-	-	-	-	-	355,760	111,092
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-	6,539	-	-	-	-	44,652	-	51,191	51,191
15	Equity	-	-	-	-	-	-	-	-	-	4,457	-	7,934	-	-	-	-	12,391	12,391
16	Other items	362,340	-	-	-	8,020	-	-	-	-	349,360	-	-	-	-	-	-	719,720	703,511
17	**Total**	**5,101,572**	**-**	**-**	**317,066**	**559,903**	**701,444**	**549,038**	**-**	**4,211,538**	**3,781,155**	**192,212**	**39,687**	**-**	**-**	**44,652**	**-**	**15,498,267**	**14,748,883**

31.12.2019	Risk weight																Total	Of which unrated
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted		
1 Central governments or central banks	3,822,314	-	-	-	82,708	-	111,890	-	-	1,088,408	-	29,500	-	-	-	-	5,134,820	5,134,820
2 Regional government or local authorities	22,944	-	-	-	62,328	-	-	-	-	46,478	-	-	-	-	-	-	131,750	131,750
3 Public sector entities	14,140	-	-	-	107	-	28,602	-	-	87,789	-	-	-	-	-	-	130,637	130,637
4 Multilateral development banks	107,057	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	107,057	107,057
5 International organisations	25,225	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,225	25,225
6 Institutions	-	-	-	-	375,734	-	235,047	-	-	15,434	-	-	-	-	-	-	626,215	63,164
7 Corporates	-	-	-	-	-	-	-	-	-	2,076,201	-	-	-	-	-	-	2,076,201	2,076,201
8 Retail	-	-	-	-	-	-	-	-	4,121,316	-	-	-	-	-	-	-	4,121,316	4,121,316
9 Secured by mortgages on immovable property	-	-	-	-	-	738,001	227,128	-	-	-	-	-	-	-	-	-	965,129	965,129
10 Exposures in default	-	-	-	-	-	-	-	-	-	85,646	36,207	-	-	-	-	-	121,853	121,853
11 Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	136,228	-	-	-	-	-	136,228	136,228
12 Covered bonds	-	-	-	323,325	36,284	-	-	-	-	-	-	-	-	-	-	-	359,609	113,389
14 Collective investment undertakings	-	-	-	-	-	-	-	-	-	7,031	-	-	-	-	44,687	-	51,718	51,718
15 Equity	-	-	-	-	-	-	-	-	-	8,104	-	10,908	-	-	-	-	19,012	19,012
16 Other items	309,141	-	-	-	30,889	-	-	-	-	334,736	-	-	-	-	-	-	674,766	660,038
17 **Total**	**4,300,821**	**-**	**-**	**323,325**	**588,050**	**738,001**	**602,666**	**-**	**4,121,316**	**3,749,825**	**172,435**	**40,408**	**-**	**-**	**44,687**	**-**	**14,681,535**	**13,857,536**

The exposure values post-CRM and post-CCR in each specific risk-weight class are distributed based on the standardised approach rules. The 0% weight prevails in the Central government segment, 20% and 50% for the Institutions (depending on ECAI rating and residual maturity of the exposure), 35% for Secured by Real Estate Exposure, and 75% in the Retail segment, while 100% is applied to all other segments. The 150% weight is only applied to high-risk exposures and those default exposures, whose provision coverage does not exceed 20%. In 2020, the highest increase was noticed on the 0% weight, due to the increase of exposure in the Central government or central banks segment and on the 75% weight in the retail segment (acquisition of Komercijalna Banka, Beograd).

7. Exposure to counterparty credit risk

7.1. Goals and Principles of Counterparty Credit Risk Management
(Article 435.1 a, b, c, and d of CRR)

Management of Counterparty Credit Risk
Counterparty Credit Risk (CCR) arises when NLB Group engages in derivative transactions with a counterparty for instruments like exchange-traded (futures) and OTC derivatives (forwards, swaps traded off the exchange), or due to long settlement transactions (meaning that a delivery date is later than the earliest of the market standard for the particular transaction). The purpose of entering into the derivatives is to support corporate customers and financial institutions in their management of financial exposures. This is managed within Investment Banking and Custody, Financial Markets, and Evaluation and Control. Financial Markets also use derivatives to protect cash flows and fair values of financial assets and liabilities of NLB Group.

CCR is defined as the risk that the counterparty to a transaction may default before the settlement of the transaction. CCR is a particular case of a general credit risk and creates a bilateral risk of loss, therefore the market value of the transaction can be positive or negative to either counterparty of the transaction. The market value is uncertain and can vary over time with the movement of underlying market factors. CCR exposure is estimated considering the effect of a period of stress and the collateral management practices.

Limits for counterparty exposures are set in the regular credit process. Evaluation and Control identifies, measures, reports, and follows up on NLB Group's counterparty credit risk. The risk is measured daily and reported monthly to the ALCO.

CCR for OTC derivatives is the sum of relevant replacement cost (i.e., positive market value) and potential replacement costs resulting from potential future changes in market values (FX prices, interest rates, etc.). A dedicated IT solution is in place for monitoring, along with customisation made to meet specific needs. It enables us to monitor CCR on a real-time basis, a deal-by-deal level, as well as on a group level by an individual counterparty or counterparty group. Limits must be checked before any transaction is agreed upon and confirmed.

In settling the concluded financial transactions, NLB Group is exposed to the settlement risk which is a risk that one of the parties would not (be able to) meet its liabilities arising from the transactions in accordance with the agreed conditions, after the counterparty has already met its part of the obligations. The tolerance towards the assumptions of the settlement risk is low. NLB Group has adopted internal regulations and a system of performing settlements, as well as a system of control mechanisms for the management of settlement risk. The standardised approach is used to determine the regulatory capital charge for the settlement risk.

Organisation
Credit risks from derivatives are fully integrated into the general credit risk management system. CCR risk is measured and monitored on a daily basis by an independent risk management unit Evaluation and Control. Global Risk is responsible for calculation of own fund requirements for CCR risk according to a standardised approach.

Risk Measurement and control of CCR
CCR risk is monitored and controlled at the transaction level, as well as at the client level. The market value of derivative transactions fluctuates during the term to maturity, for this reason the uncertainties of future market conditions have to be taken into consideration when measuring credit exposure to derivatives.

For calculation of a regulatory capital for counterparty credit risk, NLB Group uses a standardised approach (SA) for the derivatives. NLB Group currently uses the Current Exposure Method (also referred to as the 'marked-to-market method') according to the CRD IV.

Credit valuation adjustment (CVA) and debit valuation adjustment (DVA)
Counterparty credit risk in derivatives affects the Bank's profit and loss through credit/debt valuation adjustments (CVA/DVA), reflecting the credit risk associated with the derivative positions. These adjustments depend on credit rating or/and credit spread of a certain client. NLB Group uses the standardised approach to calculate the regulatory capital requirement for CVA. Where collateral exists, it is

taken into consideration when CVA/DVA is calculated. The calculation is done on a monthly basis. DVA is not recognised in the Profit or Loss Statement, but only calculated for internal purposes.

7.2. Risk mitigation – netting and collateral
(Article 439 b of CRR)

NLB Group mitigates CCR risk from derivatives through the use of close-out netting agreements such as the ISDA Master Agreement, Global Master Repurchase Agreement (GMRA), and the Slovenian Framework Agreement. Along with these agreements, collateral agreements (e.g., ISDA Credit Support Annex) are in place to substantially reduce credit risk arising out of derivatives transactions. In addition to this, clearing transactions via a clearing house is in place for relevant derivatives transactions.

Daily margin call calculations are in place for each relevant counterparty. Portfolio reconciliation is agreed as per European Market Infrastructure Regulation (EMIR).

7.3. Internal capital allocation and definition of credit limits for CCR exposures
(Article 439 a of CRR)

The CRR exposures of NLB Group are not material, thus NLB Group sets aside capital for CCR exposures within Internal Capital Adequacy Assessment (Pillar 2). Internal capital for counterparty credit exposures is calculated with a stress-testing of CVA where the additional shock on PDs is applied. In addition, there is a set of internal credit limits in place for CCR exposure which are guided by the internal policies and methodologies.

NLB Group has instructions for determining derivative financial instrument limits in place. There is a set of guidelines in use when concluding derivative transactions with clients. Each client has to have a limit in place, and all transactions are concluded by using the contract. Only standard interest and foreign exchange derivatives can be subject to proposal and/or approval. The limit is treated as an arrangement decided in line with the credit process. Only clients rated as in the A and B credit rating group and clients classified as CCC rating class are suitable for new limits. To approve the new limits, the underlying pre-conditions have to be met as follows: the primary business has to have sustainable cash flow, the client has to be able to cover derivatives exposure and potential negative effect, and the derivative is subject to support primary business transactions.

NLB Group has an important risk management tool in place which is an early warning system for exposures towards banking groups, sovereigns, and international corporates. The respective exposures are limited by the risk appetite, monitored, and reported to the senior management and Supervisory Board on a regular basis.

7.4. Securing of collateral and establishing of reserves
(Article 439 b of CRR)

Framework agreements signed with the relevant counterparty provide the ability to collect collateral for the purpose of reducing CCR. As mentioned in previous chapters, NLB Group calculates the net positive market value for individual counterparty exposure on a daily basis and as a result, collateral is adjusted accordingly. For the vast majority of framework agreements only cash is eligible collateral. Where other forms of collateral are possible, haircuts are applied as per the credit rating of such collateral along with the days to maturity. If securities are an eligible collateral form, only top-rated bonds are permitted. All this results in the fact that NLB Group only considers top-rated collateral, and therefore we do not create any additional reserves to mitigate CCR.

7.5. Wrong-way risk management
(Article 439 c of CRR)

In accordance with risk mitigation techniques in place (real-time monitoring, framework agreements, collateral agreements, daily margining process, CVA/DVA calculation, etc.), NLB Group does not find wrong-way risk exposures as material.

7.6. Downgrading impacts on collateralisation
(Article 439 d, e, and f of CRR)

Framework agreements covering derivatives transactions usually do not have provisions that would reflect any additional collateral posting due to credit rating change of NLB Group. Therefore, downgrading impacts on collaterisation are not material.

Table 36 – EU CCR1 – Analysis of CCR exposure by approach for NLB Group

31.12.2020	Replacement cost/current market value	Potential future credit exposure	EAD post CRM	RWAs
1 Mark to market	16,590	8,704	24,458	21,250
11 Total	**-**	**-**	**-**	**21,250**

30.06.2020	Replacement cost/current market value	Potential future credit exposure	EAD post CRM	RWAs
1 Mark to market	20,303	8,851	29,154	23,970
11 Total	**-**	**-**	**-**	**23,970**

31.12.2019	Replacement cost/current market value	Potential future credit exposure	EAD post CRM	RWAs
1 Mark to market	18,848	11,010	29,858	25,272
11 Total	**-**	**-**	**-**	**25,272**

Table 37 - EU CCR2 – CVA capital charge for NLB Group

		31.12.2020		30.06.2020		31.12.2019	
		Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs
4	All portfolios subject to the standardised method	1,250	200	4,346	775	3,950	663
EU4	Based on the original exposure method	-	-	-	-	-	-
5	**Total subject to the CVA capital charge**	**1,250**	**200**	**4,346**	**775**	**3,950**	**663**

Table 38 – EU CCR8 – Exposures to CCPs of NLB Group

		31.12.2020		30.06.2020		31.12.2019	
		EAD post CRM	RWAs	EAD post CRM	RWAs	EAD post CRM	RWAs
1	**Exposures to QCCPs (total)**	**-**	**6,836**	**-**	**7,490**	**-**	**11,823**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	6,836	6,836	7,490	7,490	11,823	11,823
3	OTC derivatives	6,836	6,836	7,490	7,490	11,823	11,823
7	Segregated initial margin	15,889	-	17,235	-	18,311	-
11	**Exposures to non-QCCPs (total)**	**-**	**-**	**-**	**-**	**-**	**-**
20	Unfunded default fund contributions	-	-	-	-	-	-

Table 39 – EU CCR3 – Standardised Approach – CCR exposures by regulatory portfolio and risk of NLB Group

	31.12.2020	Risk weight												Of which
	Exposure classes	**0%**	**2%**	**4%**	**10%**	**20%**	**50%**	**70%**	**75%**	**100%**	**150%**	**Others**	**Total**	**unrated**
1	Central governments or central banks	5,659,914	-	-	-	43,343	30,669	-	-	1,788,818	1	27,457	7,550,202	7,550,202
2	Regional government or local authorities	22,770	-	-	-	72,609	-	-	-	120,943	-	-	216,321	216,321
3	Public sector entities	21,739	-	-	-	78	28,766	-	-	234,722	40,663	-	325,968	325,968
4	Multilateral development banks	393,591	-	-	-	-	-	-	-	-	-	-	393,591	393,591
5	International organisations	25,010	-	-	-	-	-	-	-	-	-	-	25,010	25,010
6	Institutions	-	-	-	301,918	653,006	311,837	-	-	35,977	144	4,227	1,307,109	368,145
7	Corporates	-	-	-	-	-	65,524	-	-	1,326,817	32,299	-	1,424,639	1,424,639
8	Retail	6,219	-	-	-	-	162,771	-	5,491,261	1,308,664	243,288	795,378	8,007,581	8,007,581
10	Other items	493,279	-	-	-	14,881	-	-	-	451,502	-	-	959,661	946,402
11	**Total**	**6,622,522**	**-**	**-**	**301,918**	**783,916**	**599,567**	**-**	**5,491,261**	**5,267,443**	**316,395**	**827,061**	**20,210,083**	**19,257,860**

	30.06.2020	Risk weight												Of which
	Exposure classes	**0%**	**2%**	**4%**	**10%**	**20%**	**50%**	**70%**	**75%**	**100%**	**150%**	**Others**	**Total**	**unrated**
1	Central governments or central banks	4,580,472	-	-	-	67,006	99,330	-	-	1,035,989	1,332	31,155	5,815,284	5,815,284
2	Regional government or local authorities	22,910	-	-	-	66,247	-	-	-	48,352	-	-	137,509	137,509
3	Public sector entities	13,970	-	-	-	2,042	30,171	-	-	91,223	1	-	137,406	137,406
4	Multilateral development banks	91,698	-	-	-	-	-	-	-	-	-	-	91,698	91,698
5	International organisations	25,207	-	-	-	-	-	-	-	-	-	-	25,207	25,207
6	Institutions	-	-	-	317,066	416,589	178,068	-	-	11,755	6	417	923,901	190,726
7	Corporates	-	-	-	-	-	76,675	-	-	1,089,732	19,440	-	1,185,848	1,185,848
8	Retail	4,975	-	-	-	-	164,794	-	4,211,538	1,163,701	171,432	754,210	6,470,651	6,470,651
10	Other items	362,340	-	-	-	8,020	-	-	-	340,403	-	-	710,763	694,554
11	**Total**	**5,101,572**	**-**	**-**	**317,066**	**559,903**	**549,038**	**-**	**4,211,538**	**3,781,155**	**192,212**	**785,783**	**15,498,267**	**14,748,883**

	31.12.2019	Risk weight												Of which
	Exposure classes	**0%**	**2%**	**4%**	**10%**	**20%**	**50%**	**70%**	**75%**	**100%**	**150%**	**Others**	**Total**	**unrated**
1	Central governments or central banks	3,822,314	-	-	-	82,708	111,890	-	-	1,089,684	-	29,037	5,135,632	5,135,360
2	Regional government or local authorities	22,944	-	-	-	62,328	-	-	-	46,478	-	-	131,750	131,750
3	Public sector entities	14,140	-	-	-	107	28,602	-	-	89,521	-	-	132,370	132,370
4	Multilateral development banks	107,057	-	-	-	-	-	-	-	-	-	-	107,057	107,057
5	International organisations	25,225	-	-	-	-	-	-	-	-	-	-	25,225	25,225
6	Institutions	-	-	-	323,325	412,018	235,047	-	-	15,474	7	282	986,153	176,882
7	Corporates	-	-	-	-	-	74,479	-	-	1,065,377	16,589	3,409	1,159,854	1,159,854
8	Retail	-	-	-	-	-	152,649	-	4,121,316	1,117,584	155,840	790,369	6,337,758	6,337,758
10	Other items	309,141	-	-	-	30,889	-	-	-	325,707	-	-	665,737	651,009
11	**Total**	**4,300,821**	**-**	**-**	**323,325**	**588,050**	**602,666**	**-**	**4,121,316**	**3,749,825**	**172,435**	**823,097**	**14,681,535**	**13,857,263**

The exposure values are distributed to the prescribed segments and the risk weights that apply based on the riskiness of the exposure in accordance with the standardised approach. The 0% weight prevails in the Central Government segment, 20% and 50% for the Institutions (depending on ECAI rating and residual maturity of the exposure), and 75% in the Retail segment, while 100% is applied to all other segments. The 150% weight is only applied to high risk exposures and those default exposures, whose provision coverage does not exceed 20%. In 2020, the highest increase was noticed on the 0% weight, due to the increase of exposure in the Central government or central banks segment and on the 75% weight in the Retail segment (acquisition of Komercijalna Banka, Beograd).

Table 40 – EU CCR5-A – Impact of netting and collateral held on exposure values for NLB Group

31.12.2020	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1 Derivatives	16,189	623	15,566	594	14,972
4 Total	**16,189**	**623**	**15,566**	**594**	**14,972**

30.06.2020	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1 Derivatives	19,656	1,459	18,197	2,072	16,125
4 Total	**19,656**	**1,459**	**18,197**	**2,072**	**16,125**

31.12.2019	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1 Derivatives	20,449	5,648	14,801	306	14,495
4 Total	**20,449**	**5,648**	**14,801**	**306**	**14,495**

Table 41 – EU CCR5-B – Composition of collateral for exposures to CCR of NLB Group

	Collateral used in derivative transactions			
	Fair value of collateral received		Fair value of posted collateral	
31.12.2020	Segregated	Unsegregated	Segregated	Unsegregated
Cash	594	-	91,560	-
Total	**594**	**-**	**91,560**	**-**

	Collateral used in derivative transactions			
	Fair value of collateral received		Fair value of posted collateral	
30.06.2020	Segregated	Unsegregated	Segregated	Unsegregated
Cash	2,072	-	90,293	-
Total	**2,072**	**-**	**90,293**	**-**

	Collateral used in derivative transactions			
	Fair value of collateral received		Fair value of posted collateral	
31.12.2019	Segregated	Unsegregated	Segregated	Unsegregated
Cash	306	-	78,191	-
Total	**306**	**-**	**78,191**	**-**

8. Unencumbered assets

(Article 443 of CRR)

General narrative information on asset encumbrance

Asset encumbrance presents an important aspect of liquidity risk management. NLB Group regularly monitors and reports on asset encumbrance. The increase in the volume of encumbered assets contributes to higher liquidity risk and the risk of financing, since an institution with encumbered assets has fewer available assets for pledging, used as liquidity reserve for unexpected liquidity needs (e.g., approved credit lines, margin calls on derivatives).

NLB Group must ensure that it has at every moment enough high-quality liquid assets, so it is able to meet all liquidity needs. Possible operations for asset encumbrance:

- pledge of securities,
- repo transactions via interbank or ECB funding,
- derivatives trading (CSA contracts),
- issue of covered bonds,
- financing on capital and interbank markets.

Monthly reports on the Group's asset encumbrance are submitted to ALCO by the Financial Markets (for each banking member and on a consolidated level), while the Global Risk (Market and Liquidity Risk) quarterly reports are submitted to the Bank of Slovenia on solo and consolidated levels.

In NLB Group, all assets that are pledged are reported as encumbered assets. Regarding a transparent way of reporting, NLB Group has no example of giving the pledge which then would not be included in AE reporting. There is also no difference between the regulatory consolidation scope and liquidity requirements on an IFRS consolidated basis.

At the structural level the goal of liquidity management is to achieve such a structure of the Group's balance sheet that will ensure the Group's long-term stability and liquidity based on the criteria of long-term maturity match, forms, and concentration of the sources of financing.

In alignment with Liquidity Risk Management Policy, the unencumbered assets represent a liquidity buffer, which includes cash, money market placements, high-quality debt securities, and ECB eligible loans.

NLB Group holds an adequate amount of unencumbered High-Quality Liquid Assets (HQLA) that can be converted easily and immediately into cash. NLB Group can use those stocks of assets as a source of contingent funds that are available to fill funding gaps between cash inflows and outflows at any time during the 30-day stress period. According to Basel III, NLB Group demonstrates monthly that its LCR ratio – HQLA divided by total net cash outflows – is always greater than 100% (257% at the end of December 2020) which indicates that the Group does not need any additional liquidity to withstand cash outflows during a "significant stress scenario" lasting 30 days. Also, from this point of view, there is no need to carry a greater extent of encumbered assets. However, all assets that have been pledged are treated and reported as encumbered.

NLB Group has a strong liquidity position, all internal liquidity indicators and liquidity reserves are high and well above required standards, which means that NLB Group encumbers assets only because of regulatory aspects, such as the deposit guarantee scheme and the resolution fund.

As at 31 December 2020, NLB Group and NLB had a large share of unencumbered assets. On the NLB Group level, the amount of encumbered assets equalled EUR 1,125 million. On the solo level, the amount of encumbered assets equalled EUR 228 million.

Encumbered assets consist of debt securities of which: issued by general governments (EUR 52.3 million on NLB Group level and NLB) and placed deposits (EUR 1,072 million on NLB Group level and on the solo level EUR 175 million). The biggest part of placed deposits represents obligatory reserves. Group members are self-funded and have a strong liquidity position, therefore NLB has the majority of encumbered assets in NLB Group.

The amount of encumbered assets is denominated in EUR currency which is the most significant currency of NLB Group. There are no other significant currencies of AE to be reported.

The values of asset encumbrance are calculated as the median of the end-of-period values from in ITS AE (F 32) reporting for each of the four quarters in a year (used for display in tables 42 to 46).

Table 42 – Encumbered and unencumbered assets of NLB Group

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of non-encumbered assets		Fair value of non-encumbered assets	
31.12.2020		**of which notionally eligible EHQLA and HQLA**		**of which notionally eligible EHQLA and HQLA**		**of which EHQLA and HQLA**		**of which EHQLA and HQLA**
Assets	**622,574**	**52,603**			**14,396,114**	**3,562,144**		
Equity instruments	681	-			55,206			
Debt securities	52,603	52,603	56,615	55,889	3,620,979	2,903,001	3,670,804	2,949,342
of which: covered bonds	-	-	-	-	357,293	351,523	361,107	355,339
of which: issued by general governments	52,603	52,603	56,615	55,889	2,608,620	2,007,355	2,651,067	2,046,402
of which: issued by financial corporations	-	-	-	-	877,162	752,518	885,764	760,385
of which: issued by non-financial corporations	-	-	-	-	93,845	85,073	92,798	83,699
Other assets	568,041	-			10,824,686	643,462		

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of non-encumbered assets		Fair value of non-encumbered assets	
31.12.2019		**of which notionally eligible EHQLA and HQLA**		**of which notionally eligible EHQLA and HQLA**		**of which EHQLA and HQLA**		**of which EHQLA and HQLA**
Assets	**549,872**	**45,622**			**12,736,696**	**3,474,162**		
Equity instruments	-	-			60,022			
Debt securities	52,731	45,622	59,357	53,002	3,674,052	3,036,945	3,735,166	3,093,628
of which: covered bonds	-	-	-	-	352,654	348,247	356,275	351,868
of which: issued by general governments	52,731	45,622	59,357	53,002	2,600,940	2,084,751	2,662,121	2,138,385
of which: issued by financial corporations	-	-	-	-	885,409	795,321	892,285	802,187
of which: issued by non-financial corporations	-	-	-	-	94,329	86,650	94,157	86,390
Other assets	497,890	-			9,036,610	434,765		

Table 43 – Collateral received of NLB Group

			Non-encumbered	
	Fair value of encumbered collateral received, or own debt securities issued		Fair value of collateral received, or own debt securities issued available for encumbrance	
31.12.2020		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
Collateral received	**-**	**-**	**-**	**-**
Loans on demand	-	-	-	-
Equity instruments	-	-	-	-
Loans and advances other than loans on demand	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or asset-backed securities	**-**	**-**	**-**	**-**
Own covered bonds and asset-backed securities issued and not yet pledged			**-**	**-**
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	**622,574**	**52,603**		

31.12.2019	Fair value of encumbered collateral received, or own debt securities issued	of which notionally eligible EHQLA and HQLA	Non-encumbered: Fair value of collateral received, or own debt securities issued available for encumbrance	of which EHQLA and HQLA
Collateral received	**-**	**-**	**-**	**-**
Loans on demand	-	-	-	-
Equity instruments	-	-	-	-
Loans and advances other than loans on demand	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or asset-backed securities	**-**	**-**	**-**	**-**
Own covered bonds and asset-backed securities issued and not yet pledged			**-**	**-**
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	**549,872**	**45,622**		

Table 44 – Encumbered and unencumbered assets of NLB

31.12.2020	Carrying amount of encumbered assets	of which notionally eligible EHQLA and HQLA	Fair value of encumbered assets	of which notionally eligible EHQLA and HQLA	Carrying amount of non-encumbered assets	of which EHQLA and HQLA	Fair value of non-encumbered assets	of which EHQLA and HQLA
Assets	**225,856**	**52,603**			**10,317,275**	**3,206,115**		
Equity instruments					48,384			
Debt securities	52,603	52,603	56,615	55,889	2,916,916	2,562,653	2,965,220	2,608,463
of which: covered bonds					357,293	351,523	361,107	355,339
of which: issued by general governments	52,603	52,603	56,615	55,889	1,908,559	1,716,997	1,950,975	1,755,021
of which: issued by financial corporations					876,980	752,518	885,582	760,385
of which: issued by non-financial corporations					87,160	83,858	87,037	83,691
Other assets	172,270				7,404,055	643,462		

31.12.2019	Carrying amount of encumbered assets	of which notionally eligible EHQLA and HQLA	Fair value of encumbered assets	of which notionally eligible EHQLA and HQLA	Carrying amount of non-encumbered assets	of which EHQLA and HQLA	Fair value of non-encumbered assets	of which EHQLA and HQLA
Assets	**204,855**	**45,622**			**8,995,835**	**3,209,128**		
Equity instruments		-			51,122	-		
Debt securities	52,731	45,622	59,357	53,002	3,038,830	2,771,911	3,095,745	2,828,362
of which: covered bonds			-	-	352,654	348,247	356,275	351,868
of which: issued by general governments	52,731	45,622	59,357	53,002	2,046,460	1,890,517	2,104,440	1,940,356
of which: issued by financial corporations	-	-	-	-	883,894	795,321	890,770	802,187
of which: issued by non-financial corporations	-	-	-	-	89,932	86,650	89,760	86,390
Other assets	153,163	-			5,943,205	434,765		

Table 45 – Collateral received of NLB

31.12.2020	Fair value of encumbered collateral received, or own debt securities issued	of which notionally eligible EHQLA and HQLA	Non-encumbered: Fair value of collateral received, or own debt securities issued available for encumbrance	of which EHQLA and HQLA
Collateral received	**-**	**-**	**-**	**-**
Loans on demand	-	-	-	-
Equity instruments	-	-	-	-
Loans and advances other than loans on demand	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or asset-backed securities	**-**	**-**	-	-
Own covered bonds and asset-backed securities issued and not yet pledged			-	-
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	**225,856**	**52,603**		

31.12.2019	Fair value of encumbered collateral received, or own debt securities issued	of which notionally eligible EHQLA and HQLA	Non-encumbered: Fair value of collateral received, or own debt securities issued available for encumbrance	of which EHQLA and HQLA
Collateral received	**-**	**-**	**-**	**-**
Loans on demand	-	-	-	-
Equity instruments	-	-	-	-
Loans and advances other than loans on demand	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or asset-backed securities	**-**	**-**	-	-
Own covered bonds and asset-backed securities issued and not yet pledged			-	-
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	**204,855**	**45,622**		

Table 46 – Sources of encumbrance of NLB Group and NLB

31.12.2020	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received, and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**81,878**	**104,757**

31.12.2019	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received, and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**77,585**	**97,686**

9. Exposure to market risk
(Article 445 of CRR)

Market risk is the risk that the Bank's earnings and/or economic value may be negatively affected by changes in market rates and parameters that effect on- and off-balance sheet positions (for example changes in foreign exchange rates, fluctuations in interest rates, credit spreads, equity prices, implied volatilities, and market liquidity). Market risks predominately arise from the Bank's core business activities – the banking book and the liquidity portfolio needed to support these activities.

Table 47 – EU MR1 – Market risk under the standardised approach of NLB Group

		31.12.2020		30.06.2020		31.12.2019	
		RWAs	Capital requirements	RWAs	Capital requirements	RWAs	Capital requirements
	Outright products						
1	Interest rate risk (general and specific)	80,650	6,452	2,375	190	2,675	214
3	Foreign exchange risk	1,169,913	93,593	557,325	44,586	520,375	41,630
9	**Total**	**1,250,563**	**100,045**	**559,700**	**44,776**	**523,050**	**41,844**

In 2020, the RWA for position risk increased by EUR 78.0 million and the RWA for foreign exchange risk increased by EUR 649.5 million due to completion of the acquisition process of Komercijalna Banka, Beograd.

9.1. Goals and principles of Market risk management
(Article 435.1 a, b, c, and d of CRR)

The objectives and risk management policy
The key objectives of NLB Group Market Risk Management as an independent risk function is to:

- regularly identify, evaluate, and assess all material market risk,
- monitor, manage, control, and steer market risk,
- define limits for trading activities consistent with the Group's Risk Appetite Framework (RAF), NLB Group Risk Strategy and business strategy in order to align top-down management targets with bottom-up business initiatives,
- ensure that NLB Group business lines do not expose the Bank to unacceptable losses outside of the risk appetite, and to contribute to income stability via independent identification, assessment, and understanding of market risk,
- constantly develop and upgrade market risk models and methodologies, including stress-testing and early warning systems.

Market Risk Management aims to accurately measure all types of market risks by a comprehensive set of risk metrics reflecting economic and regulatory requirements. To achieve this objective, market risk management works closely with business lines and other control and support groups.

NLB Group strategy is to secure cost-efficient funding from several diversified sources with an emphasis on ensuring of a long-term stable deposit basis, not to be exposed to large refinancing risk, and arrange lending with assurance of optimised risk-adjusted profitability. This gives rise to foreign exchange risk and structural interest risk due to mismatches in the Bank's assets and liabilities in terms of currency composition, maturity profile, and interest rate characteristics.

The Bank's security portfolio held for liquidity purposes is exposed to interest rate risk and credit spread risk, for example potential decline in market value due to a perceived change in credit quality of the issuers of the securities held in the portfolio.

Regarding market risks in the trading book, the Group pursues a low-risk appetite for market risk in the trading book. The exposure to trading (according to the CRR) is only allowed to be carried by the parent Bank as the main entity of the Group and is very limited. With the 2020 YE acquisition, the position of trading book increased due to position of Komercijalna Banka, Beograd, mostly referring to the liquid debt securities of the Republic of Serbia. Nevertheless, the Bank intends to further maintain a small trading portfolio, mainly to monitor market signals in the global markets. Respectively, it does not constitute a material risk to the Group's operations, while its tolerance for interest rate and credit spread risk in trading book is very low.

Structure and organisation
Financial Markets (Trading, Treasury, and ALM) and Investment Banking and Custody together with Global Risk, and Evaluation and Control, manage market risk in NLB Group. The Investment Banking and Custody is responsible for customer sales, Financial Markets is responsible for short- and long-term funding activities and investments for NLB Group's own account, for asset and liability management, liquidity portfolio collateral account portfolios, as well as other banking activities. These Business Lines are responsible for managing the risk under the framework (principally through limits) as set by the Management Board and controlled by the ALCO.

NLB Group Market Risk Management operates under the three lines of defence framework, as described in Section 4.1 (General information on risk management, objectives, and policies).

In order to effectively manage NLB Group's market risks, the organisational structure allow making clear distinctions between market risk methods and risk models, valuations, and reporting. Market Risk is organised in following units:

- Global Risk, responsible for defining rules on risk appetite, Global Standards and Policies, and for the financial risk reporting coherence and coordination across the Group, as well as development of the ICAAP/ILAAP,
- Market and Liquidity Unit of Global Risk, responsible for governing and checking the Group's market and liquidity risk, parameterisation of the internal VaR limit system, calculation of capital requirement for the trading book position, the improvements and development of methodologies, as well as for internal and regulatory stress-testing and reporting to senior management and external reporting for regulatory purposes,
- Control and Evaluation, responsible for monitoring trading activities and its compliance, designing stop-loss limits, controlling credit counterparty exposures, and evaluating the financial instruments and additional valuation adjustments for managerial P&L.

The key responsibility of Global Risk is overseeing and controlling Group Market Risk through the assessment of strategies, policies, and the proposal of relevant risk limits and regulation. The department manages a coordination of the market risk operations of the banking subsidiaries, according to NLB Group Risk Management Standards and integrates the risk culture throughout NLB Group. Additionally, it formulates and modifies Group Methodologies and Market Risk Measurement Framework and takes into account the recommendations of regulators and the market best practices. The department ensures compliance of the market risk management with applicable laws and regulations.

The existing organisational structure assures a functional capability of governance, alignment, and monitoring market risk activities at an integrated portfolio level with dedicated and specialised risk managers, and so contributes to bring management processes in line with the best international practices.

Global Risk provides independent oversight of all significant market risks, supporting the Risk Committee, the ALCO and the Financial Markets with risk measurement, analysis, daily monitoring, and reporting.

Risk measurement and control
The Management Board of NLB Bank sets strategic objectives for exposing to market risk, which is aligned with the risk appetite and intended to create value for shareholders and to hold an adequate level of capital related to market risk. There are two committees responsible for market risk, namely the Group ALCO and the Risk Committee.

The Group ALCO monitors and addresses the risk profile and area of asset and liability of NLB Group. It is engaged in monitoring and analysing the developments in the global markets, changes and trends associated with the risk profile, balance sheet structure, financial statements of NLB Group, and formulating conclusions and guidance to achieve the target balance sheet structure.

The Committee's key objectives define and monitor the implementation of NLB Group policies related to risk management and the balance sheet, defining methodologies and limits for interest rate risk in the banking book, liquidity risk, foreign currency risk, transfer pricing, the Funding Plan, and the Contingency Funding Plan. The Group ALCO also discusses the profitability of security portfolios and other activities in the area of treasury and investment banking. Furthermore, the Committee ensures the alignment of practices and methodologies of NLB subsidiaries to NLB Group best practices in the respective areas and targets to optimise the liquidity and capital management aligned with the Group Business Strategy and Risk Appetite.

The Risk Committee is responsible for advising on general and future risk-taking, and with regard to risk strategy. It supports a supervisory function on the top management related to the implementation of the risk strategy, reviewing the remuneration and incentives whether they are linked to the risk, capital, and liquidity, and checking whether the product pricing is aligned with the business model and risk strategy of the Bank.

As regards the trading activities, the most significant market risks identified are interest rate risk (together with basis risk), credit spread risk, and foreign exchange risk. Market risk from trading activities is managed and monitored daily within the trading market risk framework, which includes all of the derivative book and the bond trading book. A prudent limit and control structure is in use. Market risk is guided by separate policies and methodologies, such as the Trading Book Market Risk Policy, the IRRBB Policy, and the FX Risk Policy.

Proper control is exercised over all elements in the process of market risk measurement and monitoring, including collection and delivery of data about positions, market factors, key pre-conditions, calculation of the risk amount, and reporting of risk exposure via appropriate chains of rights and responsibilities.

In relation to the market risk framework, several key risk metrics complimentary to each other are reported in order to measure and monitor businesses:

- Market risk models for limit-setting: value at risk (VaR), stressed value at risk (CVaR), and a basis point value approach (BPV) for a trading book,
- Stress-testing: portfolio stress-testing and event risk scenarios,
- Other market metrics**:** sensitivities.

The impact of larger market disruptions on the portfolio’s present value is quantified by stress-testing. The scenarios used are calibrated to historically observed market data and defined by hypothetical, but plausible parameter changes. Scenario analyses are performed for interest rate, FX rates, credit spread, and share price. Daily backtesting is employed to identify and analyse the potential exceedance of the value at risk.

To manage market risk, internal limits are set that correspond to NLB Group Risk Profile to thereby prevent market risk from exceeding our ability to withstand losses based on our financial strength represented by capital. The risk appetite towards market risk is low.

The amount of market risk in the trading book is limited by a value at risk (VaR) that may arise in order to close relevant positions. With the VaR model, the Bank seeks to approximate the changes in value the Bank’s value would experience in response to changes in the underlying risk factors. VaR identifies the probability that losses will be greater than a pre-specified threshold level. The Bank estimates VaR with a variance-covariance method. The VaR measure is computed daily with a 10-day holding period at a 99% confidence level.

For banking activities, the position limits are based on interest rate sensitivity using a basis point value approach (BPV). It assumes a parallel curve shift by 200 bps and NII sensitivity of 50 bps.

9.2. Policies for hedging or mitigating risk
(Article 435.1 d of CRR)

NLB Group separately identifies, measures, monitors, and controls market risk for the banking and trading book. Hedges of positions are separated on these two books.

When hedging interest rate risk in the banking book, NLB Group applies hedge accounting principles in the majority of cases. Within that process, NLB Group regularly measures hedge effectiveness of hedges on a monthly basis. Hedging in the banking book is well-documented, where a description is given of the: reasons for hedging, a description of the hedged risk, hedged items, and derivatives; the hedge accounting method (fair value hedge or cash flow hedge); the method for measuring effectiveness of the hedge; and how the results of hedges are recognised in our accounting statements. The trading book items are directly recognised in the income statement. NLB Group has BPV, VaR, and stop-loss limits in place, and open positions are managed within those limits.

Data Management and Reporting
The Evaluation and Control provides and maintains data quality in the front office system for market data in a trading book and utilises tools to control accuracy of report results. The Back Office provides and maintains data input and quality in reporting systems for market data in a banking book. Global Risk is responsible for defining a reporting structure and calculation methodology. The bank uses a centralised system for providing market data.

Global Risk reports timely, accurate, and material market risk data internally and externally. There is close alignment with the front and middle office in order to assess market risk at the integral level. This overall view is essential to inform management discussions that seek alignment between portfolios and the integrated risk appetite.

An adequate internal reporting system reflecting the NLB Group's exposure to market risk consists of:

- Daily measurement and limit control of the market risk in a trading book (VaR, sensitivity, stop-loss limit, and P/L reporting to Management),
- Weekly Report on the interest rate risk from the banking book,
- Comprehensive monthly and quarterly reports including Risk Reports and Stress-testing Results to Group ALCO and the Supervisory Board and own funding requirements for market risk in the trading book and interest rate risk in the banking book,
- Stress-testing.

External reporting is as follows:

- Capital requirements based on the standardised approach,
- Quarterly report to the regulators.

Own funds requirement for Market Risk
Global Risk monitors exposures and addresses risk issues and concentrations of certain exposures under a specific Market Risk Standardised Approach (MRSA). The MRSA is used to determine the regulatory capital charge for the market risk of the trading book as set out in CRR.

In the standardised approach for market risk, arising from position risk involving interest rate risk and derivatives, the minimum capital requirement is expressed in terms of two separately calculated charges. The capital charge for specific risk is modelled to protect against adverse movements in the price of an individual security due to factors related to the individual issuer. The capital charge for a general market risk is designed to measure the risk of loss arising from the changes in the market. In the case of foreign currency risk, the methods involved include measuring the exposure in a single currency position and measuring the risk inherent in a bank's mix of long and short positions in different currencies. For the capital requirements due to the general position risk at NLB Group, the maturity-based approach is used. Share price risk is not relevant for NLB Group.

Global Risk quarterly assesses and computes additional own fund requirements within Pillar II for market risk in the trading book (ICAAP). It is computed for a positions with respect to FX risk and interest rate risk in the trading book. The purpose of an ICAAP is to determine the adequate capitalisation of the Bank, given the risks endured, as well as future risks arising from growth, new markets, and expansion of the product portfolio.

Compliance with the Article 104 of CRR regarding Inclusion in the Trading Book
Compliance with an Article 104 of the CRR is ensured by appropriate policies and is regularly reviewed. The definition of the trading book is included in the Separation of Trading and Banking Book Policy.

Trading Book
The Trading Book includes the positions in financial instruments held either with trading intent or in order to hedge other elements of the Trading Book itself. Trade separation to the banking and trading book is done on the basis of the content. The risk that the value of a financial instrument changes over time is determined by the following standard market risk factors: credit spreads, equity risk, interest rate risk, and foreign exchange risk.

Banking Book
The main components of market risk in the Banking Book are:

- credit spread risk,
- interest rate risk,
- foreign currency risk.

More precisely, the different and complementary perspectives involve:

- Economic value (EVE) perspective,
- Earnings at Risk (EaR) perspective.

Compliance with the Article 105 of CRR regarding Prudent Valuation
All trading positions are valued according to the prudent valuation specified in Article 105 of CRR. Valuation is done on real-time basis as well as via end-of-day procedures. Senior management is being briefed on a regular basis, as well. All procedures are standardised and well-documented. The prudent valuation is set in the Financial Instruments Evaluation Methodology and other internal operational guides. Valuation adjustments are made where applicable (e.g., low liquid assets). On a daily level, different types of controls are performed to ensure that real-time data gathered for valuation purposes are appropriate.

10. Interest rate risk on positions not included in the trading book

(Article 448 of CRR)

10.1. The nature of the interest rate risk and key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and the frequency of measurement of the interest rate risk

Interest rate risk in the Banking Book is measured and monitored within a framework of Interest rate risk management policy that establishes consistent methodologies, models, limit systems, and controls. NLB Group regularly measures interest rate risk exposure in the banking book under various standardised and additional scenarios of changes in the level and shape of the interest rate yield curve and, furthermore, applies a cash flow modelling approach for positions with uncertain maturity and behavioural options. Part of non-maturing deposits, which is considered a core part, is allocated long-term by using a replicating portfolio. Optionality risk is mainly derived from behavioural options, reflecting in prepayments and withdrawals, and embedded options such as caps and floors. Moreover, in light of expected cash flows, non-performing exposures, as well as off-balance sheet items are considered when measuring interest rate risk exposure. Optionality models are, to a large extent, based on linear regression using the historical data as input.

The management of NLB Group's interest rate exposure is decentralised. Each member is responsible for its own interest rate risk policy, which includes a limit system and is in line with local regulatory requirements as well as the parent Bank's guidelines and standards. NLB monitors the interest rate risk exposure on weakly basis and of individual member of NLB Group on a monthly basis in accordance with the Standards for Risk Management in NLB Group.

Interest rate risk exposure arises mainly from banking book positions, particularly in the current low interest rate environment and surplus liquidity where NLB Group records increased volume of fixed interest rate loans, mostly housing loans, and long-term high-quality debt securities. In terms of funding, non-banking sector deposits continue to increase mostly in the form of sight deposits and savings accounts.

10.2. The variation in earnings, economic value, or other relevant measures 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

Interest rate risk is the risk to NLB Group's capital and earnings arising from changes in market interest rates. Interest rate risk management of NLB Group includes all interest rate-sensitive on- and off-balance sheet assets and liabilities which are divided into the trading and banking book according to regulatory standards. It considers the positions in each significant currency (EUR, USD, CHF, and others). Interest rate risk management in NLB Group is adopted in accordance with conservative risk strategy and is based on general Basel standards and EBA guidelines.

NLB Group is managing interest rate risk exposure through two main measures:

- Economic value sensitivity – using the BPV method, which measures the extent to which the value of the portfolio would change if interest rates change according to the scenario,
- Sensitivity of net interest income – using the EaR method, which measures the impact of the interest rate change on future net interest income over a one-year period, assuming constant balance sheet volume and structure.

NLB Group manages interest rate positions and stabilises its interest rate margin through an appropriate pricing policy and a fund transfer pricing policy. An important part of managing interest rate risk is also the securities portfolio of the banking book whose primary purpose is to maintain adequate liquidity reserves while it also contributes to the stability of the interest rate margin. This is why a valuation risk has been included in NLB Group's interest rate risk management model. NLB Group also manages risk by using plain vanilla derivative financial instruments (interest rate swaps, overnight index swaps, cross currency swaps, and forward rate agreements), most of which are treated according to hedge accounting rules.

11. Equity holdings not in the trading book

(Article 447 of CRR)

NLB Group's non-trading book equity holdings primarily consist of financial assets measured at fair value through other comprehensive income of which the main part represents the National Resolution Fund which was funded and is controlled by the Bank of Slovenia in accordance with the Bank Authority and Fund Act (ZOSRB).

Table 48 – Equity holdings not in the trading book of NLB Group

		31.12.2020	31.12.2019
1	Investments in associates and joint ventures	7,998	7,499
2	Non-current assets classified as held for sale	-	3,409
3	Equity investments - measured at fair value through OCI	67,799	49,623
3a	of which: National Resolution Fund	44,874	44,687
4	Equity instruments mandatorily at FV through P&L	4,171	3,167
5	**Total**	**79,968**	**63,698**

Accounting treatment and valuation

NLB Group's exposure to equity securities measured at fair value through other comprehensive income has a balance sheet value of EUR 67,799 thousand (in 2019: EUR 49,623 thousand) of which quoted on the active market amounted to EUR 703 thousand (2019: EUR 3,288 thousand).

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. At the subsequent measurements, equity investments are measured at fair value. The fair value of financial instruments traded on active markets is based on the price that would be received at the sale of the assets, 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.

In the consolidated financial statements, investments in associates and joint ventures are accounted for using the equity method of accounting. In 2019, NLB Group and NLB classified joint venture NLB Vita as non-current assets held for sale, due to its expected sale in 2020. In May 2020, all the suspensive conditions under the joint NLB and KBC Insurance NV sale agreement signed in December 2019 where met, therefore the sale of NLB's 50% stake in the share capital of NLB Vita was completed.

In 2020 and 2019, NLB Group and NLB did not sell any equity securities measured at fair value through other comprehensive income.

12. Liquidity risk management – goals and principles of risk management
(Article 435.1 of CRR)

Liquidity Risk Management Framework
Liquidity Risk Management is considered as one of the most important risk, and consequently is managed very deliberately. Liquidity Risk Management of NLB Group is defined as the capacity to meet its cash and obligations without incurring potential losses that are not aligned with risk appetite. Adequate liquidity is dependent upon NLB Group's ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting daily operations and the financial position of NLB Group. The primary role of liquidity risk management is to assess the need for funds to meet obligations and ensure the availability of cash or collateral to fulfil those needs on time by coordinating the various sources of funds available to NLB Group under normal and stressed conditions.

Liquidity risk is related to funding liquidity risk (the Group's liquidity on the liabilities side) and market liquidity risk (liquidity reserves on the assets side). On the liabilities side, liquidity risk can result in a loss if NLB Group is unable to settle all of its liabilities or when the Bank, because of its incapacity to provide sufficient funds to settle its obligations, is forced to provide the necessary funds at a cost which significantly exceeds the normal cost. On the assets side, the liquidity risk is related to the market value of liquidity reserves and arises in the case of significant reduction of market value of an individual financial instrument and may result in the insufficient value of liquidity reserves to cover the Bank's liquidity needs.

Strategies and processes in the management of liquidity risk
NLB Group has set up a sound Liquidity Risk Management Framework which enables a reliable process for identifying, measuring, monitoring, and controlling liquidity risk in the short and long-term. NLB Group defined the risk appetite towards liquidity risk wherein the tolerance was determined as low. It is in line with NLB Group's business strategy and aligned with the most important strategic business, financial, and risk objectives.

NLB Group identified key liquidity risk drivers, set the limit system framework, liquidity score, designed liquidity stress-testing scenarios, and prepared a liquidity contingency plan, set a determination of the appropriate level of the liquidity buffer. NLB Group has active strategies and clearly defined measurable tolerances to manage liquidity and funding risk, which were established through the Liquidity risk management policy of NLB Group.

Furthermore, NLB Group defines liquidity risk tolerance with several indicators such as LCR, NSFR, and LTD. The respective risk bearing capacity is accordingly considered in Group's daily operations and in financial planning activities. The goal of NLB Group is that it fulfils the regulatory liquidity requirements at any point of time.

The LCR is designed to ensure that financial institutions have the necessary assets on hand to ride out short-term liquidity disruptions. NLB Group is required to hold an amount of highly liquid assets, such as cash and bonds equal to or greater than the potential net cash outflows over a 30-day period. Under the Basel regulation, an LCR of 100% has been required since 2018.

The NSFR requires banks to maintain a stable funding profile in relation to the composition of assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the probability that disruptions to the Group's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress.

Furthermore, NLB Group established the ILAAP process with the aim of ensuring the robust management of liquidity risk and comprehensive internal liquidity adequacy assessment on solo and consolidated levels. NLB Group strategic guidelines for liquidity risk are aligned with the Risk Appetite and the Risk Strategy, while elaborated into more details in an internal liquidity policy. At the operational level, it describes how liquidity management is executed, supported, and controlled in NLB Group.

More detailed rules, limits, guidelines, and competences related to risk management are defined in the individual internal guidelines, policies, and rules on the level of NLB Group (e.g., NLB Group Risk Management Standards), or on the level of each individual member of NLB Group.

Due to local specifics (macroeconomic conditions, requirements of the local regulation), some sets also include more detailed guidelines for bank members of NLB Group, but nevertheless all group members should follow the uniform key risk guidelines at the Group level established by the parent bank NLB.

As regards the assumption and management of liquidity risk, NLB Group has rules and a system of responsibility specified in:

- Definition of the risk profile and risk appetite at the level of NLB Group,
- ILAAP process in NLB Group,
- Liquidity Risk Management Policy of NLB Group with appendices,
- NLB Group Risk Management Standards and Guidelines for managing liquidity risk in NLB Group,
- Methodology of implementing the ICAAP process in NLB Group in the area of liquidity risk,
- Operating instructions and lists of work procedures in the Bank's liquidity management,
- Rules of Procedure of the Assets and Liabilities Committee of NLB Group
- Rules of procedure of the Liquidity Management Group,
- Assets and Liabilities Management Policy of NLB Group,
- Funds Transfer Pricing – manual.

Structure and organisation of the liquidity risk management function
Liquidity governance is established in a way that enables reliable process for identifying, measuring, monitoring, and controlling liquidity risk. Ensuring the appropriate volume of liquidity and the management of liquidity reserves in NLB Group is carried out in a decentralised manner in accordance with the requirements of the local regulations and the applicable internal guidelines and policies inside NLB Group.

The Management Board is obliged to define the Group's risk appetite (risk profile of the Group) as a framework for the determination of the method of managing liquidity risk in NLB Group. The Management is also responsible for adopting decisions in the area of liquidity management, ordinarily through membership and participation in the work of the ALCO. The Management Board is also responsible for the establishment of appropriate procedures for the measurement, management, supervision, and reporting in the area of liquidity risk management.

There are two committees responsible for liquidity risk management of NLB Group: the ALCO and Risk Committee. ALCO adopts decisions concerning liquidity risk management and provides guidelines, defines the structural and income criteria in order to ensure an adequate volume of liquid investments, sets up the basic criteria for the structure of bank sources, establishes internal control mechanisms in the field of liquidity risk management and analyses the findings of audit services in this area, approves and revises the Liquidity Risk Management Policies approves and revises the Liquidity Contingency Plan, and ensures its implementation in the case of activation.

The Liquidity Risk in NLB Group is managed in several departments as follows:

- **The Global Risk, Market, and Liquidity Risk Unit** is responsible for setting liquidity risk appetite and risk capacity bearing, and the Liquidity Risk Management Framework by establishing policies, methodologies, and limits on solo and consolidated levels. Global Risk independently controls and measures liquidity risk, reports liquidity risk independently to senior management, the Supervisory Board, and regulators. Global Risk prepares the ILAAP with other relevant departments, monitors daily data, monitors deposits from early withdrawals, performs a set of liquidity stress tests, prepares static liquidity gaps, prepares Minimal Liquidity Standards of NLB Group, and delegates the implementation of methodologies in banking members, etc.
- **The Financial Markets, Assets, & Liabilities Management (ALM) Unit** is responsible for adopting liquidity management decisions compliant with the policies and limits. The ALM Unit is responsible for internal transfer pricing and long-term borrowings on the capital markets. ALM prepares dynamic liquidity projections and several simulations, taking care of the rational use of the Group's secondary liquidity reserves and regularly reports to ALCO.
- **The Financial Markets, Trading, and Treasury Unit** is responsible for managing debt securities portfolio, providing liquidity within a single day, derivatives for the needs of liquidity in a certain currency and placing liquidity surpluses on the interbank market, preparing the Group's liquidity based on the plan of transactions, and others.

Scope of nature of liquidity risk reporting and measurement systems
NLB Group identifies and manages several types of liquidity risk, such as: market liquidity risk, operational, structural, and intraday liquidity risk, stressed liquidity risk, funding concentration risk, and foreign exchange liquidity risk.

NLB Group implemented different tools for measuring liquidity risk in the form of maturity structures, stress tests, and the stability of sight deposits, liquidity projections of future cash flows, a scoring model, and other relevant indicators. Internal methodological approaches enable monitoring liquidity on the operating (including intraday liquidity), as well as the structural level, including the definition of a crisis plan and liquidity management in exceptional circumstances. Liquidity risk management is continuously reviewed, and the liquidity situation regularly evaluated.

NLB Group measures and manages its liquidity in three stages: current exposure and compliance, forward-looking and stress-testing, and liquidity in exceptional circumstances. Overall assessment of the liquidity position of the Group (including all three stages) is assessed in the ILAAP process.

Global Risk calculates internal liquidity ratios on a solo level for NLB on a monthly basis and reports them to the Assets and Liabilities Committee of the Group. Limits and warning levels are defined for each liquidity ratio, separately for core (banking members) and non-core members and for the consolidated level. Global Risk in NLB as a parent bank determines internal liquidity ratios, limits, and warning levels for other banking members. However, a banking member can set their own limit levels differently only if required by local regulations and if these limits are stricter than levels prescribed by the parent bank. For other banking members of NLB Group members, internal liquidity ratios are monitored monthly and reported quarterly to the ALCO, including results on the consolidated level. Reports on the liquidity risk management are submitted to senior management, ALCO, the Supervisory Board, and regulators on a regular basis.

Global Risk reports liquidity risk such as:
- Monthly Reports to the ALCO (Calculations of internal liquidity ratios and monitoring results for other group members, Results of the Scoring Model, Results of Liquidity Reserves, Liquidity Gaps, Stability of Sight Deposits, Results of the Regular Liquidity Stress tests, and preparing simulations in case of sudden realisation of unexpected outflows and Results of the Intraday Liquidity Stress Tests),
- Monthly Reports to the Central Bank (LCR, ALM metrics, Liquidity ladder),
- Quarterly Reports to the ALCO and Supervisory Board,
- Quarterly Reports to the Central Bank (asset encumbrance, GLTDF indicator, NSFR ratio).

Policies for hedging and mitigating the liquidity risk, and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants
NLB Group mitigates liquidity risk in several ways, such as planning liquidity needs for different periods, maintaining enough liquidity reserves, monitoring early warning indicators, performing stress-testing, and updating the Liquidity Contingency Plan for an extreme circumstance.

Global Risk conducts liquidity stress tests and reverse stress tests on a monthly basis. NLB Group performs stress tests under three scenario types (market, idiosyncratic, and combined) and two intensities (adverse and extreme).

Based on the stress tests, the minimum amounts of unencumbered liquidity reserves are determined for each banking member that it has to hold in order to cover potential unexpected outflows. The minimum criteria is that the Bank should have the amount of liquidity reserves to survive three months of adverse combined stress scenario.

In planning cash flows, NLB Group must consider several possible situations, scenarios, which have different impacts on the Bank’s liquidity. The first projection of cash flows must be prepared in the so-called “normal” or current circumstances in which NLB Group operates and satisfies daily requirements for liquid funds (baseline scenario, assumptions used according to the budget). A second projection of cash flows is prepared based on of the first, basic projection, and considers the deterioration of current circumstances. Fewer inflows and more outflows from the Group’s operations are foreseen, as well as a deteriorated situation in fundraising, and the negative effects of the debt securities’ credit quality which represent the largest part of liquidity reserves, a so-called moderate scenario. Furthermore, NLB Group prepares adverse scenarios, considering additional deterioration of liquidity situation of the Bank and future cash flows.

Dynamic liquidity projections are prepared monthly or, if necessary, more often. Static liquidity gaps are prepared by the Global Risk, Market, and Liquidity Risk. Dynamic liquidity projections are prepared by the Financial Markets, and Assets and Liabilities Management. In the projection of cash flows, the real assumptions and information on new transactions from business plans and the known business events are also included. The Assets and Liabilities Management presents the dynamic liquidity projections to the ALCO, which then adopts the necessary decisions for successful management of the Bank's liquidity in the future, based on the presented results.

NLB Group has developed methodology for intraday liquidity stress-testing in order to define the minimum level of liquidity reserves that have to be held for intraday liquidity purposes.

The purpose of the Liquidity Contingency Plan (LCP) is to establish guidelines for liquidity management in stressed circumstances. The objective of the LCP is timely identification of potential problems, drafting proposals, and finding resolutions for performing activities in stressed circumstances. The LCP is prepared on a standalone basis, considering only the liquidity stress of NLB. Each banking member of NLB Group has its own document describing potential funding sources and roles and responsibilities of units and decision-makers in times of stressed circumstances.

In the early warning system, warning limits for liquidity indicators were defined for each banking member of NLB Group. The main goal of a warning limit is to prevent any exceeding in the future and to activate at an early stage a warning that a member is moving towards the limit. If a bank or banking member exceeds the limit this would result in a higher Liquidity Score of that bank, which is closely correlated with the LCP activation. If the LCP is activated, there are detailed activities defined in the plan that would enable the bank or a member to restore its liquidity position. Additionally, a Recovery Plan has been set up on the Group level, where detailed recovery options are defined and would enable NLB Group to recover from liquidity run-off shock back to normal business.

NLB Group maintains the appropriate level of liquidity reserves in the form of cash and other highly liquid and unencumbered assets that are available in a relatively short time. Liquidity reserves enable the settling of overdue liabilities within a predefined short period of stressed liquidity situation. Unencumbered assets represent a liquidity buffer, which includes cash, money market placements, high quality debt securities, and ECB eligible loans. At the end of December 2020, NLB Group had 44.6% of unencumbered liquidity reserves in total assets (42.5% at the end of 2019).

Declaration of the management on the adequacy of liquidity risk arrangements and a liquidity risk statement approved by the management board associated with the business strategy are disclosed in Appendix 2 and Appendix 3.

Liquidity coverage ratio
The liquidity coverage ratio (LCR) refers to highly liquid assets (HQLA), which consist of cash or assets that can be converted into cash at little or no loss of value in private markets to meet its liquidity needs for a 30-calendar day liquidity stress scenario. The LCR aims to protect NLB Group from runs by increasing the creditor's confidence in such a way to rely more on equity and less on debt. LCR may also reduce their maturity mismatches by means of extension in the liability maturities and the reduction of asset maturities. The minimum liquidity coverage is set at 100%.

Concentration of funding and liquidity sources
In accordance with the Risk appetite statement of the Group, tolerance for liquidity risk is low. Therefore, the goal of the funding strategy is to ensure a sufficient, stable, and well-diversified funding base in the long term and compliance with relevant regulatory frameworks.

The funding strategy in NLB is established in a way that enables diversification, minimises concentration risk, and limits the reliance on a short-term wholesale funding or other unstable sources. With the objective to efficiently manage liquidity and funding risk, NLB Group regularly performs stress tests and makes liquidity projections under different scenarios. With this approach, NLB Group is able to detect any potential liquidity and funding needs early.

In accordance with the business model, the primary source of funding of NLB Group represent non-banking sector deposits. NLB Group's deposit base is highly stable and diversified. Due to the high importance of non-banking deposits in the Group's funding, it is very important to limit high concentration. The desired diversification is achieved using different instruments, including the application of limits by type of counterparty. Dependence on wholesale funding is low. NLB Group takes into consideration concentration of funding to have well diversified sources of funding and to prevent unwanted effects of concentration. For non-banking sector deposits as main funding sources of NLB Group, a limit is set to prevent a too high concentration of depositors.

Limits values are also set for other Group members and defined in the Group Risk Management Standards. All banking members of NLB Group must adopt limits values in their policies and comply with the limits. Any deviations from the limit values must be reported and justified to the parent bank. The funding structure is presented on ALCO monthly.

ALM metrics are prepared on solo (for NLB) and Group levels.

On the NLB Group level, at the end of 2020, the top 30 counterparties provided 2.6% of the total liabilities, mostly by retail, while the top 30 counterparties in NLB provided 3.0% of the total liabilities.

Derivative exposures and potential collateral calls
NLB Group enters into the derivatives to support corporate customers and financial institutions in their management of financial exposures (sales business) and in order to manage the NLB Group risks such as interest rate risk and FX risk.

To mitigate CCR risk arising from derivatives, NLB Group uses netting agreements such as ISDA Master Agreement, Global Master Repurchase Agreement (GMRA), and Slovenian framework agreement. Further, collateral agreements (e.g., ISDA Credit Support Annex) are in place to substantially reduce credit risk arising out of derivatives transactions. Additionally, clearing transactions via clearing house is in place for relevant derivatives transactions. Daily margin call calculations are in place for each relevant counterparty. Portfolio reconciliation is agreed as per European Market Infrastructure Regulation (EMIR). NLB is calculating net positive market value for individual counterparty exposure on daily basis, and as a result collateral is adjusted accordingly. Regarding the LCR, the CCR exposure from the derivatives is low and there are no significant outflows to be recorded.

Currency mismatch in the LCR
The parent bank NLB actively manages liquidity risk exposures and funding needs within and across legal entities, business lines, and currencies, considering legal, regulatory, and operational limitation to the transferability of liquidity. Specific characteristics and liquidity risks of foreign exchange positions are considered, particularly when preparing the plan of cash flows by currency.

In NLB Group, there are no currency mismatches in the LCR. The LCR indicator is fulfilled in all currencies because NLB Group has enough liquidity reserves in all currencies where the outflows might happen. The most significant currency of NLB Group is euro currency. Additionally, the Group reports LCR in a second significant currency, which is from acquisition of Komercijalna Banka, Beograd on 30.12.2020 in Serbian dinar (RSD), whereas before the second significant currency was the Macedonian denar (MKD). As at 31.12.2020, the aggregate liabilities in RSD represented 7.6% of total liabilities of the Group, therefore, RSD qualified as a significant currency.

A description of the degree of centralisation of liquidity management and interaction between the group's units
All core members of NLB Group (banking members) are self-funded. Intragroup funding is provided predominantly to non-core members that are in the process of disinvestment. However, NLB provides intragroup funds also to other banking members in order to meet their capital needs (subordinated debt). Liquidity risk management is under strict monitoring by NLB as a parent bank. Reporting to NLB by all group members is done on a daily and monthly basis.

Other items in the LCR calculation that are not captured in the LCR disclosure table
NLB Group is focused on the retail banking activities, therefore the structure of the balance sheet does not include any complex products. There are no other items in the LCR calculation that are not captured in the LCR disclosure table.

Liquidity of the bank is strong, and the volume of unencumbered liquidity reserves is at a high level. The Global Risk view is that liquidity position is strong, and it will continue to maintain at high levels, as is also reflected in liquidity planning and cash flow forecasting.

Tables below illustrate the values and data for each of the four calendar quarters (January-March, April-June, July-September, and October-December). They are calculated as a simple average of observations on the last calendar day of each month for a period of 12 months before the end of each quarter.

Table 49 – LIQ1 – LCR disclosure table, on quantitative information of LCR which complements Article 435.1 f of CRR of NLB Group, data in EUR millions

		Total unweighted value (average)				Total weighted value (average)			
	Quarter ending on	**31.12.2020**	**30.09.2020**	**30.06.2020**	**31.03.2020**	**31.12.2020**	**30.09.2020**	**30.06.2020**	**31.03.2020**
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)	-	-	-	-	4,493	4,187	3,853	3,538
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	10,121	9,364	8,860	8,340	614	595	589	578
3	*Stable deposits*	7,128	6,496	6,079	5,716	356	325	304	286
4	*Less stable deposits*	2,220	2,355	2,522	2,624	257	270	285	292
5	Unsecured wholesale funding	1,861	1,692	1,557	1,414	902	831	773	707
7	*Non-operational deposits (all counterparties)*	1,861	1,692	1,557	1,414	901	831	773	707
8	*Unsecured debt*	1	-	-	-	1	-	-	-
9	Secured wholesale funding	-	-	-	-	-	-	3	9
10	Additional requirements	1,643	1,541	1,450	1,344	263	222	181	136
11	*Outflows related to derivative exposures and other collateral requirements*	144	112	78	42	144	112	78	42
13	*Credit and liquidity facilities*	1,498	1,429	1,372	1,302	118	110	103	94
14	Other contractual funding obligations	121	91	58	26	38	29	17	15
15	Other contingent funding obligations	994	963	938	908	60	60	64	68
16	**TOTAL CASH OUTFLOWS**					**1,875**	**1,738**	**1,627**	**1,513**
Cash-inflows									
18	Inflows from fully performing exposures	523	529	563	584	362	367	396	415
19	Other cash inflows	18	17	19	23	18	17	19	23
20	**TOTAL CASH INFLOWS**	**541**	**546**	**582**	**607**	**379**	**384**	**415**	**438**
EU-20c	*Inflows subject to 75% cap*	541	546	582	607	379	384	415	438
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**	-	-	-	-	**4,493**	**4,187**	**3,853**	**3,538**
22	**TOTAL NET CASH OUTFLOWS**	-	-	-	-	**1,496**	**1,353**	**1,208**	**1,066**
23	**LIQUIDITY COVERAGE RATIO (%)**	**-**	**-**	**-**	**-**	**303%**	**311%**	**321%**	**333%**

		Total unweighted value (average)				Total weighted value (average)			
	Quarter ending on	**31.12.2019**	**30.09.2019**	**30.06.2019**	**31.03.2019**	**31.12.2019**	**30.09.2019**	**30.06.2019**	**31.03.2019**
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)	-	-	-	-	3,387	3,224	3,106	2,958
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	8,105	7,886	7,691	7,515	558	542	531	522
3	*Stable deposits*	5,575	5,400	5,228	5,055	279	270	261	253
4	*Less stable deposits*	2,531	2,486	2,463	2,461	280	272	269	269
5	Unsecured wholesale funding	1,375	1,312	1,281	1,276	680	647	638	641
7	*Non-operational deposits (all counterparties)*	1,375	1,312	1,281	1,276	680	647	638	641
9	Secured wholesale funding	-	-	-	-	11	10	7	2
10	Additional requirements	1,290	1,246	1,194	1,161	109	104	98	96
11	*Outflows related to derivative exposures and other collateral requirements*	17	14	12	11	17	14	12	11
13	*Credit and liquidity facilities*	1,273	1,232	1,182	1,150	93	90	86	84
14	Other contractual funding obligations	26	22	22	24	15	11	11	12
15	Other contingent funding obligations	874	845	823	804	71	73	71	69
16	**TOTAL CASH OUTFLOWS**					**1,444**	**1,387**	**1,356**	**1,342**
Cash-inflows									
18	Inflows from fully performing exposures	590	607	606	613	420	439	443	452
19	Other cash inflows	18	24	30	26	18	24	30	26
20	**TOTAL CASH INFLOWS**	**608**	**631**	**636**	**638**	**437**	**464**	**473**	**478**
EU-20c	*Inflows subject to 75% cap*	608	631	636	638	437	464	473	478
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**	-	-	-	-	**3,387**	**3,224**	**3,106**	**2,958**
22	**TOTAL NET CASH OUTFLOWS**	-	-	-	-	**996**	**913**	**875**	**862**
23	**LIQUIDITY COVERAGE RATIO (%)**	**-**	**-**	**-**	**-**	**341%**	**355%**	**356%**	**345%**

Table 50 – LIQ1 – LCR disclosure table, on quantitative information of LCR which complements Article 435.1 f of CRR of NLB, data in EUR millions

		Total unweighted value (average)				Total weighted value (average)			
	Quarter ending on	**31.12.2020**	**30.09.2020**	**30.06.2020**	**31.03.2020**	**31.12.2020**	**30.09.2020**	**30.06.2020**	**31.03.2020**
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)	-	-	-	-	4,120	3,858	3,554	3,275
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	6,943	6,634	6,350	6,071	399	395	392	389
3	*Stable deposits*	5,613	5,261	4,943	4,638	281	263	247	232
4	*Less stable deposits*	1,041	1,177	1,308	1,433	119	132	145	157
5	Unsecured wholesale funding	1,206	1,106	997	897	636	596	545	497
7	*Non-operational deposits (all counterparties)*	1,206	1,106	997	897	636	596	545	497
8	*Unsecured debt*	1	-	-	-	1	-	-	-
9	Secured wholesale funding	-	-	-	-	-	-	3	9
10	Additional requirements	1,378	1,287	1,178	1,064	263	220	172	125
11	*Outflows related to derivative exposures and other collateral requirements*	144	112	78	42	144	112	78	42
13	*Credit and liquidity facilities*	1,233	1,174	1,100	1,022	118	108	94	83
14	Other contractual funding obligations	83	67	46	25	25	22	15	14
15	Other contingent funding obligations	648	636	625	613	36	36	36	35
16	**TOTAL CASH OUTFLOWS**					**1,359**	**1,269**	**1,162**	**1,069**
Cash-inflows									
18	Inflows from fully performing exposures	273	280	291	292	166	169	175	176
19	Other cash inflows	16	15	17	20	16	15	17	20
20	**TOTAL CASH INFLOWS**	**289**	**295**	**307**	**312**	**182**	**184**	**192**	**196**
EU-20c	*Inflows subject to 75% cap*	289	295	307	312	182	184	192	196
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**	-	-	-	-	**4,120**	**3,858**	**3,554**	**3,275**
22	**TOTAL NET CASH OUTFLOWS**	-	-	-	-	**1,177**	**1,084**	**967**	**864**
23	**LIQUIDITY COVERAGE RATIO (%)**	-	-	-	-	**351%**	**358%**	**370%**	**381%**

		Total unweighted value (average)				Total weighted value (average)			
	Quarter ending on	**31.12.2019**	**30.09.2019**	**30.06.2019**	**31.03.2019**	**31.12.2019**	**30.09.2019**	**30.06.2019**	**31.03.2019**
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)	-	-	-	-	3,144	2,999	2,898	2,760
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	5,938	5,813	5,685	5,553	379	371	362	353
3	*Stable deposits*	4,559	4,481	4,397	4,306	228	224	220	215
4	*Less stable deposits*	1,379	1,332	1,288	1,247	151	146	142	138
5	Unsecured wholesale funding	875	829	826	844	479	452	454	465
7	*Non-operational deposits (all counterparties)*	875	829	826	844	479	452	454	465
9	Secured wholesale funding	-	-	-	-	11	10	7	2
10	Additional requirements	1,009	975	935	912	98	93	88	86
11	*Outflows related to derivative exposures and other collateral requirements*	17	14	12	11	17	14	12	11
13	*Credit and liquidity facilities*	992	961	923	901	81	79	76	74
14	Other contractual funding obligations	25	21	21	21	14	10	10	9
15	Other contingent funding obligations	595	581	568	558	35	34	33	33
16	**TOTAL CASH OUTFLOWS**					**1,015**	**969**	**954**	**948**
Cash-inflows									
18	Inflows from fully performing exposures	295	317	324	333	177	199	208	220
19	Other cash inflows	16	23	29	26	16	23	29	26
20	**TOTAL CASH INFLOWS**	**311**	**340**	**353**	**359**	**193**	**222**	**237**	**245**
EU-20c	*Inflows subject to 75% cap*	311	340	353	359	193	222	237	245
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**	-	-	-	-	**3,144**	**2,999**	**2,898**	**2,760**
22	**TOTAL NET CASH OUTFLOWS**	-	-	-	-	**811**	**737**	**709**	**701**
23	**LIQUIDITY COVERAGE RATIO (%)**	-	-	-	-	**389%**	**410%**	**412%**	**397%**

13. Leverage

(Article 451 a, b, d, and e of CRR)

The leverage ratio is calculated in line with provisions from the CRR and CRD, including the amendments published in Commission Delegated Regulation (EU) No. 2015/62, 2016/200, and 2016/428. The leverage ratio was introduced into the Basel III framework as a simple, transparent, non-risk-based supplementary measure to the risk-based capital requirements. The purpose of the leverage ratio is to limit the size of bank balance sheets, and with a special emphasis on exposures, which are not weighted within the framework of the existing capital requirement calculations. Therefore, 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. From 1 January 2018 onwards, the leverage ratio is calculated in accordance with the fully phased definition of the capital measure and has become one of the mandatory minimum capital requirements.

Table 51 – Leverage ratio of NLB Group

	31.12.2020	30.09.2020	31.12.2019
Tier 1 capital	1,768,062	1,623,350	1,451,176
Total leverage exposures	22,603,903	17,929,822	16,671,280
Leverage ratio	**7.82%**	**9.05%**	**8.70%**

The leverage ratio of NLB Group as at 31 December 2020 amounted to 7.8%, which is well above the 3% threshold defined by the BCBS. Since the minimum requirement was exceeded so significantly, the risk of excessive leverage is not material. NLB Group's business model supports a low leverage risk appetite. In order to assure a limited risk appetite for leverage, NLB Group follows different indicators to identify reasons for past changes and understands potential future threats. The leverage ratio is also included in an early warning system, as a recovery plan indicator where it has set certain limits for a case of any exceedings of defined triggers and the defined notification system. The leverage ratio is regularly and quarterly monitored and reported to Capital Management Group, and the Management and Supervisory Boards of NLB. Moreover, the leverage is also integrated in a stress tests framework with the aim to maintain an adequate capital level even in the case of extraordinary circumstances. More specifically, if the leverage ratio also remains stable in such stressed conditions, the risk of a forced decrease in the Bank's assets is low.

Table 52 – LRCom - Leverage ratio common disclosure for NLB Group

		31.12.2020	30.09.2020	31.12.2019
		CRR leverage ratio exposures	CRR leverage ratio exposures	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)				
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	21,986,015	17,258,269	16,052,013
2	(Asset amounts deducted in determining Tier 1 capital)	(40,383)	(48,691)	(41,736)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**21,945,632**	**17,209,578**	**16,010,277**
Derivative exposures				
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	16,049	16,795	20,501
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	15,245	15,003	21,180
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(56)	(61)	(2,206)
8	(Exempted CCP leg of client-cleared trade exposures)	(6,780)	(6,856)	(9,617)
11	**Total derivative exposures**	**24,458**	**24,881**	**29,858**
Securities financing transaction exposures				
16	**Total securities financing transaction exposures**	**-**	**-**	**-**
Other off-balance sheet exposures				
17	Off-balance sheet exposures at gross notional amount	3,282,066	2,859,941	2,593,312
18	(Adjustments for conversion to credit equivalent amounts)	(2,474,076)	(2,164,578)	(1,962,167)
19	**Other off-balance sheet exposures**	**807,990**	**695,363**	**631,145**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (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))	(174,177)	-	-
Capital and total exposures				
20	Tier 1 capital	1,768,062	1,623,350	1,451,176
21	**Total leverage ratio exposures**	**22,603,903**	**17,929,822**	**16,671,280**
Leverage ratio				
22	**Leverage ratio**	**7.82%**	**9.05%**	**8.70%**

The leverage ratio as at 31 December 2020 decreased in comparison with the previous year, by 0.9 p.p. The decrease occurred primarily due to the higher value of the total leverage exposure calculated in accordance with Article 111 of the CRR by EUR 6,108 million. The higher amount of total leverage exposure arose from increased on-balance sheet exposures. It refers specifically to the banking book exposures treated as sovereign, retail, and corporate exposures, including higher off-balance sheet exposures. Exposures in derivatives increased in comparison with the previous year and are relatively unimportant. The impact of Tier 1 capital increase on the leverage ratio was EUR 315 million.

As at 31 December 2020, the leverage exposure was mainly driven by on-balance sheet exposures (97.1%), and other off-balance sheet exposure (3.6%), the rest was exposure from derivatives which is not significant. Among on-balance sheet exposures, the most significant were exposures treated as sovereigns (32.6%), retail exposures (23.5%), exposures to corporates (12.1%), and 17.5% to other exposures.

According to Article 500b of Regulation (EU) No 575/2013 as amended by Regulation (EU) 2019/876 and Regulation (EU) 2020/873 as regards the temporary exclusion of some central bank exposures from their total leverage exposure measure, the bank does not exercises this option related to CRR quick fix amendments from 11 August 2020 till 27 June 2021. The amount of excluded exposures as at 31 December 2020 was EUR 174 million.

Table 53 – LRSum – Summary reconciliation of accounting assets and leverage ratio exposures for NLB Group

		31.12.2020	30.09.2020	31.12.2019
1	**Total assets as per published financial statements**	**19,565,855**	**15,145,722**	**14,174,088**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(192)	(188)	(35,474)
4	Adjustments for derivative financial instruments	8,409	8,086	9,357
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	807,990	695,363	631,145
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)	(174,177)	-	-
7	Other adjustments	2,396,018	2,080,839	1,892,164
8	**Leverage ratio total exposure measure**	**22,603,903**	**17,929,822**	**16,671,280**

Table 54 – LRSpl – Split-up of on balance sheet exposures for NLB Group

		CRR leverage ratio exposures		
		31.12.2020	30.09.2020	31.12.2019
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**21,986,015**	**17,258,269**	**16,052,013**
EU-2	Trading book exposures	68,806	-	4,324
EU-3	Banking book exposures, of which:	21,917,209	17,258,269	16,047,689
EU-4	Covered bonds	355,023	358,742	359,324
EU-5	Exposures treated as sovereigns	7,173,097	5,215,809	4,428,498
EU-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns	585,295	356,228	370,202
EU-7	Institutions	975,702	811,422	682,651
EU-8	Secured by mortgages of immovable properties	962,450	948,357	961,232
EU-9	Retail exposures	5,176,729	3,996,466	3,889,344
EU-10	Corporate	2,667,570	2,342,488	2,371,157
EU-11	Exposures in default	181,998	131,912	111,318
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	3,839,345	3,096,845	2,873,963

14. Operational risk management

(Article 446 of CRR)

14.1. Approaches for the assessment of own funds requirements for operational risk

The capital requirement for operational risk is calculated using the basic indicator approach at the NLB Group level and using the standardised approach at the NLB level.

On 20 November 2020, EBA gave the clarification of meaning of "the last three twelve-monthly observations" in Articles 315(1) and 317(4) CRR regarding the calculation of operational risk requirements. Considering that explanation bank calculated its own funds requirement for the year 2020 using data based on the average of the relevant indicator calculated for each of the three new 12 month periods ending 31 December 2020, 2019 and 2018 (x, x-1, and x-2). Before that explanation bank uses data for the past three years (x-1, x-2 and x-3).

14.2. Description of other internal approaches and methodologies in the area of 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. The risk is also gradually decreasing due to the reduced complexity of operations in the NLB Group, with disinvestment process of non-core activities and optimisation of internal processes. The NLB 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. This is particularly valid in strategic banking members.

All NLB Group banking members monitor risk appetite limits for operational risk. The upper tolerance limit is 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, additional measures for the prevention or mitigation of the same or similar loss events are taken. The warning and critical limit of loss events are also defined, which in case of exceeding require escalation procedures and acceptance of possible additional risk management measures. In addition, the bank does not allow certain risks in its business – for them a so-called 'zero tolerance' was defined. For monitoring some specific more important key risk indicators, that could show a possible increase of an operational risk, the Bank developed a specific methodology as an early warning system. Such risks are periodically monitored in different business areas, and the results are discussed at the Operational Risk Committee. The latter was named as the highest decision – making authority in the area of operational risk management. 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 afore-mentioned bodies is to discuss the most significant operational risks and loss events, and to monitor and support the effective management of operational risks including their mitigation within an individual entity. All NLB Group entities, which are included in the consolidation, have adopted relevant documents that are in line with NLB standards. In banking 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 2020 were higher than in the previous year, partially also due to Covid-19 pandemic. Nevertheless, the reported incurred net loss remain within the set tolerance limits for operational risk.

In general, considerable attention is paid to reporting loss events, their mitigation measures and defining operational risks in all segments. To treat major loss events appropriately and as soon as possible, the Bank introduced an escalation scale for reporting bigger or more important 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. Furthermore, the methodology to monitor, analyse and report key risk indicators is established, servicing as an early warning system. The aim is to improve business and supporting processes, as well enabling prompt response.

Through comprehensive identification of operational risks, possible future losses are identified, estimated, and appropriately managed. The major operational risks are actively managed with the measures taken to reduce them. An operational risk profile is prepared once a year on the basis of the operational risk identification. Special emphasis is put on the most topical risks, among which in particular are those with a low probability of occurrence and very high potential financial influence. For this purpose, the Bank has developed the methodology of stress-testing for operational risk. The methodology is a combination of modelling loss event data and scenario analysis for exceptional, but plausible events. Scenario analysis are made based on experience and knowledge of experts from various critical areas.

15. Remuneration policy

15.1. Information on 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

(Article 450.1 a of CRR)

In compliance with ZBan-2, the Regulation on Internal Management Arrangements, Management Body, and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks and the Regulation on the application of the Guidelines 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 (EBA/GL/2015/22) on 27 June 2016, the Bank is obliged to prepare the Remuneration Policy at the levels of NLB Group, NLB, and subsidiaries applicable to categories of employees who, within the scope of their responsibilities or tasks and activities, may have a significant impact on the risk profile of the bank.

The Policy of Remuneration for the Employees Performing Special Work (hereinafter: 'the Remuneration Policy') entered into force on 1 January 2012. The Policy is regularly revised and aligned, in compliance with the requirements of the aforementioned regulations, the relevant guidelines, the Slovenian Corporate Governance Code for Joint-Stock Companies and the Corporate Governance Code for Companies with a State Capital Investment.

In 2019, the last changes to the Remuneration Policy came into force, when the banks' restrictions on remuneration imposed by law ceased to apply. In 2020 there were no changes in the Remuneration policy.

The Remuneration Policy regulates the remuneration of employees performing special work, i.e. those who can significantly impact the risk profile of the Bank in the scope of their tasks and activities. Through the system of governance and supervision of NLB Group the Remuneration policy, as described in the continuation, is also implemented at the level of all NLB Group members in compliance with local legislation and other regulations.

The Remuneration Policy shall be consistent with the goals of NLB and the NLB Group, the business strategy of NLB, the organisational culture and values, long-term interests, measures to prevent the conflicts of interest, risk profile and risk appetite.

In 2020, due to the COVID-19 pandemic, the European Central Bank issued recommendations on the distribution of dividends during the COVID-19 pandemic, which severely limited the implementation of the remuneration policy for employees with a special nature of work. On 10 April 2020, the Bank of Slovenia also issued a Decision on the Macroprudential Restriction for Banks' Profit Distributrion, to temporarily prohibiting the payment of a variable part of remuneration or establishing obligations for the payment of a variable part of remuneration, valid for one year, which the Bank of Slovenia may revoke extended.

The decision-making process about the formulation, amendments, and supplements to the Remuneration Policy involves the expert services, the Management Board, the Remuneration Committee, and the Supervisory Board of NLB, whereby the latter also approves the Remuneration Policy. In the formulation, preparation, or implementation of the Remuneration Policy, an external consultant was engaged, who was an attorney.

The Remuneration Committee of the Supervisory Board of NLB held six meetings in 2020.

The members of the Remuneration Committee until 25 June 2020 were:
- Alexander Bayr, President (termination on 15 June 2020)
- László Urbán, Deputy President (termination on 15 June 2020)
- Shrenik Dhirajlal Davda, member
- Gregor Rok Kastelic, member

The members of the Remuneration Committee from 26 June 2020 were:
- Gregor Rok Kastelic, President
- Mark William Lane Richards, Deputy President

- Shrenik Dhirajlal Davda, member
- Peter Groznik, member
- Sergeja Kočar, member

Pursuant to Article 52 of the ZBan-2 the **Remuneration Committee** discharges the following duties:

- 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 external consultant 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.

15.2. Information on the link between pay and performance
(Article 450.1 b of CRR)

The Remuneration 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.

In defining the employees performing special work, the internal organisation and the nature, scope, and complexity of the Bank's activities are considered. The criteria fully take into account the risks that the Bank or the NLB Group is or could be exposed to given its risk profile and risk appetite.

The Remuneration Policy supports the business strategy of the Bank, NLB and NLB Group goals, organisational culture, long-term interests, values, measures to prevent the conflicts of interest, risk profile and risk appetite. 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, taking into account all risks, including reputational risks and risks resulting from mis-selling or unethical selling of products or other unethical or non-compliant behaviour. The Bank ensures pursuing of this goal with an appropriate structure, amount, and method of payment of remuneration. 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 considers the fulfilment of obligations or achievement of goals referring to capital or liquidity and helps achieve and maintain a sound capital base.

Pursuant to the guideline from Item 6 of the Guidelines of the Bank of Slovenia on the application of the principle of proportionality when implementing income policies, the Bank defined the variable part of the remuneration for the purpose of Item 7 of the first paragraph of Article 170 of ZBan-2 by determining the bottom threshold in such a manner that the variable remuneration of an employee that does not exceed EUR 50,000 gross in a year is as a rule not considered a variable part of the remuneration for the purpose of Item 7 of the first paragraph of Article 170 of ZBan-2. The defined amount per employee, considering the principle of proportionality, risk strategy, and risk profile, ensures efficient and prudent risk management.

The Remuneration Policy shall apply to the employees performing special work who are defined as such based on the Bank's self-assessment updated during the year. An employee is considered an employee performing special work subject to the fulfilment of the criteria on the exposure in terms of risk profile and risk appetite, and self-assessment based on the qualitative and quantitative criteria from the Delegated Regulation (EU) No 604/2014 over a period of at least three months. The members of the Supervisory Board of NLB are not considered employees performing special work for the needs of this Policy and their remuneration is not regulated hereby.

Certain employees performing special work may be exempted from the application of the Remuneration Policy if the Bank estimates, based on self-assessment, that they do not meet the conditions set out in the Remuneration Policy, namely, performing work that has a significant impact on the Bank's risk profile.

The following financial and non-financial performance criteria are defined every year for assessing the performance of employees performing special work. The financial criteria consist of the goals of NLB that are approved by the Supervisory Board every year and apply to all employees performing special work, except for employees performing special work in control or supervisory function. The performance criteria for the employees performing special work who are included in the control or supervisory function are established on the basis of the goals of their function. Variable remuneration is awarded and paid depending on the achievement of goals linked to their functions, which should be independent from the efficiency of the organisational work they supervise.

The following goals in the following ratios shall be used for assessing the performance of an individual member of the Bank's Management Board:

- financial goals of the NLB Group 50%,
- financial goals in the areas covered by the member of the Bank's Management Board 30%,
- personal goals of the member of the Bank's Management Board 20%.

The maximum possible amount of the variable part of the salary of a member of the Bank's Management Board for each business year is eight salaries.

The tables 55 to 58 define the amount of the variable part of the salary of an employee performing special work for each business year, depending on the category.

Table 55 – Determination of the amount of the variable part of the salary for category 2 of employees performing special work for each business year

Assessment of performance	Goals of the NLB Group / NLB	Goals of the OU	Personal goals
5 – all goals exceeded	up to 2 salaries	up to 2 salaries	up to 2 salaries
4 – most of the goals exceeded	up to 1.5 salary	up to 1.5 salary	up to 1.5 salary
3 – goals achieved	up to 1 salary	up to 1 salary	up to 1 salary
2 – goals partly not achieved	-	-	-
1 – goals not achieved	-	-	-

The maximum possible amount of the variable part of the salary for for category 2 of employees performing special work for each business year is 6 salaries.

Table 56 – Determination of the amount of the variable part of the salary for category 3 of employees performing special work for each business year

Assessment of performance	Goals of the NLB Group / NLB	Goals of the OU	Personal goals
5 – all goals exceeded	up to 2 salaries	up to 2 salaries	up to 1 salary
4 – most of the goals exceeded	up to 1.5 salary	up to 1.5 salary	up to 0.75 salary
3 – goals achieved	up to 1 salary	up to 1 salary	up to 0.5 salary
2 – goals partly not achieved	-	-	-
1 – goals not achieved	-	-	-

The maximum possible amount of the variable part of the salary for for category 3 of employees performing special work for each business year is 5 salaries.

Table 57 – Determination of the amount of the variable part of the salary for category 4 of employees performing special work for each business year

Assessment of performance	Goals of the NLB Group / NLB	Goals of the OU	Personal goals
5 – all goals exceeded	up to 1 salary	up to 1 salary	up to 1 salary
4 – most of the goals exceeded	up to 0.75 salary	up to 0.75 salary	up to 0.75 salary
3 – goals achieved	up to 0.5 salary	up to 0.5 salary	up to 0.5 salary
2 – goals partly not achieved	-	-	-
1 – goals not achieved	-	-	-

The maximum possible amount of the variable part of the salary for for category 4 of employees performing special work for each business year is 3 salaries.

Table 58 – Determination of the amount of the variable part of the salary for category 5 of employees performing special work for each business year

Assessment of performance	Goals of the OU	Personal goals
5 – all goals exceeded	up to 2 salaries	up to 1 salary
4 – most of the goals exceeded	up to 1.5 salary	up to 0.75 salary
3 – goals achieved	up to 1 salary	up to 0.5 salary
2 – goals partly not achieved	-	-
1 – goals not achieved	-	-

The maximum possible amount of the variable part of the salary for for category 5 of employees performing special work for each business year is 3 salaries.

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 the 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 fail to achieve their personal goals, regardless of whether or not the goals the Bank and the OU have been achieved or not. The employee is not entitled to the annual variable part of the salary if they grossly violate the values of NLB Group defined in the Ethical Code of NLB Group.

When assessing the performance of the Management Board and when determining the scores, the Supervisory Board may take into account the interim situation on the banking and economic market, and assess the Management Board's achievement of goals considering its activities aimed at pursuing the Bank's best interest. The variable part of salary in NLB Group is paid after the confirmation of the Annual Report of the NLB Group.

In 2020 the annual variable part of the salary for the year 2019 was not paid in accordance with the Resolution of the Management Board of NLB and in accordance with the Bank of Slovenia Decision on the Macroprudential Restriction for Banks' Profit Distribution which has temporarily prohibited the payment of a variable part of salary or establishing obligations for the payment of a variable part of salary. The restriction regarding the payment of the variable part of salary also refers to the deferred part from 2016, which was also not paid to employees with a special nature of work in 2020.

15.3. The essential components of the policy of remuneration for employees performing special work
(Article 450.1 c of CRR)

The award and payment of the variable remuneration (also the deferred part) to the employee performing special work depends on adjustment criteria which result from risk management through the system for monitoring performance based on KPI and KRI targets at the level of the NLB Group, the Bank, and individual OUs. The criteria that are applied include compliance with the adopted policies, methodologies, orientations, regulators', and auditors' requirements as well as authorisations linked to the work of the employee performing special work.

The salary of the employees performing special work is composed of:

- a fixed part of the salary, and
- a variable part of the salary which depends on the following:
  - work depending on the performance of NLB Group (for the Management Board and some employees in category 2) and NLB (for other employees performing special work except employees in category 5),
  - work depending on the performance of the organisational unit of the employee performing special work,
  - work depending on individual performance of employee performing special work.

The ratio between the variable and the fixed components of salary differs depends on the category which are divided into the following five categories:

- Members of the Management Board of NLB,
- Employees performing special work who are members of the senior management in the Bank's front office and the assistants to the Bank's Management Board,
- Employees performing special work in the Bank's front office at level B-2 and area managers for the NLB Group,
- Employees performing special work in the back office of the Bank, who are members of the senior management, and employees not belonging to any other category hereunder but who are considered to have an important impact on the Bank's risk profile pursuant to the Commission Delegated Regulation (EU) No 604/2014,
- Supervisory or control functions.

The size of the impact on the risk profile of NLB and/or the NLB Group is measured with different criteria, namely:

- the size of potential impact on revenues,
- the size of potential impact on costs,
- the size of potential impact on credit risks,
- the size of potential impact on the business risk,
- the size of potential impact on the business strategy,
- the scope and content of cross-organisational operation.

If an employee performing special work meets two criteria from the previous paragraph or fewer, their potential impact on the risk profile of NLB and/or the NLB Group is small, if three criteria are met, the potential impact on the risk profile of NLB and/or the NLB Group is medium, and if at least four criteria are met, the potential impact on the risk profile of NLB and/or the NLB Group is great.

Depending on the size of potential impact on the risk profile of NLB and/or the NLB Group of an employee performing special work who belongs to the fourth category, their ratio between the fixed and the variable part of the salary can change. Based on the previous sentence, an employee performing special work who belongs to the fourth category:

- who meets three or four criteria from the first paragraph hereof can, for the purpose of this Policy, be included in the third category and awarded, for an individual business year, the variable remuneration in the amount planned for the employee performing special work from the third category;
- who meets four or five criteria from the first paragraph hereof can, for the purpose of this Policy, be included in the second category and awarded, for an individual business year, the variable remuneration in the amount planned for the employee performing special work from the second category.

The re-categorisation of an employee performing special work pursuant to the previous paragraph is proposed by the expert department in charge of the Remuneration Policy and decided upon by the Management Board of the Bank.

Performance of employees performing special work is measured using special financial (quantitative) and non-financial (qualitative) performance criteria that must be included in at least one of the aforementioned groups of goals.

Annual interviews are held with employees performing special work, where the expected results for previous year are discussed and goals for next year are defined based on NLB Group Strategy, the goals of NLB, as well as organisational goals, project goals and its personal development.

Goals of NLB Group and NLB
The Management Board sets the goals of NLB and NLB Group for each business year and the Supervisory Board approves them. The goals that are set for NLB Group apply to the Management Board and also to the employees performing special work who, within the scope of their authorities, have the possibility to influence the risk profile of the NLB Group. The goals that are set for NLB also apply to other employees performing special work, except for the employees performing special work in control or supervisory function.

The amount of the variable part of the salary of an employee performing special work hereunder for each individual business year is determined pursuant to the Remuneration Policy, depending on the fulfilment of the relevant goals from the previous paragraph; the maximum amount of the variable part of the salary of an employee performing special work hereunder for each individual business year is:

- 2 salaries for Categories 2 and 3 of the employees performing special work,
- 1 salary for Category 4 of the employees performing special work,
- Category 5 of the employees performing special work is not entitled to the variable part of the salary for this segment.

The definition of NLB Group goals is based on the financial and non-financial performance indicators. Given that the COVID19 pandemic created some limitations, the performance indicators were slightly adjusted, but main indicators were:

- Financial results of operations as per Group budget:
    - Net profit after tax,
    - ROE after tax,
    - Total revenues,
    - Total costs,
    - NPE (by EBA),
- Other financial targets:
    - Handling Corona crises and all effects from given restrictions,
    - CMO Scorecard,
    - SEE Banks under supervision,
    - Further optimisation of RWA-density,
    - NLP Wind down (incl. Off-balance positions) in NLB Group,
    - Capital Management (Tier2/AT1),
    - Strategic IT Capex and IT costs,
    - Management of Komercijalna Banka, Beograd transaction,
- Non-financial (strategy) targets:
    - Strategy implementation,
    - ESG Strategy definition and implementation,
    - Improved RWA-allocation logic (incl. external IRB-benefit-analysis),
    - Further AML enhancement,
    - Stabilisation of team in Credit Risk area,
    - Profitability Metrics,
    - Cost-containment portfolio,
    - Group IT Strategy definition and roll-out,
    - Stabilisation of IT area and accountable delivery capacity planning,
    - Cybersecurity backlog,
    - Management by objectives conducted by Board members,
    - Behaviours according to NLB Group values,
    - Transparent and objective attitude toward all stakeholders,
    - CSR plan completed according to plan.

Goals of the OU of the employee performing special work
The concrete targets which derive from the targets of NLB and/or the goals of the NLB Group of the organisational unit where the employee performing special work assumes risk are defined by their direct superior officer for each business year and include the following areas:

- business goals of the OU, project goals, cross-functional goals,
- financial goals of the OU (if specified).

The amount of the variable part of the salary of an employee performing special work hereunder for each individual business year is determined, depending on the fulfilment of the goals of the OU; the maximum amount of the variable part of the salary of an employee performing special work hereunder for each individual business year is:

- 2 salaries for Categories 2, 3 and 5 of the employees performing special work,
- 1 salary for Category 4 of the employees performing special work.

Personal goals of the employee performing special work (development, project, and other goals)
Personal goals of an employee performing special work are defined by their direct superior officer for each business year.

The amount of the variable part of the salary of an employee performing special work hereunder for each individual business year is determined pursuant to Article 18 of this Policy, depending on the fulfilment of the personal goals; the maximum amount of the variable part of the salary of an employee performing special work hereunder for each individual business year is:

- 2 salaries for Category 2 of the employees performing special work,
- 1 salary for Categories 3, 4 and 5 of the employees performing special work.

The goals are set by considering the adopted risk appetite and risk strategy defining the risk appetite in the framework of KPI & KRI targets.

The variable part of the remuneration should not be awarded or paid out when the effect would be that the capital base of the Bank would no longer be sound. If the soundness of the capital base is at risk, the Bank shall take the following measures when allocating and paying the variable remuneration within the required scope:

- reduce the variable bonus pool for the previous business year, even down to zero and appropriately consider such reduction when awarding the variable remuneration for the previous business year,
- use the necessary measures to adjust the performance, particularly the maluses for the reduction of previously approved but not paid deferred variable remuneration,
- reduce the previously paid remuneration based on the agreement on the return of variable remuneration,
- use the net profit of the institution for the previous business year and potentially for the current and the subsequent business years to strengthen the capital base.

Award of the variable part
Prior to awarding variable remuneration to an employee performing special work, the Bank makes the adjustment of such variable remuneration to performance and risks, considering the adjustment criteria based on the KPI and KRI goals, and the criteria listed in the table below. The table below shows the cases in which the Supervisory Board of the Bank and the Management Board of the Bank reduce the amount of variable remuneration (potentially down to zero) of a member of the Management Board or another employee performing special work, respectively, due to the preliminary risk adjustment prior to the awarding. If reduction to zero is not mandatory according to the table below, the competent body determines the reduction of the variable remuneration on the basis of the circumstances of each case.

The amount of the variable remuneration to be awarded, its composition, the share of variable part of the remuneration to be deferred and the period of payment deferment pursuant to this Remuneration Policy shall be determined by the Supervisory Board for the members of the Management Board, and by the Management Board for other employees performing special work.

The basis for the calculation of the amount of the variable part of the salary of an employee performing special work for each business year is the average (monthly) gross salary of such employee performing special work for the period of their term of office in this business year. Regardless of the previous sentence, if the employment contract of an employee performing special work stipulates a different basis for the calculation of the amount of their variable part of the salary for individual business year, the other base is used for such purpose.

Table 59 – Cases in which the amount of variable remuneration is reduced (potentially down to zero)

Ser. No.	Circumstances	Mandatory reduction of variable remuneration to zero	Reduction of variable remuneration, potentially to zero
1	The Bank's performance shows material negative trends that result from the decisions adopted by the employee performing special work in the accounting period, to which the variable remuneration is related	X	
2	Fraud or abuse by the employee performing special work	X	
3	Severe violations of the Bank's regulations or internal documents by the employee performing special work	X	
4	The actions of the employee performing special work show signs of a criminal offence	X	
5	The actions of the employee performing special work in the accounting period, to which the variable remuneration is related show signs of a minor offence		X
6	The actions of the employee performing special work in the accounting period, to which the variable remuneration is related reduce or damage the Bank's reputation		X
7	Violation of obligations arising from the employment relationship by the employee performing special work in the accounting period, to which the variable remuneration is related		X
8	Non-diligent conduct of the employee performing special work, which is intentional or arises from severe negligence in the accounting period, to which the variable remuneration is related, causing material damage to the Bank	X	
9	The actions of the employee performing special work in the accounting period, to which the variable remuneration is related, result in a conflict of interest with the Bank's business interests	X	
10	Corruptive actions of the employee performing special work resulting in or increasing the non-transparency in the adoption of business decisions	X	
11	The cooperation of such employee performing special work in, or their responsibility for, the actions that led to significant losses for the Bank	X	
12	Fit & Proper assessment of such employee performing special work is negative		X
13	The actions of such employee performing special work is contrary to the Code of Conduct in the NLB Group		X
14	The Bank's soundness of the capital base could be at risk due to allocating and/or paying the variable remuneration		X
15	Considering the financial position of the Bank as a whole, the variable remuneration would not be sustainable		X
16	The financial performance of the Bank and/or the business unit in which the employee performing special work is employed is poor or negative		X
17	The Bank and/or the business unit in which the employee performing special work is employed, is particularly unsuccessful in the area of risk management		X
18	The actions of the employee performing special work in the accounting period, to which the variable remuneration is related, contributed to the Bank being imposed a regulatory fine		X

Note: The cases in which an individual option can be used are marked with a cross.

Payment of the variable part

Pursuant to the guideline from Item 6 of the Guidelines of the Bank of Slovenia on the application of the principle of proportionality when implementing income policies dated 22 June 2016, the Bank defined the variable part of the remuneration for the purpose of Item 7 of the first paragraph of Article 170 of ZBan-2 by determining the bottom threshold in such a manner that the variable remuneration of an employee that does not exceed EUR 50,000 gross in a business year is as a rule not considered a variable part of the remuneration for the purpose of Item 7 of the first paragraph of Article 170 of ZBan-2. The defined amount per employee, considering the principle of proportionality, risk strategy, risk profile and risk appetite, ensures efficient and prudent risk management. The same amount, considering the principle of proportionality, is defined also on NLB Group level, respectively in NLB Group members.

If it does not exceed EUR 50,000 gross and if that is permitted by the applicable regulations, the variable remuneration of an employee performing special work for an individual business year is awarded and paid in cash.

If the variable remuneration of an employee performing special work for an individual business year exceeds EUR 50,000 gross, and if that is mandatory according to the relevant regulations, at least 50% of such an amount must consist of instruments; the employee performing special work may only transfer such instruments with the Bank's approval which cannot be issued before the expiry of two years after the acquisition. The provision of the previous sentence thus relates to the non-deferred and the deferred part of the variable remuneration from the previous sentence. If the award and payment of the entire variable remuneration of an employee performing special work for an individual business year that does not exceed EUR 50,000 gross in cash are not permitted pursuant to the fourth paragraph hereunder, the fifth paragraph hereunder shall apply *mutatis mutandis*.

If that is mandatory according to the relevant regulations, at least 40% of the variable remuneration of an employee performing special work awarded for an individual business year (or at least 60% if it is exceptionally high) must be deferred for a period of at least 3 and at most 5 years from the day on which the non-deferred part of such variable remuneration is paid.

The non-deferred part of variable remuneration is paid no later than three months after the adoption of the Annual Report of NLB for the business year to which the variable remuneration relates, provided also that the Supervisory Board of NLB determines the variable remuneration for the members of the Management Board of NLB for the said business year prior to that.

The deferred part of the variable remuneration is paid under the terms and conditions from this Policy, no later than three months after the adoption of the Annual Report of NLB for the business year prior to the business year in which the period of deferment, subject to cumulative fulfilment of the following two conditions prior to the payment:
- the period of deferment has expired,
- the Supervisory Board of NLB sets the variable remuneration for the members of the Management Board of NLB for the business year prior to the business year in which the deferment period expires.

Prior to the payment of the deferred part of the variable remuneration, NLB re-assesses the performance and the assumed risks and, if necessary, adjusts the deferred part of the variable remuneration (the Supervisory Board or the Management Board in relation to the deferred part of the variable remuneration of a member of the Management Board or an employee performing special work, respectively), taking into account the adjustment criteria based on the KPI & KRI goals, and the criteria specified in this Policy. When assessing the conduct of the employees performing special work, NLB shall apply the principle of zero tolerance.

The variable part of the employee performing special work for each business year is awarded in proportion to the duration of their term of office or employment on the position for which the variable part of the salary is awarded in this business year and the actual time of performing the work on that position in that business year, taking into account the proportional part of reduction for absence due to illness in case such individual absence is longer than 30 business days (with the exception of accident at work), parental leave, and unpaid leave in such business year.

Regardless of potential other provisions of this Policy, the employee performing special work shall not be entitled to the variable remuneration in relation to a specific position in a business year in which their first term of office or employment started if the period of such term of office or employment in the relevant business year was shorter than six months.

Unless stipulated otherwise in the employment contract, during the probationary period, an employee performing special work shall only be entitled to variable remuneration not exceeding 50% of the variable part of the salary they would otherwise be entitled to under this Policy, if not in probationary period.

Malus, retention, and return of the variable part (clawback)
The Remuneration Policy shows the cases in which the Supervisory Board of the Bank and the Management Board of the Bank reduce the amount of deferred part of the variable remuneration to be paid out in cash or the number or value of the instruments constituting the deferred part of the variable remuneration (potentially down to zero) of a member of the Management Board or another employee performing special work, respectively, due to the subsequent risk adjustment prior to the maturity. If reduction to zero is not mandatory according to the table below, the competent body determines the reduction of the deferred part of the variable remuneration on the basis of the circumstances of each case.

Table 60 – Cases in which the amount of deferred variable remuneration is reduced (potentially down to zero)

Ser. No.	Circumstances	Mandatory reduction of the deferred part of the variable remuneration to zero (holdback)	Reduction of the deferred part of the variable remuneration, potentially to zero (clawback)
1	The Bank's performance in the period of deferred payment shows material negative trends that result from the decisions adopted by the employee performing special work	X	
2	Fraud or abuse by the employee performing special work	X	
3	Severe violations of the Bank's regulations or internal documents by the employee performing special work	X	
4	The actions of the employee performing special work show signs of a criminal offence	X	
5	The actions of the employee performing special work in the accounting period, to which the variable remuneration is related show signs of a minor offence		X
6	The actions of the employee performing special work in the accounting period, to which the variable remuneration is related reduce or damage the Bank's reputation		X
7	The nullity of the annual report is established with a binding effect and the grounds for nullity refer to the items or facts based on which the variable part of the salary		X
8	Violation of obligations arising from the employment relationship by the employee performing special work in the accounting period, to which the variable remuneration is related		X
9	Non-diligent conduct of the employee performing special work, which is intentional or arises from severe negligence in the accounting period, to which the variable remuneration is related, causing material damage to the Bank	X	
10	The actions of the employee performing special work in the accounting period, to which the variable remuneration is related, result in a conflict of interest with the Bank's business interests	X	
11	Corruptive actions of the employee performing special work resulting in or increasing the non-transparency in the adoption of business decisions	X	
12	It is established with a special auditor's report that the criteria for defining the variable part of the salary were applied incorrectly or that the critical accounting, financial and other data and indicators were incorrectly established or applied.		X
13	The variable remuneration had not been awarded in accordance with this Policy		X
14	If a new fact is revealed that could change the decision on the award or the amount of the variable remuneration		X
15	The cooperation of such employee performing special work in, or their responsibility for, the actions that led to significant losses for the Bank	X	
16	Fit & Proper assessment of such employee performing special work is negative		X
17	The actions of such employee performing special work is contrary to the Code of Conduct in the NLB Group		X
18	The Bank's soundness of the capital base could be at risk due to paying the variable remuneration		X
19	Considering the financial position of the Bank as a whole, the variable remuneration is not sustainable		X
20	The financial performance of the Bank and/or the business unit in which the employee performing special work is employed is poor or negative		X
21	The Bank and/or the business unit in which the employee performing special work is employed, is particularly unsuccessful in the area of risk management		X
22	The actions of the employee performing special work in the accounting period, to which the variable remuneration is related, contributed to the Bank being imposed a regulatory fine		X

Note: The cases in which an individual option can be used are marked with a cross.

If the circumstances of a case are not clear enough to allow for deciding on whether the deferred part of the variable part of remuneration is paid out or not, or in what amount it is to be paid, the Bank can decide (the Supervisory Board or the Management Board in relation to the deferred part of the variable remuneration of a member of the Management Board or an employee performing special work, respectively) that the deferred part of the variable remuneration shall not fall due upon initially set maturity and it may defer the decision on whether, in what amount and when to pay the deferred part of the variable until the circumstances are clarified. In the case from the previous sentence, the competent body of the Bank from the previous sentence decides whether the deferred part of the variable remuneration is to be paid or not, and in what amount it is to be paid and when, once the relevant circumstances have been clarified to its satisfaction.

If a circumstance from Item 7, 12, 15, or 16 of the table above occurs or is revealed and the (non-deferred or deferred) part of the variable remuneration as already been paid, the Bank has the right to demand, within a period of three years from the payment of the part of the variable remuneration, the employee performing special work return such part of variable remuneration, partially or in full, with *mutatis mutandis* application of this Policy. Furthermore, the Bank has the right to demand, within a period of three years from the payment of the part of the variable remuneration, the employee performing special work return such part of variable remuneration, partially or in full, if it is established after the payment that the employee performing special work significantly contributed to poor or negative financial performance of the Bank or used fraud or taken any other intentional action or caused, through gross negligence, great losses to the Bank. The decision under this paragraph shall be adopted by the Supervisory Board or the Management Board in relation to the deferred part of the variable remuneration of a member of the Management Board or an employee performing special work, respectively, duly taking into account the circumstances of each case.

Restrictions on the payment of the variable part of the remuneration for 2019
The Supervisory Board on its session on 2 February 2020 confirmed positive business results and assessment of the results of NLB Group for year 2019.

On 9 April 2020 the Management Board decided on the allocation and payment of a variable part of remuneration for employees performing special work and due to the coronavirus epidemic or its implications for the economic situation they decided to postpone this decision until the Management Board of the Bank will deliberate upon this issue once again in relation to the situation and estimated effects of the outbreak on the Bank's performance at the time.

Also on 10 April, 2020 the Bank of Slovenia adopted the Decision on Macroprudential Restrictions for Banks' Profit Distribution with the aim of making the resilience of the financial system more robust, preventing any disturbances in the financial system and lowering the systemic risks, the Bank of Slovenia has imposed a temporary restriction for distribution of banks' profits. A temporary prohibition of variable salary payments or the establishment of a variable salary payment liability or discretional pension benefits for the employees, whose professional activities significantly affect the risk profile of the Bank, are, inter alia, laid down in the BoS Decision. The macroprudential measure imposed by the BoS Decision will be in force one year after its publication in the *Official Gazette of the Republic of Slovenia*. If the risks decrease considerably, the Bank of Slovenia may cancel it before its end date, and if the risks increase it could be prolonged.

On 12 February 2021, the Bank of Slovenia published in the *Official Gazette* the Decision on Macroprudential Restriction on Banks' Profit Distribution, which enters into force on the fifteenth day after its publication, i.e. 27 February 2021 and it shall apply from 10 April 2021 and expire on 30 September 2021. With a significantly lower risk of measures, the Bank of Slovenia may cancel it before it is due or extend it if risks get higher.

In the new BoS Decision which refers to the payment of variable parts of remuneration, it is provided that the banks are recommended that the following activities not be carried out during the time while this Decision is in force:

- Payment of the variable part of remunerations from Article 170 of the Banking Act 2,
- Allocation of distributable profits for the purpose of payments of variable part of salary,
- Should the bank decide to pay out the variable part of remuneration, the BoS should be informed at least 30 days before the decision on the payment is confirmed (this notice refers both to the payment of the variable remuneration allocated for the previous years and for 2021)

On 16 February 2021 the Management Board of the Bank took note of the new Decision of the Bank of Slovenia. Given that the previous decision of BoS, which is valid until 10 April 2021, prohibits the payment of variable remuneration or setting up any liability for such payments for employees performing special work, the bank will be able to decide on the allocation and payment of non-deferred as well as on the payment of deferred parts of the variable part of remuneration after this date.

Defining the goals of employees performing special work in 2020
Planning of goals and assessment of the employees performing special work are conducted once a year; the planning of the goals is usually carried out by the end of January and the assessment of performance by the end of March, or when the results of operations are known.

In 2020, the goals of NLB were approved by the Supervisory Board, and due to the COVID epidemic crisis were adjusted to the current situation. The goals for individual OUs were defined 'top-down,' which means that each member of the Management Board set goals for their directly subordinate employees performing special work, whereas the latter set goals down the line of management. The goals of the OU can be financial or non-financial and must be defined according to the SMART method, which means that they have to be specific, measurable, challenging, achievable, relevant, and time bound.

When setting goals, the following shall be defined:

- The number of goals – three to five key goals are set as a rule, depending on the complexity of work, and may be changed during the period,
- Weight – a weight shall be set for each goal, reflecting the importance of the set goal,
- Deadline – the start date and the end date shall be set for the goal,
- Interim goals or main activities for the achievement of the goal,
- Criterion – indicators shall be defined for determining goal attainment,
- Target value – definition of the expected result.

The goals are set by considering the adopted risk appetite and risk strategy defining the risk appetite in the framework of KPI & KRI targets.

Personal goals 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 for the area where development of the employee performing special work is required, the results of the corporate climate, and personal development guidelines.

15.4. The ratio between fixed and variable remuneration

(Article 450.1 d of CRR)

The salary of an employee performing special work shall consist of:

- A fixed part of the salary, which reflects the relevant professional experience and responsibilities at the Bank, as described in the employee's job description, which is part of the recruitment conditions.
- A variable part of the salary which, for the employees performing special work who are not members of the Management Board, consists of:
  - the part depending on the performance of NLB or the NLB Group (for the employees performing special work able to affect the risk profile of the NLB Group within the scope of their powers) or depending on the performance of NLB (for other employees performing special work); control and supervisory functions are not entitled to this part of variable remuneration,
  - work depending on the performance of the organisational unit of the employee performing special work,
  - work depending on individual performance of employee performing special work.

The variable part of the salary of a member of the Management Board is defined in line with the goals and criteria as stipulated by the Bank's Supervisory Board.

The employment contract can stipulate the guaranteed variable remuneration of an employee performing special work only for the first year of their employment in accordance with the Bank's long-term interests. Where the guaranteed part of variable remuneration is awarded to a new employee prior to the first performance assessment period, such a variable part of remuneration is not included in the calculation of the relationship between fixed and variable components of the total remuneration for the first performance assessment period. The provisions of this Policy on malus, retention, and return of the variable part of the salary do not apply to the guaranteed variable remuneration. Regardless of the other provisions of the Remuneration Policy, the total amount of the variable remuneration is paid in cash and is not deferred.

Compensation for early discontinuation of the term of office of a member of the Management Board
Pursuant to Item 12 of the first paragraph of Article 170 of the ZBan-2 payment to an individual in connection with the early termination of their employment contract shall reflect the performance of that individual during a specific period and shall not reward them for failures or possible breaches at the bank. According to the above, it may not be stipulated in the contract on the employment of a member of the Management Board with the Bank that a member of the Management Board is entitled to a compensation for early termination of the term of office if they are dismissed by the Supervisory Board due to:

- a severe violation of the obligations; or
- the inability to manage business; or
- due to a vote of non-confidence issued by the General Meeting of the Bank, except in the case such vote of no confidence is obviously ungrounded.

Furthermore, it may not be stipulated in the contract on the employment of a member of the Management Board with the Bank that a member of the Management Board is entitled to compensation for early termination of the term of office:

- if they are re-employed by the Bank or the NLB Group after the termination of the term of office; or
- in the event of a regular termination of the term of office.

It may be stipulated in the contract on the employment of a member of the Management Board with the Bank that a member of the Management Board is entitled to a compensation for early termination of the term of office only if dismissed for other business or economic reasons, in which case the proposal of the President of the Management Board for the dismissal of a member of the Management Board can be considered ‘other business or economic reason’ (the second paragraph of Article 27 of the Bank’s Articles of Association) and in case the member of the Management Board resigns (in such case, they can only be entitled to a compensation for early termination of the term of office if so decided by the Bank’s Supervisory Board). The compensation for early termination of the term of office from the previous sentence, stipulated in the contract on the employment of a member of the Management Board with the Bank, may not exceed the amount which is calculated using the following general formula: gross monthly salary of such member of the Management Board, payable on the basis of the month prior to the termination of the term of office, multiplied by 12. In the sense of Item 154 a and Item 149 of the EBA Guidelines, the compensation for early termination of the term of office hereunder is not considered in the calculation of the ratio between the variable and fixed components of the remuneration and it is not subject to deferment and payment in instruments. The details of the compensation for early termination of the term of office hereunder are defined in the contract on the employment of a member of the Management Board with the Bank.

Severance pay for other employees performing special work
Severance pay to the employees performing special work who are not members of the Management Board are paid by the Bank in accordance with the labour law regulations and the collective agreements and are therefore considered fixed remuneration and not variable remuneration in the calculation of the ratio between variable and fixed components of remuneration, thus not subject to deferment and payment in instruments.

Compensation for the competition ban for the members of the Management Board and other employees performing special work
If a competition clause is included in the contract on the employment of a member of the Management Board or another employee performing special work and applies after the termination of employment under that employment contract, a compensation for such competition ban may be agreed in the employment contract for the period after the termination of employment thereunder in which such ban applies. Such compensation for the non-competition period may not exceed the limitation stipulated in Item 154 b of the EBA Guidelines. In the sense of Item 154 b the EBA Guidelines, the compensation for the competition ban hereunder is not considered in the calculation of the ratio between the variable and fixed components of the remuneration and it is not subject to deferment and payment in instruments. The details of the compensation for the competition ban hereunder are defined in the employment contract.

15.5. Information on the performance criteria on which the entitlement to shares, options, or variable components of remuneration are based
(Article 450.1 e of CRR)

Pursuant to the guideline from Item 6 of the Guidelines of the Bank of Slovenia on the application of the principle of proportionality when implementing income policies dated 22 November 2016, the Bank defined the variable part of the remuneration for the purpose of Item 7 of the first paragraph of Article 170 of ZBan-2 by determining the bottom threshold in such a manner that the variable remuneration of an employee that does not exceed EUR 50,000 gross in a year is as a rule not considered a variable part of the remuneration for the purpose of Item 7 of the first paragraph of Article 170 of ZBan-2. An equal amount, considering the principle of proportionality, is also set at NLB Group level.

In accordance with the Bank of Slovenia Decision on the Macroprudential Restriction for Banks' Profit Distribution in 2020 there were no payments of variable part of salary for 2019 nor payments of deferred variable part of salary for 2016.

15.6. Main parameters and rationale for any variable component scheme and any other non-cash benefits
(Article 450.1 f of CRR)

The main parameters of variable components are specified in the employment contract according to the ZGD-1, ZBan-2, the Regulation on Internal Management Arrangements, Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks and the Regulation on the application of the Guidelines 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 (EBA/GL/2015/22).

The annual variable pay is limited pursuant to the Bank's Remuneration Policy, where the amount of the variable pay is limited to eight salaries for the Management Board, six salaries for employees in Category 2, to five salaries for employees in Category 3 and on three salaries for employees in Category 4 and 5.

Other rights of the members of the Management Board are determined in the Rules on determining other rights under management employment contracts and other acts of the Bank.

The Rules regulate the list and limitations of any other rights of managers, which can be defined in the employment contract. The list of other rights encompasses:

- company car for both business and private purposes,
- company car with a driver,
- company mobile phone,
- air travel,
- accommodation in Ljubljana,
- family separation allowance,
- housing loans for the staff,
- Eurocard NLB business card,
- entertainment allowance,
- accident insurance,
- health insurance,
- voluntary collective supplementary pension insurance,
- executive health screen,
- education and training,
- membership fees,
- parking space,
- accommodation while on a business trip,
- third-party liability insurance,
- holiday allowance and
- payment of education expenses of minor family members of members of the Management Board.

15.7. Quantitative information on remuneration
(Article 450.1 g and h of CRR)

Table 61 – Accounted remuneration in year, combined by operating segment for NLB Group

2020	MB Supervisory function	MB Management function	Investment banking	Retail banking	Asset management	Corporate functions	Independent control functions	All other
Members (Headcount)	34	44	-	-	-	-	-	-
Number of identified staff in FTE	-	-	2.00	36.95	45.25	6.96	23.97	86.88
Number of identified staff in senior management positions	-	-	2	37	46	7	25	89
Total fixed remuneration (in EUR)	716,366	5,342,484	171,105	2,330,539	2,373,808	530,638	1,320,957	5,444,749
Of which: fixed in cash	716,366	5,342,484	171,105	2,330,539	2,373,808	530,638	1,320,957	5,444,749
Additional information regarding the amount of total variable remuneration								
Total amount of outstanding deferred variable remuneration awarded in previous periods and not in year (in EUR); Art 450 h(iii)CRR;	-	1,292,914	27,403	967,448	168,253	138,238	257,688	1,147,771
Number of beneficiaries of severance payments; Art 450 h(vi)CRR;	-	1	-	-	-	-	-	2
Total amount of severance payments paid in year N (in EUR); Art 450 h(vi)CRR;	-	258,750	-	-	-	-	-	46,731
Art 450 h(v) Highest severance payment to a single person (in EUR); Art 450 h(vi)CRR;	-	258,750	-	-	-	-	-	26,666

MB Supervisory function includes the Supervisory Board of NLB and the Supervisory Boards of NLB Group subsidiaries where employees performing special work of NLB are also members. These employees do not receive a compensation for performing a supervisory function. Payments to the individual members of the Management Board of NLB (parent bank), other key management personel, and members of the Supervisory Board of NLB (parent bank) are disclosed in the 2020 NLB Group Annual Report in chapter Related-party transactions (page 172).

2019	MB Supervisory function	MB Management function	Investment banking	Retail banking	Asset management	Corporate functions	Independent control functions	All other
Members (Headcount)	31	45	-	-	-	-	-	-
Number of identified staff in FTE	-	-	2.00	40.50	23.78	4.99	16.89	63.74
Number of identified staff in senior management positions	-	-	2	45	27	7	20	75
Total fixed remuneration (in EUR)	475,344	6,070,045	120,576	2,664,407	1,508,415	566,882	1,301,541	4,936,819
Of which: fixed in cash	475,344	6,070,045	120,576	2,664,407	1,508,415	566,882	1,301,541	4,936,819
Total variable remuneration (in EUR)	-	1,406,706	19,311	1,085,763	193,767	150,456	340,843	1,198,406
Of which: variable in cash	-	1,396,124	19,311	1,085,763	171,882	150,456	340,843	1,198,406
Of which: variable in other types instruments	-	10,582	-	-	21,885	-	-	-
Total amount of variable remuneration awarded in year which has been deferred (in EUR)	-	560,697	9,656	404,548	97,496	63,426	106,731	454,185
Of which: deferred variable in cash in year	-	549,084	9,656	404,548	75,110	63,426	106,731	454,185
Of which: deferred variable in other types of instruments in year N	-	11,613	-	-	22,386	-	-	-
Additional information regarding the amount of total variable remuneration								
Total amount of outstanding deferred variable remuneration awarded in previous periods and not in year (in EUR); Art 450 h(iii)CRR;	-	771,709	17,805	693,252	93,224	79,678	175,735	748,946
Number of beneficiaries of severance payments; Art 450 h(vl)CRR;	-	-	-	-	-	-	-	1
Total amount of severance payments paid in year N (in EUR); Art 450 h(vi)CRR;	-	-	-	-	-	-	-	54,662
Art 450 h(v) Highest severance payment to a single person (in EUR); Art 450 h(vi)CRR;	-	-	-	-	-	-	-	54,662

15.8. The information on individuals being remunerated EUR 1 million or more
(Article 450.1 i and j of CRR)

None of the employees performing special work was paid EUR 1 million or more in 2020. Payments to individual members of the Management Board are disclosed in the 2020 NLB Group Annual Report in chapter Related-party transactions (page 172).

16. Appendices

16.1. Appendix 1
Information on whether or not the institution has set up a separate risk committee and the number of times the Risk Committee has met
(Article 435.2 d of CRR)

NLB has the Risk Committee as an advisory body of the Supervisory Board. Five meetings of the Risk Committee were held in 2020.

16.2. Appendix 2
Declaration of the Management of the adequacy of liquidity risk arrangements

The Management Board of NLB has a firm position that NLB Group:
- Is in alignment of adequacy of liquidity management arrangements with regard to the Group's Risk Appetite Strategy and
- Has an adequate liquidity risk management system in place with regard to the Group's Risk Appetite Strategy.

Management Board of NLB

16.3. Appendix 3
A liquidity risk statement approved by the Management Board associated with the business strategy

From the point of view of NLB Group Management Board, the NLB Group has a strong liquidity position and robust liquidity risk management in place. According to the Risk Appetite Statement, tolerance for liquidity risk is low, therefore the NLB Group maintains sufficient level of liquidity reserves at any time and well diversified funding sources. Liquidity reserves are presented by high-quality financial assets which can be converted into cash or pledged as collateral for secured funding in normal times and times of stress.

Governance is established in a way that enables a reliable process for identifying, measuring, monitoring, and controlling liquidity risk in the short and long term. Liquidity position and developments are continuously reviewed. NLB Group has implemented different tools for measuring liquidity risk in the form of maturity structures, stress tests, liquidity projections of future cash flows, the scoring model, etc.

All core members of NLB Group (banking members) are self-funded. Intragroup funding is provided predominantly to non-core members that are in the process of disinvestment. However, NLB provides intragroup funds also to other banking members in order to meet their capital needs (subordinated debt).

The limit system is aligned with Risk Appetite and reflects the Group risk tolerance. Limits are set at levels that enable timely identification and mitigation of risk.

Structural liquidity indicators are appropriate and within prescribed limits. The main function of these risk limits/targets is to examine and confirm whether certain activities are leading NLB Group's risk appetite toward the common strategic objectives. All banking members are highly liquid. NLB Group is facing strong liquidity. In such an environment the bank dedicates a lot of attention to the structure and concentration of the liquidity reserves.

	NLB Group		NLB	
Liquidity	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**
LCR	257%	325%	336%	362%
NSFR	166%	160%	162%	159%
LTD net	58.9%	65.5%	51.9%	59.1%
Encumbred liquidity reserves	56,489	55,306	52,375	51,015
Unencumbered liquidity reserves	8,720,511	6,001,357	5,723,091	4,851,548
Unencumbered liquidity reserves in total assets	45%	43%	52%	50%
Share of non-banking sector deposits	94%	83%	92%	79%

*Liquid reserves do not include obligatory reserves with central banks.

16.4. Appendix 4
Statement regarding internal controls and procedures
(Article 38 of EBA Guidelines)

The undersigned

CERTIFY

that, pursuant to the EBA Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 article 38, disclosures have been prepared in accordance with the Policy of Disclosures on risk and capital management in the NLB Group and in accordance with agreed internal control processes.

Ljubljana, 8 April 2021

Anica Knavs
General Manager
Financial Accounting
and Administration

Igor Žalar
General Manager
Global Risk

Archibald Kremser
Member of the
Management Board

Andreas Burkhardt
Member of the
Management Board

A. Burkhardt

16.5. Appendix 5
Outline of the differences in the scopes of consolidation (entity by entity) of NLB Group

Table 62 –EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity) of NLB Group

		Method of regulatory consolidation					
Name of the entity	Method of accounting consolidation	Full consolidation	Equity method	Proportional consolidation	Neither consolidated nor deducted	Deducted	Description of the entity
NLB Banka a.d., Skopje	Full consolidation	X					Banking
NLB Banka a.d., Podgorica	Full consolidation	X					Banking
NLB Banka a.d., Banja Luka	Full consolidation	X					Banking
NLB Banka sh.a., Priština	Full consolidation	X					Banking
NLB Banka d.d., Sarajevo	Full consolidation	X					Banking
NLB banka a.d., Beograd	Full consolidation	X					Banking
Komercijalna banka a.d. Beograd	Full consolidation	X					Banking
Komercijalna banka a.d. Banja Luka	Full consolidation	X					Banking
Komercijalna banka a.d. Podgorica	Full consolidation	X					Banking
KomBank Invest a.d. Beograd	Full consolidation	X					Asset management
NLB Srbija d.o.o., Beograd	Full consolidation	X					Real estate
NLB Skladi d.o.o, Ljubljana	Full consolidation	X					Asset management
NLB Crna gora d.o.o., Podgorica	Full consolidation	X					Real estate
NLB Lease&Go d.o.o., Ljubljana	Full consolidation	X					Finance
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	Full consolidation	X					Finance
Optima Leasing d.o.o., Zagreb "u likvidaciji"	Full consolidation	X					Finance
NLB Leasing d.o.o., Beograd "u likvidaciji"	Full consolidation	X					Finance
TARA HOTEL d.o.o., Budva	Full consolidation	X					Real estate
PRO-REM d.o.o., Ljubljana "v likvidaciji"	Full consolidation	X					Real estate
OL Nekretnine d.o.o., Zagreb "u likvidaciji"	Full consolidation	X					Real estate
BH-RE d.o.o., Sarajevo ˝u likvidaciji˝	Full consolidation	X					Real estate
REAM d.o.o., Beograd	Full consolidation	X					Real estate
REAM d.o.o., Podgorica	Full consolidation	X					Real estate
REAM d.o.o., Zagreb	Full consolidation	X					Real estate
SPV 2 d.o.o., Beograd	Full consolidation	X					Real estate
S-REAM d.o.o., Ljubljana	Full consolidation	X					Real estate
NLB InterFinanz AG, Zurich "in likvidation"	Full consolidation	X					Finance
NLB InterFinanz Beograd "u likvidaciji"	Full consolidation	X					Finance
LHB AG, Frankfurt	Full consolidation	X					Finance
NLB Zavod za upravljanje kulturne dediščine, Ljubljana	Full consolidation				X		Cultural heritage management
Prvi Faktor, Beograd "u likvidaciji"	Equity method				X		Finance
Prvi Faktor, Ljubljana "v likvidaciji"	Equity method				X		Finance
Prvi Faktor, Sarajevo "u likvidaciji"	Equity method				X		Finance
Prvi Faktor, Zagreb "u likvidaciji"	Equity method				X		Finance
Arg Nepremicnine d.o.o., Horjul	Equity method		X				Real estate
Bankart d.o.o., Ljubljana	Equity method		X				Card processing

Entities that are neither consolidated nor deducted are:

- in accordance with Article 19 of the CRR (this refers on members of Prvi Faktor Group),

- or because it is entity operating in the area of other activities (ZUKD – Zavod za upravljanje kulturne dediščine, The NLB Cultural Heritage Management Institute).

16.6. Appendix 6 Capital instruments main features templates

Table 63 – The main characteristics of the ordinary shares of NLB

1	Issuer	NOVA LJUBLJANSKA BANKA d.d., Ljubljana
2	Unique identifier	ISIN: SI0021117344
3	Governing law(s) of the instrument	Slovenian law
Regulatory treatment		
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 thousand, as of most recent reporting date)	Paid up capital and related share premium: 1,071,378
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
Coupons / dividends		
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. The shares meet all the conditions for inclusion in the capital as stated under the relevant provisions of CRR.

Table 64 – The main characteristics of the subordinated Tier 2 bonds issued in May 2019 by NLB

1	Issuer	NOVA LJUBLJANSKA BANKA d.d., Ljubljana
2	Unique identifier	ISIN: SI0022103855
3	Governing law(s) of the instrument	Slovenian law
Regulatory treatment		
4	Transitional CRR rules	Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
5	Post-transitional CRR rules	Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
6	Eligible at solo/ (sub-)consolidated/ solo&(sub-)consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Notes have the characteristics of subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	EUR 44,595,000
9	Nominal amount of instrument	EUR 45,000,000
9a	Issue price	99.1%
9b	Redemption price	100%
10	Accounting classification	financial liability
11	Original date of issuance	6.5.2019
12	Perpetual or dated	Dated
13	Original maturity date	6.5.2029
14	Issuer call subject to prior supervisory approval	of the Issuer arising out of the Notes can be paid before the maturity of such liability, determined in accordance of Terms and Conditions of the Notes, except in the case of the Issuer's compulsory liquidation or bankruptcy or any other proceedings, the aim of which is compulsory winding-up of the Issuer. Provided that it obtains a permission of the competent authority referred to in Article 77. of the CRR Regulation for conducting redemption, repurchase, repayment or payment of the Notes, the Issuer may pay the principal of all the Notes (but not only some) together with the interest calculated until the date of redemption, in the following cases: (a) if the Issuer fails to obtain the approval of the European Central Bank for inclusion of the amount received by the Issuer as the paid-up amount or proceeds of the initial sale of the Notes (the Paid-Up Amount) in the calculation of its Tier 2 capital on or before 6.8.2019; (b) if the Notes are redeemed on the Fifth Anniversary; or (c) if, as a result of any change in, or amendment to, the laws or regulations or any change in the application or official interpretation of such laws or regulations which becomes effective after the Issue Date, there is a change in the tax treatment of the Notes due to which: (i) the Issuer becomes (or it becomes certain that on the next Interest Payment Date the Issuer will become) required to pay additional amounts as provided or referred to in Condition 6; or (ii) the Issuer ceases to be (or it becomes certain that on the next Interest Payment Date the Issuer will cease to be) entitled to treat the interest on the Notes as a tax deductible expense, either entirely or in a material part; or (iii) for other reasons the tax treatment of the Notes becomes more burdensome for the Issuer than on the Issue Date; or (d) if, due to a change in the conditions for inclusion of the Notes in the Tier 2 capital of the Issuer on individual and consolidated level, it becomes likely that the Paid-Up Amount, in whole or in part, will no longer qualify as Tier 2 capital of the Issuer on individual and consolidated level or will be re-classified as a lower quality form of capital.
15	Optional call date, contingent call dates and redemption amount	6.5.2024, optional call dates in case of regulatory call and tax call
16	Subsequent call dates, if applicable	N/A
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed (see line 18 for further details)
18	Coupon rate and any related index	Interest rate means annual interest rate, which amounts to: (i) before the Fifth Anniversary (however excluding the Fifth Anniversary), 4.2%; (ii) from and including the Fifth Anniversary, the sum of Reference Interest Rate, applicable on Interest Rate Determination Date, and Margin (4.159%)
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
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)	Claims from eligible liabilities instruments (Article 72(b) of the CRR)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

N/A – not relevant for this instrument

Table 65 – The main characteristics of the subordinated Tier 2 bonds issued in November 2019 by NLB

1	Issuer	NOVA LJUBLJANSKA BANKA d.d., Ljubljana
2	Unique identifier	ISIN: XS2080776607
3	Governing law(s) of the instrument	German law, with the exception of status of the notes which is governed in accordance with Slovenian law
Regulatory treatment		
4	Transitional CRR rules	Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
5	Post-transitional CRR rules	Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
6	Eligible at solo/ (sub-)consolidated/ solo&(sub-)consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Notes have the characteristics of subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	EUR 120,000,000
9	Nominal amount of instrument	EUR 120,000,000
9a	Issue price	100%
9b	Redemption price	100%
10	Accounting classification	financial liability
11	Original date of issuance	19.11.2019
12	Perpetual or dated	Dated
13	Original maturity date	19.11.2029
14	Issuer call subject to prior supervisory approval	The principal of the Notes cannot be prepaid upon demand of a noteholder. The Issuer may redeem the Notes before maturity (in whole, but not in part, at their principal amount together with accrued and unpaid interest thereon to but excluding the date specified for the redemption at any time on the date of early redemption specified in the notice, provided that the conditions to early redemption and repurchase set forth in conditions of the Notes are met): (a) if, by 15.3.2020, the Issuer does not obtain the permission of the competent authority to include the Notes in whole in the calculation of its Tier 2 capital pursuant to Article 71 of the CRR II; and (b) subject to the prior consent of the competent authority: (i) on the fifth anniversary of the issue date of the Notes; (ii) if there is a change in the regulatory classification of the Notes; and/or (iii) if there is a change in the applicable tax treatment of the Notes.
15	Optional call date, contingent call dates and redemption amount	Redemption amount equals to 100% of principal amount plus accrued and unpaid interest; Optional call date: 19.11.2024; Contingent call dates: - if the issuer fails to obtain regulatory permission by 15.3.2020; - early redemption for regulatory reasons; - early redemption due to change in applicable tax treatment of the Notes.
16	Subsequent call dates, if applicable	No
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed (see line 18 for further details)
18	Coupon rate and any related index	Interest rate means annual interest rate, which amounts to: (i) 3.65% up to but excluding 19.11.2024; (ii) from and including 19.11.2024, the sum of reference rate (5y MS), applicable on reset interest date, and margin of 3.833%.
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
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	No
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)	Claims from eligible liabilities instruments (Article 72(b) of the CRR)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

N/A – not relevant for this instrument

Table 66 – The main characteristics of the subordinated Tier 2 bonds issued in February 2020 by NLB

1	Issuer	NOVA LJUBLJANSKA BANKA d.d., Ljubljana
2	Unique identifier	ISIN: XS2113139195
3	Governing law(s) of the instrument	German law, with the exception of status of the notes which is governed in accordance with Slovenian law
Regulatory treatment		
4	Transitional CRR rules	Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
5	Post-transitional CRR rules	Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
6	Eligible at solo/ (sub-)consolidated/ solo&(sub-)consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Notes have the characteristics of subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	EUR 120,000,000
9	Nominal amount of instrument	EUR 120,000,000
9a	Issue price	100%
9b	Redemption price	100%
10	Accounting classification	financial liability
11	Original date of issuance	5.2.2020
12	Perpetual or dated	Dated
13	Original maturity date	5.2.2030
14	Issuer call subject to prior supervisory approval	The principal of the Notes cannot be prepaid upon demand of a noteholder. The Issuer may redeem the Notes before maturity (in whole, but not in part, at their principal amount together with accrued and unpaid interest thereon to but excluding the date specified for the redemption at any time on the date of early redemption specified in the notice, provided that the conditions to early redemption and repurchase set forth in conditions of the Notes are met): (a) if, by 31.7.2020, the Issuer does not obtain the permission of the competent authority to include the Notes in whole in the calculation of its Tier 2 capital pursuant to Article 71 of the CRR II; and (b) subject to the prior consent of the competent authority: (i) on the fifth anniversary of the issue date of the Notes; (ii) if there is a change in the regulatory classification of the Notes; and/or (iii) if there is a change in the applicable tax treatment of the Notes.
15	Optional call date, contingent call dates and redemption amount	Redemption amount equals to 100% of principal amount plus accrued and unpaid interest; Optional call date: 5.2.2025; Contingent call dates: - if the issuer fails to obtain regulatory permission by 31.7.2020; - early redemption for regulatory reasons; - early redemption due to change in applicable tax treatment of the Notes.
16	Subsequent call dates, if applicable	No
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed (see line 18 for further details)
18	Coupon rate and any related index	Interest rate means annual interest rate, which amounts to: (i) 3.40% up to but excluding 5.2.2025; (ii) from and including 5.2.2025, the sum of reference rate (5y MS), applicable on reset interest date, and margin of 3.658%.
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
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	no
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)	Claims from eligible liabilities instruments (Article 72(b) of the CRR)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

N/A – not relevant for this instrument

16.7. Appendix 7

Material, practical, or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries

(Article 436 c and d of CRR)

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 provided by NLB, it is necessary to follow the provisions regarding the minimum capital in accordance with CRR and the ZBan-2. For subsidiary banks the provisions regarding liquidity, capital adequacy, and the level of capital to cover all risks are also considered, all in accordance with local legislation.

In asset management, company (NLB Skladi) provisions regarding capital adequacy and the level of capital to cover all risks arise from the Law on Investment Funds and Management Companies.

For several non-core companies that are in the liquidation process there is a restriction according to local Companies Law stipulating that during 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 can be concluded after all the court disputes are ended and the assets that are to be distributed to stakeholders, but exceed the subscribed share capital of a stakeholder, are considered as a dividend.

There are also contractual restrictions that are to be taken into account and arise from subordinated loans that NLB granted to its subsidiary banks, namely NLB Banka a.d., Skopje, NLB Banka a.d. Banja Luka, NLB Banka a.d. Prishtina, NLB Banka a.d. Belgrade, NLB Banka a.d. Sarajevo and one of the company NLB InterFinanz Zürich AG in Liquidation. According to the nature of the subordinated loan it can be repaid after claims arising from all priority obligations are settled and to the extent permitted by the rest of the Bank's assets in the bankruptcy or liquidation procedure.

Due to COVID-19 situation, the local regulators in some of the Group countries of operation, such as Montenegro, Bosnia and Herzegovina and Kosovo introduced a temporary ban by prohibiting banks from paying dividends to shareholders, except, in some countries, for payments in the form of bank shares.

All subsidiaries of NLB Group not included in the prudential consolidation met the minimum capital requirements as at 31 December 2020.

16.8. Appendix 8
List of all disclosures required under Part 8 of CRR

Art.	Requirement	Chapter	Page
435	**Risk management objectives and policies**		
1.	**Objectives and policies regarding the relevant risks**		
	(a) The strategies and processes to manage those risks;	4.1, 7.1, 9.1, 12	32, 78, 87, 94
	(b) The structure and organisation of the relevant risk management function, including information on its authority and statute, or other appropriate arrangements;	4.1, 7.1, 9.1, 12	32, 78, 87, 94
	(c) The scope and nature of risk reporting and measurement systems;	4.1, 7.1, 9.1, 12	32, 78, 87, 94
	(d) The policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants;	4.1, 7.1, 9.1, 12	32, 78, 87, 94
	(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;	4.1	32
	(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.	4.1	32
2.	**Information, including regular, at least annual updates, regarding governance arrangements**		
	(a) The number of directorships held by members of the management body;	4.2	44
	(b) The recruitment policy for the selection of members of the management body and their actual knowledge, skills, and expertise;	4.3	44
	(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;	4.4	46
	(d) Whether or not the institution has set up a separate risk committee and the number of times the risk committee has met;	16.1	121
	(e) The description of the information flow on risk to the management body.	4.1	32
436	**Scope of application**		
	(a) The name of the institution to which the requirements of this Regulation apply;	1	9
	(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;	2, 16.5	11, 122
	(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;	2, 16.7	11, 127
	(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;	2, 16.7	11, 127
	(e) If applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9.	/	/
437	**Capital (Own funds)**		
	(a) A full reconciliation of CET1 items, AT1 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;	3.7	24

	(b) A description of the main features of the CET1 and AT1 instruments and T2 instruments issued by the institution;	3.4	19
	(c) The full terms and conditions of all CET1, AT1 and Tier 2 instruments;	3.4	19
	(d) Separate disclosure of the nature and amounts of the following: (i) each prudential filter applied pursuant to Articles 32 to 35, (ii) each deduction made pursuant to Articles 36, 56 and 66, (iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79,	3.6	23
	(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;	3.6	23
	(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 are calculated.	/	/
438	**Capital requirements**		
	(a) A summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities;	3.3	18
	(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);	3.2	17
	(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;	3.2	17
	(f) (Operational risk :) own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately.	3.2	17
439	**Exposure to counterparty credit risk**		
	(a) A discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures;	7.3	79
	(b) A discussion of policies for securing collateral and establishing credit reserves;	7.4	79
	(c) A discussion of policies with respect to wrong-way risk exposures;	7.5	79
	(d) A discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating;	7.6	80
	(e) Gross positive fair value of contracts, netting benefits, and 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;	7.6	80
	(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;	7.6	80
	(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 α if the institution has received the permission of the competent authorities to estimate α.	/	/
	Capital buffers		
440	1. Countercyclical capital buffer: (a) The geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer;	3.5	20

	(b) The amount of its institution-specific countercyclical capital buffer.	3.5	20
441	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.	/	/
442	**Credit risk adjustments**		
	(a) The definitions for accounting purposes of 'past due' and 'impaired';	5.7	59
	(b) A description of the approaches and methods adopted for determining specific and general credit risk adjustments;	5.7	59
	(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;	5.2	53
	(d) The geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate;	5.3	54
	(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;	5.4	55
	(f) The residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;	5.5	56
	(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,	5.6	57
	(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;	5.6	57
	(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.	5.7	59
	Specific credit risk adjustments and recoveries recorded directly to the income statement shall be disclosed separately.	5.6	57
443	**Unencumbered assets**		
	EBA has prepared regulatory technical standards for disclosure of unencumbered assets – Regulation (EU) No 2017/2295.	8	83
444	**Use of ECAIs**		
	(a) The names of the nominated ECAIs and ECAs and the reasons for any changes;	6	75
	(b) The exposure classes for which each ECAI or ECA is used;	6	75
	(c) A description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;	6	75
	(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;	6	75
	(e) The exposure values and the exp. 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.	6, 5.2	75, 53
445	**Exposure to market risk**		

	Separately for each risk + the own funds requirement for specific IRR of securitisation positions.	9	87
446	**Operational risk**		
	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.	14	103
447	**Exposures in equities not included in the trading book**		
	(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;	11	93
	(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;	11	93
	(c) The types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;	11	93
	(d) The cumulative realised gains or losses arising from sales and liquidations in the period; and	11	93
	(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.	11	93
448	**Exposure to interest rate risk on positions not included in the trading book**		
	(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 IRR;	10.1	92
	(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.	10.2	92
449	**Exposure to securitisation positions**	/	/
450	**Remuneration policy**		
1	For those categories of staff whose professional activities have a material impact on its risk profile: (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;	15.1	105
	(b) Information on the link between pay and performance;	15.2	106
	(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;	15.3	108
	(d) The ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU;	15.4	116
	(e) Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based;	15.5	117
	(f) The main parameters and rationale for any variable com. scheme and any other non-cash benefits;	15.6	118
	(g) Aggregate quantitative information on remuneration, broken down by business area;	15.7	119
	(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,	15.7	119

	(iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments, (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,		
	(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;	15.8	120
	(j) Upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management.	15.8	120
451	**Leverage**		
	(a) The leverage ratio and how the institution applies Article 499(2) and (3);	13	101
	(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;	13	101
	(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;	13	101
	(e) A description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.	13	101
452	**Use of the IRB Approach to credit risk**	/	/
453	**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;	5.8	69
	(c) a description of the main types of collateral taken by the institution;	5.8	69
	(d) the main types of guarantor and credit derivative counterparty and their creditworthiness;	/	/
	(e) Information about market or credit risk concentrations within the credit mitigation taken;	5.8	69
	(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;	5.2, 5.8	53, 69
	(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.	5.2, 5.8	53, 69
454	**Use of the Advanced Measurement Approaches to operational risk**	/	/
455	**Use of Internal Market Risk Models**	/	/
492	**Transitional provisions for disclosure of own funds**		
4	During the period from 1 January 2014 to 31 December 2021, institutions shall disclose the number of instruments that qualify as CET 1 instruments, AT1 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).	/	/